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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 or registered institution in securities, bank manager, solicitor, professional accountants or other professional adviser.

If you have sold or transferred all your shares in the Company, you should at once hand this circular and the forms of proxy dated 19 January 2015 and despatched to you on 23 January 2015 to the purchaser(s) or 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).

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廣州白雲山醫葯集團股份有限公司
GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS CO., LTD.

(a joint stock company with limited liability established in the People's Republic of China)
(H Share Stock Code: 0874)

**(1) PROPOSED ISSUE AND PLACING OF NEW A SHARES;
(2) CONNECTED TRANSACTION –
PROPOSED SUBSCRIPTION OF NEW A SHARES BY GPLH;
(3) PROPOSED IMPLEMENTATION OF
THE EMPLOYEE STOCK OWNERSHIP SCHEME (2015);
(4) WHITEWASH WAIVER;
(5) GENERAL MANDATE TO ISSUE NEW H SHARES;
(6) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION;
AND
(7) ELECTION OF
AN INDEPENDENT NON-EXECUTIVE DIRECTOR**

Financial adviser to the Company



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



普頓資本有限公司
PROTON CAPITAL LIMITED

Capitalized terms used in this cover page have the same meanings of those defined in this circular.

A letter from the Board is set out on pages 9 to 64 in this circular. A letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on pages 65 to 66 in this circular. A letter from Proton Capital containing its advice in respect of the Proposed Placing and the Whitewash Waiver to the Independent Board Committee and the Independent Shareholders is set out on pages 67 to 90 in this circular.

The notices convening the EGM to be held at the Conference Room of the Company, 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC on Friday, 13 March 2015 at 10:00 a.m. or any adjournment thereof and the H Share Class Meeting to be held immediately after the EGM or any adjournment thereof were published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.equitynet.com.hk/0874) on 19 January 2015 and despatched to the Shareholders on 23 January 2015 respectively. Whether or not you intend to attend the EGM and/or the H Share Class Meeting, please complete the forms of proxy despatched together with the aforementioned notices in accordance with the instructions printed thereon and return them to the office of the Company's H Share Registrar, Hong Kong Registrars Limited, for H Share Shareholders as soon as possible and in any event not less than 24 hours before the time for holding of the EGM and the H Share Class Meeting or any adjournment thereof. Completion and return of the forms of proxy will not preclude you from attending and voting at the EGM and the H Share Class Meeting or any adjournment thereof should you so wish.

26 February 2015

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DEFINITIONS

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

“A Share(s)”	Renminbi-denominated domestic share(s) in the share capital of the Company, with a nominal value of RMB1.00 each and is(are) listed on the Shanghai Stock Exchange
“A Share Class Meeting”	the meeting of the A Share Shareholders to be held on Friday, 13 March 2015 for the purpose of, inter alia, considering and, if thought fit, passing the resolutions relating to the Proposed Placing, the General Mandate and the Whitewash Waiver
“A Share Shareholder(s)”	the holder(s) of A Shares
“acting in concert”	has the meaning ascribed to it under the Hong Kong Takeovers Code
“Announcement”	the announcement of the Company dated 12 January 2015 in relation to, among other things, (i) the proposed issue and placing of new A Shares; (ii) the proposed subscription of new A Shares by GPLH which constitutes a connected transaction under the Hong Kong Listing Rules; (iii) the proposed implementation of the Employee Stock Ownership Scheme (2015); (iv) the General Mandate; and (v) the Whitewash Waiver
“Articles of Association”	the articles of association of the Company
“Asset Management Agreement”	the asset management agreement to be entered into among the Company (on behalf of the Group’s employees), the Asset Manager and the asset custodian in respect of the Employee Stock Trust
“Asset Manager”	China Universal Asset Management Company Limited* (滙添富基金管理股份有限公司), a joint stock limited company established in the PRC, which is entrusted by the Company as the management organization of the Employee Stock Ownership Scheme (2015) and is one of the Subscribers
“associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Board”	the board of Directors

DEFINITIONS

“Company”	Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited* (廣州白雲山醫藥集團股份有限公司), a joint stock company with limited liability established in the PRC, whose H Shares and A Shares are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively
“Concert Group”	GPHL and the Concert Party Subscribers
“Concert Group Subscription”	the GPHL Subscription and the Concert Party Subscription
“Concert Party Subscribers”	GZ SOA Development and GZ Chengfa
“Concert Party Subscription”	the subscription of an aggregate maximum of 230,704,697 new A Shares by the Concert Party Subscribers pursuant to the Concert Party Subscription Agreements
“Concert Party Subscription Agreements”	the conditional subscription agreements dated 12 January 2015 entered into between the Company and the respective Concert Party Subscriber in relation to the Concert Party Subscription
“connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Directors”	the directors of the Company
“EGM”	the first extraordinary general meeting of the Company in 2015 for all the Shareholders to be held at 10:00 a.m. on Friday, 13 March 2015 for the purpose of, inter alia, considering and, if thought fit, passing the resolutions relating to the Proposed Placing, the Employee Stock Ownership Scheme (2015), the General Mandate and the Whitewash Waiver
“Employee Scheme Subscription”	the subscription of a maximum of 21,189,000 new A Shares by the Asset Manager (as trustee of the Employee Stock Trust) pursuant to the Employee Scheme Subscription Agreement

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“Employee Scheme Subscription Agreement”	the conditional subscription agreement dated 12 January 2015 entered into between the Company and the Asset Manager (as trustee of the Employee Stock Trust) in relation to the Employee Scheme Subscription
“Employee Stock Ownership Scheme (2015)”	the employee stock ownership scheme of the Company set up to allow all employees of the Group as at 1 January 2015, including Directors (excluding independent non-executive Directors), supervisors, senior management and other employees of the Company, its subsidiaries, joint ventures and associated companies to invest in the Shares
“Employee Stock Ownership Scheme (2015) Committee”	a committee to be established for the Employee Stock Ownership Scheme (2015) comprising 7 committee members to be elected by the participating employees of the Employee Stock Ownership Scheme (2015) to monitor the operation of the Employee Stock Ownership Scheme (2015)
“Employee Stock Trust”	the asset management trust known as “China Universal – Private Placement Prosperous Age Exclusive Account No. 66 Asset Management Scheme* (添富一定增盛世專戶66號資產管理計劃)” set up by the Asset Manager for the Employee Stock Ownership Scheme (2015)
“Executive”	the Executive Director of the Corporate Finance Division of the Hong Kong Securities and Futures Commission or any delegate of the Executive Director
“Fund”	the fund to be set up by Shanghai Yunfeng to hold the A Shares to be subscribed for pursuant to the Fund Subscription Agreement
“Fund Subscription”	the subscription of a maximum of 20,973,154 new A Shares by Shanghai Yunfeng (on behalf of the Fund) pursuant to the Fund Subscription Agreement
“Fund Subscription Agreement”	the conditional subscription agreement dated 12 January 2015 entered into between the Company and Shanghai Yunfeng (on behalf of the Fund) in relation to the Fund Subscription
“General Mandate”	an unconditional and general mandate proposed to be granted to the Board at the EGM, the A Share Class Meeting and the H Share Class Meeting, to issue, allot and/or deal with new H Shares not exceeding 20% of the total issued H Shares as at the date of the EGM

DEFINITIONS

“GPHL”	Guangzhou Pharmaceutical Holdings Limited* (廣州醫藥集團有限公司), a state-owned enterprise established by, and under the administration of, the Guangzhou Municipal People’s Government State-owned Assets Supervision and Administration Commission in the PRC. It is the controlling shareholder of the Company which held approximately 45.24% of the issued Shares as at the Latest Practicable Date and is one of the Subscribers
“GPHL Subscription”	the subscription of a maximum of 146,596,236 new A Shares by GPHL pursuant to the GPHL Subscription Agreement
“GPHL Subscription Agreement”	the conditional subscription agreement dated 12 January 2015 entered into between the Company and GPHL in relation to the GPHL Subscription and the GPHL Undertaking
“GPHL Undertaking”	the undertaking given by GPHL under the GPHL Subscription Agreement to subscribe for all the under-subscribed A Shares under the Employee Scheme Subscription if there is no and/or under subscription by the Asset Manager
“Group”	the Company and its subsidiaries
“GZ Chengfa”	Guangzhou China Life Urban Development Industry Investment Enterprise (Limited Partnership)* (廣州國壽城市發展產業投資企業(有限合夥)), a limited partnership established under the laws of the PRC, whose general partner is controlled by Guangzhou Industrial Investment Fund Management Company Limited* (廣州產業投資基金管理有限公司), a state-owned enterprise established by, and under the administration of, the Guangzhou Municipal People’s Government of the PRC. GZ Chengfa is one of the Subscribers and was defined as “GZ China Life” in the Announcement
“GZ SOA Development”	Guangzhou State-owned Asset Development Holdings Limited* (廣州國資發展控股有限公司), a state-owned enterprise established by, and under the administration of, the Guangzhou Municipal People’s Government in the PRC and is one of the Subscribers
“H Share(s)”	overseas listed foreign share(s) in the share capital of the Company, with a nominal value of RMB1.00 each and is (are) listed on the Hong Kong Stock Exchange

DEFINITIONS

“H Share Class Meeting”	the meeting of the H Share Shareholders to be held on Friday, 13 March 2015 for the purpose of, inter alia, considering and, if thought fit, passing the resolutions relating to the Proposed Placing, the General Mandate and the Whitewash Waiver
“H Share Shareholder(s)”	the holder(s) of H Shares
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Independent A Share Shareholders”	the A Share Shareholders other than all the members of the Concert Group and their respective parties acting in concert and associates and any A Share Shareholders who are interested in or involved in the Proposed Placing, the Employee Stock Ownership Scheme (2015) and/or the Whitewash Waiver
“Independent Board Committee”	the independent board committee of the Company comprising all the independent non-executive Directors formed to advise the Independent Shareholders on (i) the Proposed Placing and the GPLH Subscription in accordance with the Hong Kong Listing Rules and (ii) the Proposed Placing (including the Concert Group Subscription) and the Whitewash Waiver in accordance with the Hong Kong Takeovers Code
“Independent Financial Adviser” or “Proton Capital”	Proton Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on (i) the Proposed Placing and the GPLH Subscription in accordance with the Hong Kong Listing Rules and (ii) the Proposed Placing (including the Concert Group Subscription) and the Whitewash Waiver in accordance with the Hong Kong Takeovers Code

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“Independent H Share Shareholders”	the H Share Shareholders other than all the members of the Concert Group and their respective parties acting in concert and associates and any H Share Shareholders who are interested in or involved in the Proposed Placing, the Employee Stock Ownership Scheme (2015) and/or the Whitewash Waiver
“Independent Shareholders”	the Shareholders other than all the members of the Concert Group and their respective parties acting in concert and associates and any Shareholders who are interested in or involved in the Proposed Placing, the Employee Stock Ownership Scheme (2015) and/or the Whitewash Waiver
“Last Shanghai Trading Date”	17 February 2015, being the date of the last trading day of the Shanghai Stock Exchange immediately before the Latest Practicable date
“Latest Practicable Date”	23 February 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“PRC”	the People’s Republic of China
“Price Adjustment”	the adjustment which may be made to the Subscription Price where there occurs any ex-dividend or ex-rights event (such as distribution of dividend, bonus issue or capitalization of capital reserves) to the Company between the Price Determination Date and the date on which the new A Shares will be issued
“Price Determination Date”	13 January 2015, being the date of the announcement of the Board resolution made by the Company in relation to the Proposed Placing on the Shanghai Stock Exchange and the date on which the Subscription Price was fixed
“Proposed Placing”	the proposed non-public issue and placing of not more than 419,463,087 new A Shares at the Subscription Price by the Company to the Subscribers
“Relevant Period”	the period commencing 6 months preceding the date of the Announcement and ending on the Latest Practicable Date
“RMB”	Renminbi, the lawful currency of the PRC

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanghai Yunfeng”	Shanghai Yunfeng Xinchuang Investment Management Company Limited* (上海雲鋒新創投資管理有限公司), a limited liability company established in the PRC and is (on behalf of the Fund) one of the Subscribers
“Share(s)”	A Share(s) and H Share(s)
“Share Adjustment”	the adjustment which may be made to the number of new A Shares to be issued under the Proposed Placing where there occurs any ex-dividend or ex-rights event (such as distribution of dividend, bonus issue or capitalization of capital reserves) to the Company between the Price Determination Date and the date on which the new A Shares will be issued (but in any event, the maximum number of new A Shares to be issued under the Proposed Placing will not be more than 419,463,087 A Shares)
“Shareholder(s)”	the holder(s) of Shares
“Subscribers”	GPHL, the Concert Party Subscribers, the Asset Manager (as trustee of the Employee Stock Trust) and Shanghai Yunfeng (on behalf of the Fund)
“Subscription Agreements”	the GPHL Subscription Agreement, the Concert Party Subscription Agreements, the Employee Scheme Subscription Agreement and the Fund Subscription Agreement
“Subscription Price”	RMB23.84 per A Share (subject to the Price Adjustment)
“trading day(s)”	with respect to A Shares, means a day on which the Shanghai Stock Exchange is open for dealing or trading in securities, and with respect to H Shares, means a day on which the Hong Kong Stock Exchange is open for dealing or trading in securities
“Whitewash Waiver”	a waiver from the Executive pursuant to Note 1 of the Notes on Dispensations from Rule 26 of the Hong Kong Takeovers Code in respect of the obligations of the Concert Group to make a mandatory general offer for all the securities of the Company not already owned by them which would otherwise arise as a result of the Proposed Placing and the Concert Group Subscription

DEFINITIONS

“%” per cent

Unless otherwise specified, amounts denominated in RMB have been translated, for illustration purpose only, into HK\$ in this circular at a rate of RMB1.00:HK\$1.25.

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

LETTER FROM THE BOARD



廣州白雲山醫葯集團股份有限公司
GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS CO., LTD.

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

(H Share Stock Code: 0874)

Executive Directors:

Mr. Li Chuyuan
Mr. Chen Mao
Ms. Liu Juyan
Ms. Cheng Ning
Mr. Ni Yidong
Mr. Wu Changhai
Mr. Wang Wenchu

*Registered office and principal place
of business:*

45 Sha Mian North Street
Liwan District
Guangzhou City, Guangdong Province
The PRC

Independent non-executive Directors:

Mr. Wong Lung Tak Patrick
Mr. Qiu Hongzhong
Mr. Fang Shuting
Mr. Chu Xiaoping

Principal place of business in Hong Kong:

Room 2005, 20th Floor
Tower Two Lippo Center
89 Queensway
Hong Kong

26 February 2015

To the Shareholders

Dear Sir or Madam,

- (1) PROPOSED ISSUE AND PLACING OF NEW A SHARES;
(2) CONNECTED TRANSACTION –
PROPOSED SUBSCRIPTION OF NEW A SHARES BY GPLH;
(3) PROPOSED IMPLEMENTATION OF
THE EMPLOYEE STOCK OWNERSHIP SCHEME (2015);
(4) WHITEWASH WAIVER;
(5) GENERAL MANDATE TO ISSUE NEW H SHARES;
(6) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION;
AND
(7) ELECTION OF
AN INDEPENDENT NON-EXECUTIVE DIRECTOR**

(A) INTRODUCTION

Reference is made to the Announcement, the announcements of the Company dated 12 January 2015 and 22 January 2015 regarding the proposed amendments to the Articles of Association and the appointment of the Independent Financial Adviser respectively, and the notices of the EGM and the H Share Class Meeting both dated 19 January 2015.

LETTER FROM THE BOARD

The purpose of this circular is, among other things, to provide you with (i) further information on the Proposed Placing, the Subscription Agreements and the transactions contemplated thereunder; (ii) further information on the Employee Stock Ownership Scheme (2015), the Asset Management Agreement and the transactions contemplated thereunder; (iii) further information on the Whitewash Waiver; (iv) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (v) a letter of advice from Proton Capital to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Placing and the Whitewash Waiver; and (vi) other information as required under the Hong Kong Listing Rules and the Hong Kong Takeovers Code, in order to enable you to make an informed decision on whether to vote for or against the resolutions at the EGM and the H Share Class Meeting. The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the Proposed Placing and the Whitewash Waiver and Proton Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

This circular also provides you with information regarding the resolutions relating to (i) the General Mandate; (ii) the proposed amendments to the Articles of Association pursuant to the PRC laws; (iii) the election of an independent non-executive Director; (iv) the proposed amendments to the undertaking of GPLH in relation to the performance period for injection of the “Wang Lao Ji” trademarks; and (v) the proposed amendments to the rules of procedures of the general meetings of Shareholders.

(B) MATTERS RELATING TO THE PROPOSED PLACING AND THE EMPLOYEE STOCK OWNERSHIP SCHEME (2015)

I. PROPOSED ISSUE AND PLACING OF NEW A SHARES

1. Proposal in relation to the compliance and satisfaction by the Company of the requirements of the non-public issue and placing of new A Shares

In accordance with the Companies Law of the PRC (《中華人民共和國公司法》), the Law of the PRC on Securities (《中華人民共和國證券法》), the Measures for the Administration of the Issue of Securities of Listed Companies (《上市公司證券發行管理辦法》), the Implementation Rules for the Non-public Issue of Shares by Listed Companies (《上市公司非公開發行股票實施細則》) and other relevant laws and regulations of the PRC, the Company conducted an internal review and self-examination and was of the view that the Company has complied with the requirements of the prevailing laws and regulations on non-public issue of new A Shares, and satisfied the conditions for the non-public issue of new A Shares.

This proposal will be put forward at the EGM as an ordinary resolution (see ordinary resolution No. (1) set out in the notice of the EGM dated 19 January 2015) for consideration and approval by the Shareholders.

LETTER FROM THE BOARD

2. Details of the Proposed Placing

- Class and par value of Shares to be issued : New A Shares with a par value of RMB1.00 each.
- Method and time of the Proposed Placing : The Proposed Placing will be carried out by way of non-public issue of new A Shares to the Subscribers. The Company will complete the Proposed Placing within six (6) months from obtaining the endorsement of the Proposed Placing from the CSRC.
- Number of Shares to be issued : Subject to any adjustment which may be made by the CSRC, but in any event the maximum number of A Shares to be issued under the Proposed Placing will not be more than 419,463,087 new A Shares, which represents (i) approximately 39.15% of the issued A Shares and approximately 32.48% of the total issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 28.13% of the enlarged issued A Shares and approximately 24.52% of the enlarged total issued share capital of the Company upon completion of the Proposed Placing. The aggregate nominal value of the A Shares to be issued under the Proposed Placing, with a par value of RMB1.00 each, will be no more than RMB419,463,087.

Upon completion of the Proposed Placing and if the maximum of 419,463,087 new A Shares are placed, the total number of A Shares in issue will be increased from 1,071,440,650 A Shares to 1,490,903,737 A Shares and the total issued share capital of the Company will be increased from 1,291,340,650 Shares to 1,710,803,737 Shares.

LETTER FROM THE BOARD

- Target Subscribers : Pursuant to the Proposed Placing and subject to the Share Adjustment, the Company shall issue new A Shares for subscription to 5 subscribers in total, being GPLH, GZ SOA Development, GZ Chengfa, Shanghai Yunfeng (on behalf of the Fund) and the Asset Manager (as trustee of the Employee Stock Trust). On 12 January 2015, the Subscribers have entered into the Subscription Agreements respectively with the Company to subscribe for a total of up to 419,463,087 new A Shares at the Subscription Price of RMB23.84 per new A Share, representing total gross proceeds of approximately RMB10,000 million.
- Method of subscription and placing : All the Subscribers shall subscribe for new A Shares to be issued under the Proposed Placing in cash. The Subscription Price for all the new A Shares to be issued will be the same.
- Price Determination Date : 13 January 2015, being the date of the announcement of the Board resolution made by the Company in relation to the Proposed Placing on the Shanghai Stock Exchange and the date on which the Subscription Price was fixed.
- Subscription Price and pricing principles : Subject to the Price Adjustment, the Subscription Price is RMB23.84 per new A Share, being not less than 90% of the average trading price per A Share during the 20 trading days prior to the Price Determination Date.

The Subscription Price represents (i) a discount of approximately 12.06% to the closing price of RMB27.11 per A Share as at 3 December 2014, being the last trading day immediately before the Price Determination Date and the date of the Subscription Agreements; (ii) a discount of approximately 10.88% to the average closing price of RMB26.75 per A Share for the last five trading days up to and including 3 December 2014; and (iii) a discount of approximately 22.22% to the closing price of RMB30.65 per A Share as at the Last Shanghai Trading Date.

The Subscription Price was determined through arm's length negotiation between the Company and the Subscribers with reference to the trading prices of the A Shares on the Shanghai Stock Exchange.

LETTER FROM THE BOARD

If there is any ex-right event (such as declaration of dividend, bonus issue or capitalization of capital reserves) to the Company between the Price Determination Date and the date of issue of A Shares under the Proposed Placing, the Subscription Price and the number of new A Shares to be issued by the Company under the Proposed Placing shall be adjusted in accordance with the relevant regulations relating to the Price Adjustment and Share Adjustment respectively.

- Lock-up period : Under the Proposed Placing, all the Subscribers shall not transfer the A Shares subscribed within 36 months from the date of completion of the Proposed Placing.
- Place of listing : The new A Shares to be issued under the Proposed Placing will be listed on the Shanghai Stock Exchange. The Company will apply to the Shanghai Stock Exchange for the listing of, and permission to deal in, the new A Shares.
- Use of proceeds : If the maximum of 419,463,087 new A Shares are placed, the Proposed Placing will raise gross proceeds of approximately RMB10,000 million. The net proceeds from the Proposed Placing, after deducting all related expenses incurred, will be used to strengthen the Group's research and development capability on medicines, health products and medical technology; expand and reform part of the Group's production facilities; expand and strengthen the Group's distribution networks and promotion channel; establish a new management and information system of the Group; and for general working capital purpose, further details of which are set out in the sub-section headed "IX. Reasons for the Proposed Placing and the Employee Stock Ownership Scheme (2015)" in this section.
- Arrangements for the accumulated undistributed profits : Upon completion of the Proposed Placing, holders of new A Shares, together with all existing Shareholders of the Company, will be entitled to all accumulated, retained and undistributed profits of the Company prior to the completion of the Proposed Placing.

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Effective period of the Shareholders' resolutions : The effective period of the Shareholders' resolutions on the Proposed Placing shall be 12 months starting from the date on which the resolutions are approved by the Shareholders at the EGM, the A Share Class Meeting and the H Share Class Meeting.

Details of this proposal will be put forward at the EGM, the A Share Class Meeting and the H Share Class Meeting respectively as a special resolution for consideration and approval by the non-related Shareholders under the PRC laws, by the Independent Shareholders, the Independent A Share Shareholders and the Independent H Share Shareholders respectively one by one as set out in the notice of the EGM, the notice of the A Share Class Meeting and the notice of the H Share Class Meeting (see special resolution Nos. 1.01 to 1.11 set out in the notice of the EGM, special resolution Nos. 1.01 to 1.11 set out in the notice of the A Share Class Meeting and special resolution Nos. 1.01 to 1.11 set out in the notice of the H Share Class Meeting, all dated 19 January 2015). GPLH and its associates shall abstain from voting on such Shareholders' resolution.

3. Conditions precedent of the Proposed Placing

The Subscription Agreements entered into by the Company in respect of the Proposed Placing are subject to the satisfaction of certain conditions including, among other things:

- (i) the passing of the relevant resolutions in respect of the Proposed Placing by the Board;
- (ii) the passing of all relevant resolutions in respect of the Proposed Placing (including the entering into the Subscription Agreements) by the Independent Shareholders at the EGM, the Independent A Share Shareholders at the A Share Class Meeting and the Independent H Share Shareholders at the H Share Class Meeting respectively;
- (iii) the obtaining of the approvals from relevant stated-owned Assets Supervision and Administration Departments regarding the Proposed Placing;
- (iv) the obtaining of the approval from the CSRC regarding the Proposed Placing;
- (v) the obtaining of the approval from the non-related Shareholders under the PRC laws at the EGM in relation to the waiver of a mandatory general offer by GPLH and its concert parties which may be triggered by the Proposed Placing pursuant to the relevant PRC takeover laws and regulations;
- (vi) the obtaining of the approvals from the Independent Shareholders at the EGM, the Independent A Share Shareholders at the A Share Class Meeting and the Independent H Share Shareholders at the H Share Class Meeting about the Whitewash Waiver;

LETTER FROM THE BOARD

(vii) the Executive having granted, and not having withdrawn or revoked such grant, the Whitewash Waiver and the fulfillment of all conditions (if any) attached to the Whitewash Waiver; and

(viii) the obtaining of all the approvals and consents which are necessary pursuant to the laws and regulations outside the PRC (if any) regarding the Proposed Placing.

None of the above conditions may be waived by any party to the Proposed Placing and, therefore, if any condition above cannot be obtained (including but not limited to, if the Whitewash Waiver is not granted and approved as per conditions (vi) and (vii) above), the Company will not proceed with the Proposed Placing. As at the Latest Practicable Date, condition (i) above has been fulfilled.

4. Rights of the new A Shares

Save that no voting right will be acquired or can be exercised by the Asset Manager for the A Shares held by it as trustee of the Employee Stock Trust (details of which are set out in the sub-section headed “III. Proposed implementation of the Employee Stock Ownership Scheme (2015)” in this section) by virtue of the terms of the Employee Stock Ownership Scheme (2015), the new A Shares to be issued pursuant to the Proposed Placing, when fully paid up and issued, will rank pari passu in all respects amongst themselves and with the A Shares in issue at the time of issue and allotment of such new A Shares.

5. Subscription Agreements entered into pursuant to the Proposed Placing

As part of the Proposed Placing, the Company has entered into the Subscription Agreements with the 5 Subscribers respectively, details of which are set out in the sub-section headed “II. Proposed subscription of new A Shares” in this section. Save for the parties to the agreement, the number of A Shares to be subscribed for, the aggregate subscription amount payable to the Company and the GPLH Undertaking, all other major terms of the Subscription Agreements are the same.

Completion of each of the Subscription Agreements is not conditional upon each other.

Pursuant to the applicable PRC laws and regulations, (i) the GPLH Subscription Agreement, the Employee Scheme Subscription Agreement and the transactions contemplated thereunder will be subject to the approval of the non-related Shareholders under the PRC laws at the EGM, the A Share Class Meeting and the H Share Class Meeting respectively, by way of special resolutions (see special resolutions Nos. 3.01 to 3.02 set out in the notice of the EGM, special resolutions Nos. 3.01 to 3.02 set out in the notice of the A Share Class Meeting and special resolutions Nos. 3.01 to 3.02 set out in the notice of the H Share Class Meeting, all dated 19 January 2015); and (ii) the Concert Party Subscription Agreements, the Fund Subscription Agreement and the transactions contemplated thereunder will be subject to the approval of the Shareholders at the EGM, the A Share Class Meeting and the H Share Class Meeting

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respectively, by way of special resolutions (see special resolutions Nos. 3.03 to 3.05 set out in the notice of the EGM, special resolutions Nos. 3.03 to 3.05 set out in the notice of the A Share Class Meeting and special resolutions No. 3.03 to 3.05 set out in the notice of the H Share Class Meeting, all dated 19 January 2015).

As a result of the implications under the Hong Kong Listing Rules and the Hong Kong Takeovers Code respectively, the GPLH Subscription Agreement and the Concert Party Subscription Agreements will be subject to the approvals of the Independent Shareholders' approval at the EGM, the Independent A Share Shareholders' approval at the A Share Class Meeting and the Independent H Share Shareholders' approval at the H Share Class Meeting respectively by way of special resolutions (see special resolutions Nos. 3.01, 3.03 and 3.04 set out in the notice of the EGM, special resolutions Nos. 3.01, 3.03 and 3.04 set out in the notice of the A Share Class Meeting and special resolutions Nos. 3.01, 3.03 and 3.04 set out in the notice of the H Share Class Meeting, all dated 19 January 2015). Please refer to the sub-sections headed (i) "II. Proposed subscription of new A shares – 1. Connected transaction – Proposed subscription of new A Shares by GPLH – c. Implications under the Hong Kong Listing Rules and the Hong Kong Takeovers Code"; (ii) "II. Proposed subscription of new A shares – 2. Proposed Concert Party Subscription – c. Implications under the Hong Kong Listing Rules and the Hong Kong Takeovers Code"; and (iii) "X. Whitewash Waiver" respectively in this section for more information. GPLH and its associates shall abstain from voting on such Shareholders' resolutions for the purposes of the Hong Kong Listing Rules. In addition, the Shareholders, the A Share Shareholders and/or the H Share Shareholders who are members of the Concert Group and their respective parties acting in concert and associates and any Shareholders who are interested in or involved in the Proposed Placing, the Employee Stock Ownership Scheme (2015) and/or the Whitewash Waiver will abstain from voting on such resolutions for the purposes of the Hong Kong Takeovers Code.

6. Proposal in relation to the plan of the Proposed Placing

In accordance with the Companies Law of the PRC (《中華人民共和國公司法》), the Law of the PRC on Securities (《中華人民共和國證券法》), the Measures for the Administration of the Issue of Securities of Listed Companies (《上市公司證券發行管理辦法》), the Implementation Rules for the Non-public Issue of Shares by Listed Companies (《上市公司非公開發行股票實施細則》) and other relevant laws and regulations of the PRC, the Company formulated the plan on the Proposed Placing.

Details of the plan have been disclosed in different sections of this circular. This proposal will be put forward at the EGM, the A Share Class Meeting and the H Share Class Meeting respectively as a special resolution (see special resolution No. (2) set out in the notice of the EGM, special resolution No. (2) set out in the notice of the A Share Class Meeting and special resolution No. (2) set out in the notice of the H Share Class Meeting, all dated 19 January 2015) for the consideration and approval by the non-related Shareholders under the PRC laws, by the Independent Shareholders, the Independent A Share Shareholders and the Independent H Share Shareholders respectively. GPLH and its associates shall abstain from voting on such Shareholders' resolution.

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7. Proposal in relation to the report on previous proceeds

According to the requirements of the relevant laws and regulations and regulatory documents such as the Measures for the Administration of the Issue of Securities by Listed Companies (《上市公司證券發行管理辦法》), the Implementation Rules for the Non-public Issue of Shares by Listed Companies (《上市公司非公開發行股票實施細則》), and the Regulations for Reports on the Use of Proceeds from Previous Fund Raising (《關於前次募集資金使用情況報告的規定》) issued by the CSRC, the Board has, upon verification of the use of proceeds from previous issue of A Shares as at 12 January 2015, prepared the report on previous proceeds.

Guangzhou Pharmaceutical Company Limited* (廣州藥業股份有限公司), the predecessor of the Company, had issued (i) 445,601,005 A Shares at RMB12.10 per A Share to all the then shareholders of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (廣州白雲山製藥股份有限公司) (“BYS”) in exchange for the shares of BYS held by such shareholders for absorption and merger of the entire issued share capital of BYS in May 2013; and (ii) 34,839,645 A Shares at RMB12.10 per A Share to acquire the assets, comprising the following, from GPHL, in July 2013:

- Properties – a list of 21 properties with a total gross floor area of approximately 34,906.94 sq.m. in Guangzhou owned by GPHL;
- Trademarks – a total of 388 registered trademarks owned by GPHL which are mainly trademarks of Chinese patent medicine;
- 100% equity interest in Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited (formerly known as Po Lian Development Company Limited), a company incorporated in Hong Kong; and
- 12.50% equity interest in Baxter Healthcare (Guangzhou) Company Limited, a Sino-foreign equity joint venture established in the PRC.

Details of the above transactions were set out in the circular of the Company dated 4 September 2012 and were approved by the then Shareholders on 19 September 2012.

Upon completion of the above transactions, BYS was deregistered, all assets and liabilities of BYS were taken up by the Company. There was no fund raised by the Company from the above mentioned transactions.

This proposal will be put forward at the EGM as an ordinary resolution (see ordinary resolution No. (5) set out in the notice of the EGM) for consideration and approval by the Shareholders.

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8. Proposal in relation to the feasibility study report

In accordance with the proposal in relation to the feasibility study report, the net proceeds (after deducting all applicable costs and expenses in association with the Proposed Placing) from the Proposed Placing are intended to be used for financing the projects as described below.

a. Establishment of the R&D platform for “Grand Southern TCM”

The Company intends to apply approximately RMB1,500 million to establish the R&D platform, of which approximately RMB350 million will be used to construct the R&D center and acquire equipment and machinery; and approximately RMB1,150 million will be used to conduct further laboratory studies, clinical studies on various famous traditional Chinese medicines, chemical medicines (e.g. medicines for cancers, Parkinson’s disease and other age-related diseases and new antibiotics), biological medicines (e.g. medicines for cardiovascular and cerebrovascular diseases and biological vaccines) and high-end health care products of the Group; studies on the development of high-end medical equipment and vitro diagnostic reagents for early detection of infectious diseases, cancer and HPV; and studies on some of the common and critical medical technologies (e.g. extraction and separation technology of Chinese medicines and chemical synthesis technology).

This project is a strategic project for maintaining and improving the competitiveness of the Company. After the construction of the R&D center is completed, the Company will focus on the R&D of new medicines with proprietary intellectual property rights, improve the technology level, gradually enrich the reserve of the products, optimize product structure, improve the profitability and establish the foundation for long-term development.

b. Expansion and reformation of phase 1 of the production base for “Grand Southern TCM”

The production facilities of the Group are currently located in different areas of Guangzhou. The Company intends to establish an integrated production base and apply approximately RMB1,000 million for the establishment of phase 1 of the production base, relocation of the factories of Guangzhou Baiyunshan He Ji Gong Pharmaceutical Factory* (廣州白雲山何濟公製藥廠) and Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司) in the production base and refurbishment of production facilities of these two factories.

The aim of this project is to solve the restrictions on the development of the Company by centralizing its production facilities and increasing the production capacities and technology level. Upon completion of the construction and full utilization of the production capacity of the above factories of Guangzhou Baiyunshan He Ji Gong Pharmaceutical Factory* (廣州白雲山何濟公製藥廠) and Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥

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有限公司), it is expected that the financial internal rate of return on the investment income after tax are approximately 23% and approximately 44.53% respectively, and the payback period (including the construction period) are approximately 7.69 years and approximately 4.96 years respectively.

c. *Capital injection into Guangzhou Pharmaceuticals Corporation (廣州醫藥有限公司)**

The Company intends to apply approximately RMB1,000 million for additional capital injection into Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司) as the business platform of the “Grand Commerce”, which is a 50% joint venture of the Company, to establish a modern logistic system for medicines distribution and establish an e-commerce platform for medicines distribution. Alliance Boots (聯合博姿), the joint venture partner, will also inject RMB1,000 million into Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司) at the same time.

This project is in line with the Company’s strategic development direction for the future, to realize the layout of “Grand Commerce” and enhance market development prospect and economic benefits.

d. *Sales and promotion of the “Wang Lao Ji” brand and products for “Great Health”*

The Company intends to apply approximately RMB4,000 million for additional capital injection into Guangzhou Wang Lao Ji Great Health Industry Co., Ltd.* (廣州王老吉大健康產業有限公司), which is a wholly-owned subsidiary of the Company. Approximately RMB2,400 million of the amount injected will be used to conduct brand, culture and marketing activities, and enhance the reputation of the “Wang Lao Ji” brand and products to young consumers, expand the existing sale teams to further penetrate the food and beverage industry and increase the “Wang Lao Ji” market share in the PRC. The Company will use part of the proceeds to vigorously promote the culture of herbal tea and the “Wang Lao Ji” brand to overseas markets, and accelerate the establishment of a distribution network for the “Wang Lao Ji” drinks. Approximately RMB1,600 million of the amount injected will be used to construct the production bases for “Wang Lao Ji” drinks in Nansha Guangzhou, Meizhou Guangdong, Yaán Sichuan and other places in the PRC respectively in order to ensure product quality and reduce reliance on OEM manufacturers.

This project is in line with the Company’s strategic move to further enhance its core competitiveness, establish the absolute market advantages and improve its comprehensive profitability.

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e. Establishment of a new management and information platform

The Company intends to apply approximately RMB200 million for the establishment of a new management and information system of the Group, including establishing an information data base for procurements and suppliers management, customers' relationship, sales and distribution management and production management.

This project is to enhance the efficiency of the Company's management and administration efficiency. Upon completion, it will also serve as an effective technical means for improving customer satisfaction and loyalty and improving the competitiveness of the Company.

This proposal will be put forward at the EGM as an ordinary resolution (see ordinary resolution No. (4) set out in the notice of the EGM dated 19 January 2015) for consideration and approval by the non-related Shareholders under the PRC laws.

9. Proposal in relation to waiving the obligations of GPHL and persons acting in concert with it from making an offer to increase their shareholdings in the Company pursuant to the relevant PRC takeover laws and regulations

The number of Shares held by GPHL, the controlling shareholder of the Company, in the Company will increase upon completion of the Proposed Placing. As such, an obligation to make a general offer on the part of GPHL will be triggered pursuant to the Measures for the Administration of Acquisition of Listed Companies (CSRC Order No. 35) (《上市公司收購管理辦法》(中國證監會令第35號)) and its revisions. Since after the Proposed Placing, GPHL will still be the controlling shareholder of the Company, and GPHL has undertaken to be subject to a 36-month lock-up period for the A Shares to be issued to it, the Board proposed a proposal to be put forward at the EGM to approve the granting of a waiver to GPHL and its concert parties from the obligation to make a general offer under the relevant PRC takeover laws and regulations.

This proposal will be put forward at the EGM as an ordinary resolution (see ordinary resolution No. (8) set out in the notice of the EGM dated 19 January 2015) for consideration and approval by the non-related Shareholders under the PRC laws.

10. Proposal in relation to the establishment of a special saving account for proceeds raised by the Company

According to the requirements of the relevant laws and regulations and regulatory documents such as the Rules Governing the Listing of Stocks on Shanghai Stock Exchange (2014 Revision) (《上海證券交易所股票上市規則(2014年修訂)》) and the Measures for the Administration of the Fund Raising by Listing Companies on the Shanghai Stock Exchange (2013 Revision) (《上海證券交易所上市公司募集資金管理辦法(2013年修訂)》) and the Articles of Association, the Company proposes to set up a special saving account solely for the proceeds raised by the Company from fund raising activities.

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This proposal will be put forward at the EGM as an ordinary resolution (see ordinary resolution No. (6) set out in the notice of the EGM dated 19 January 2015) for consideration and approval by the Shareholders.

11. Proposal in relation to the formulation of management measures for proceeds raised by the Company

In order to regulate the management and use of proceeds from the Proposed Placing, maximize the protection of the rights of investors, ensure the safety of such proceeds and improve the efficiency of the use of such proceeds, and pursuant to the relevant requirements of the relevant laws and regulations and regulatory documents such as the Companies Law of the PRC (《中華人民共和國公司法》), Law of the PRC on Securities (《中華人民共和國證券法》), the Measures for the Administration of the Issue of Securities by Listed Companies (《上市公司證券發行管理辦法》), the Listed Companies Regulatory Guidelines No. 2 – Management and Use of Funds Raised by Listed Companies (《上市公司監管指引第2號 – 上市公司募集資金管理和使用的監管要求》) and the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange (2014 Revision) (《上海證券交易所股票上市規則(2014年修訂)》), and taking into account of the actual circumstances of the Company, the Company proposes to formulate management measures for proceeds raised by the Company.

This proposal will be put forward at the EGM as an ordinary resolution (see ordinary resolution No. (7) set out in the notice of the EGM dated 19 January 2015) for consideration and approval by the Shareholders.

12. Proposal in relation to the approval of granting the Whitewash Waiver under the Hong Kong Takeovers Code

Assuming no further Shares will be issued by the Company prior to the completion of the Proposed Placing, upon completion of the Proposed Placing, the interests in the Company held by GPLH will decrease (i) from approximately 45.24% to approximately 42.72% of the total issued share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPLH is not required to take up any additional A Shares pursuant to the GPLH Undertaking) or (ii) from approximately 45.24% to approximately 43.96% of the total issue share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPLH is required to take up all the additional A Shares pursuant to the GPLH Undertaking); and the aggregate interests in the Company held by GZ SOA Development and GZ Chengfa will increase from 0% to approximately 13.49% of the total issued share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing.

GPLH, GZ SOA Development and GZ Chengfa would be treated as parties acting in concert by virtue of falling into the class (1) presumption of “acting in concert” as defined in the Hong Kong Takeovers Code as a result of the Proposed Placing from which their aggregate interests in the Company will increase (i) from approximately 45.24% to approximately 56.20% of the total issued share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPLH is not

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required to take up any additional A Shares pursuant to the GPLH Undertaking) or (ii) from approximately 45.24% to approximately 57.44% of the total issue share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPLH is required to take up all the additional A Shares pursuant to the GPLH Undertaking).

GPLH and the Concert Party Subscribers will, in the absence of the Whitewash Waiver, be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Hong Kong Takeovers Code as a result of the Proposed Placing and the Concert Group Subscription. The Board will put forward an ordinary resolution (see ordinary resolution No. (9) set out in the notice of the EGM, ordinary resolution No. 2 set out in the notice of the A Share Class Meeting and ordinary resolution No. 2 set out in the notice of the H Share Class Meeting, all dated 19 January 2015) for the Independent Shareholders, the Independent A Share Shareholders and the Independent H Share Shareholders respectively to consider and approve the Whitewash Waiver at the EGM, the A Share Class Meeting and the H Share Class Meeting respectively.

Further information about the Whitewash Waiver is set forth in the sub-section headed “X. Whitewash Waiver” in this section.

13. Authorization to the Board in connection with the Proposed Placing

In accordance with the Companies Law of the PRC (《中華人民共和國公司法》), the Law of the PRC on Securities (《中華人民共和國證券法》), the Measures for the Administration of the Issue of Securities of Listed Companies (《上市公司證券發行管理辦法》), the Implementation Rules for the Non-public Issue of Shares by Listed Companies (《上市公司非公開發行股票實施細則》) and other relevant laws and regulations of the PRC, the Board will also put forward a proposal to authorize itself to handle the matters in connection with the Proposed Placing, including but not limited to the matters set out in (i) to (viii) below at the EGM, the A Share Class Meeting and the H Share Class Meeting respectively as an ordinary resolution (see ordinary resolution No. (10) set out in the notice of the EGM, ordinary resolution No. 3 set out in the notice of the A Share Class Meeting and ordinary resolution No. 3 set out in the notice of the H Share Class Meeting, all dated 19 January 2015) for consideration and approval by the non-related Shareholders under the PRC laws, the Independent Shareholders, the Independent A Share Shareholders and the Independent H Share Shareholders respectively:

- (i) to formulate and implement the detailed proposal about the Proposed Placing and with full authority to handle and decide the issuance time, final number of shares to be issued, size of proceeds, issue price, target subscribers, detailed subscription method and any other matters about the Proposed Placing;

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- (ii) to negotiate on behalf of the Company in relation to the Proposed Placing, execute all related agreements and other necessary documents, prepare, amend, perfect, execute all documents and information about the Proposed Placing, and carry out necessary and appropriate disclosure;
- (iii) to handle the applications to relevant authorities in relation to the Proposed Placing and the listing of shares and adjust the detailed proposal in accordance with the comments from the relevant authorities (if any) (other than those matters requiring further Shareholders' approval pursuant to the relevant laws, regulations and the Articles of Association);
- (iv) to select and engage qualified intermediaries, including but not limited to sponsors, underwriters, lawyers, auditors and valuers, for the Proposed Placing;
- (v) to increase the registered capital and actual capital received, amend the relevant provisions to the Articles of Association, handle capital verification procedures and relevant registration procedures with the Administration for Industry and Commerce, in accordance with the actual final results of the Proposed Placing;
- (vi) to handle the registration of shares, lock-up arrangement and listing matters of the A shares issued upon completion of the Proposed Placing;
- (vii) to set-up a special saving account for the proceeds from the Proposed Placing; and
- (viii) subject to the applicable laws and regulations, to take all necessary action, decision and handle all other matters in relation to the Proposed Placing.

GPHL and its associates will abstain from voting on such Shareholders' resolution.

Such authorization shall be valid for a period of 12 months, commencing from the date of the passing of the relevant resolution at the EGM, the A Share Class Meeting and the H Share Class Meeting respectively.

14. Directors' Confirmation

The Directors (including the independent non-executive Directors after receiving the advice from Proton Capital) are of the view that the terms of the Proposed Placing are fair, reasonable and on normal commercial terms taking into account of the current market conditions and are in the interests of the Company and the Shareholders as a whole.

The Directors who abstained from voting on the relevant Board resolutions approving the aforesaid transactions include Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong and Mr. Wang Wenchu, who are materially

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interested in the Proposed Placing by virtue of them also being the directors and/or members of the senior management or employee of GPLH. Save as disclosed above, none of the Directors have a material interest in the Proposed Placing or is required to abstain from voting on the relevant Board resolutions for considering and approving the Proposed Placing and the transactions contemplated thereunder pursuant to the Hong Kong Listing Rules and/or the Articles of Association.

II. PROPOSED SUBSCRIPTION OF NEW A SHARES

As part of the Proposed Placing, the Company has entered into a Subscription Agreement with each of the 5 Subscribers. Save for the parties to the agreement, the number of A Shares to be subscribed for, the aggregate subscription amount payable to the Company and the GPLH Undertaking, all other major terms of the Subscription Agreements are the same.

Completion of each of the Subscription Agreements is not conditional upon each other.

1. Connected transaction – Proposed subscription of new A Shares by GPLH

On 12 January 2015, GPLH, a controlling shareholder of the Company, entered into the GPLH Subscription Agreement with the Company pursuant to which GPLH has agreed to subscribe for a maximum of 146,596,236 new A Shares for a maximum subscription amount of approximately RMB3,495 million and has given the GPLH Undertaking in case of any under-subscription of the Employee Scheme Subscription. Major terms of the GPLH Subscription Agreement are set out below.

a. Major terms of the GPLH Subscription Agreement

Date	:	12 January 2015.
Parties	:	(i) the Company as the issuer; and (ii) GPLH as the subscriber.
Subscription Shares	:	Subject to the Share Adjustment, a maximum of 146,596,236 A Shares, representing (i) approximately 13.68% of the issued A Shares and approximately 11.35% of the issued share capital of the Company as at the Price Determination Date; and (ii) approximately 9.83% of the enlarged issued A Shares and approximately 8.57% of the enlarged issued share capital of the Company upon completion of the Proposed Placing.

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- Subscription Price : Subject to the Price Adjustment, RMB23.84 per A Share with a maximum subscription amount of approximately RMB3,495 million payable by GPHL to the Company in cash.
- Lock-up undertaking : GPHL undertakes not to transfer or otherwise dispose of the new A Shares subscribed during the period commencing from the completion of the Proposed Placing and ending on the date which is 36 months from the time of such completion.
- Conditions precedent : Details of which are set out in the sub-section headed “I. Proposed issue and placing of new A Shares – 3. Conditions precedent of the Proposed Placing” in this section.
- Payment and completion : Subject to the satisfaction of the conditions precedent, payment of the subscription amount will be made in cash by GPHL on the date to be determined by the Company and its advisers pursuant to the relevant PRC laws and regulations.
- The Company will appoint a certified registered accountant in the PRC to verify the payment made by GPHL for its subscription and issue the relevant verification report. The Company will also apply in writing to register the A Shares subscribed by GPHL with the securities and depository and clearing institution as soon as practicable.
- In the event that GPHL fails to make payment of its subscription amount, GPHL shall be liable to pay the Company 10% of its total subscription amount as liquidated damages.
- Additional Shares : GPHL also undertakes to subscribe for all the under-subscribed A Shares under the Employee Scheme Subscription if there is no and/or any under subscription by the Asset Manager at the same Subscription Price and on the same terms as above.

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b. Information on GPHL

GPHL is a state-owned enterprise established by, and under the administration of, the Guangzhou Municipal People's Government State-owned Assets Supervision and Administration Commission in the PRC. GPHL is principally engaged in the investment in and management of state-owned assets, manufacturing and selling of Chinese and western medicine, Chinese raw medicine, bio-tech products, medical apparatus, packing materials for pharmaceutical products, health drinks and food, hygienic materials and pharmaceutical related merchandise, undertaking medicine related import and export affairs, development of real estate and lease of properties.

c. Implications under the Hong Kong Listing Rules and the Hong Kong Takeovers Code

GPHL is a controlling shareholder of the Company holding approximately 45.24% of the total issued share capital of the Company as at the Latest Practicable Date and, therefore, is a connected person of the Company. Accordingly, the entering into the GPHL Subscription Agreement by the Company constitutes a connected transaction under Chapter 14A of the Hong Kong Listing Rules. GPHL and its associates shall abstain from voting on the Shareholders' resolutions in relation to the Proposed Placing, the GPHL Subscription Agreement and the transactions contemplated thereunder at the EGM, the A Share Class Meeting and the H Share Class Meeting respectively.

GPHL Subscription forms part of the Concert Group Subscription. Please refer to the sub-section headed "X. Whitewash Waiver" in this section for details of the implications of the Hong Kong Takeovers Code on the Concert Group Subscription.

For the purposes of the Hong Kong Listing Rules and the Hong Kong Takeovers Code, the Board will put forward a special resolution (see special resolution No. 3.01 set out in the notice of the EGM, special resolution No. 3.01 set out in the notice of the A Share Class Meeting and special resolution No. 3.01 set out in the notice of the H Share Class Meeting, all dated 19 January 2015) for the Independent Shareholders, the Independent A Share Shareholders and the Independent H Share Shareholders to consider and approve the GPHL Subscription Agreement at the EGM, the A Share Class Meeting and the H Share Class Meeting respectively.

Besides, for the purposes of the PRC laws and regulations, the Board will put forward an ordinary resolution (see ordinary resolution No. (3) set out in the notice of the EGM, ordinary resolution No. 1 set out in the notice of the A Share Class Meeting and ordinary resolution No. 1 set out in the notice of the H Share Class Meeting, all dated 19 January 2015) and a special resolution (see special resolution No. 3.01 set out in the notice of the EGM, special resolution No. 3.01 set out in the notice of the A Share Class Meeting and special resolution No. 3.01 set out in the notice of the H Share Class Meeting, all dated 19 January 2015) for

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the non-related Shareholders, the non-related A Share Shareholders and the non-related H Share Shareholders to consider and approve the GPLH Subscription Agreement and the connected transactions constituted under the PRC laws at the EGM, the A Share Class Meeting and H Share Class Meeting respectively.

d. Directors' confirmation

The Directors (including the independent non-executive Directors after receiving the advice from Proton Capital) are of the view that the terms of the GPLH Subscription Agreement are fair, reasonable and on normal commercial terms taking into account of the current market conditions and are in the interests of the Company and the Shareholders as a whole.

The Directors who abstained from voting on the relevant Board resolutions approving the aforesaid transactions include Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong and Mr. Wang Wenchu, who are materially interested in the Proposed Placing by virtue of them also being the directors and/or members of the senior management or employee of GPLH. Save as disclosed above, none of the Directors have a material interest in the GPLH Subscription Agreement or is required to abstain from voting on the Board resolutions for considering and approving the GPLH Subscription Agreement and the transactions contemplated thereunder pursuant to the Hong Kong Listing Rules and/or the Articles of Association.

2. Proposed Concert Party Subscription

On 12 January 2015, the Company entered into the Concert Party Subscription Agreements with the respective Concert Party Subscribers. Pursuant to the Concert Party Subscription Agreements, GZ SOA Development and GZ Chengfa have agreed to subscribe for an aggregate maximum of 230,704,697 new A Shares for an aggregate maximum subscription amount of approximately RMB5,500 million. Major terms of the Concert Party Subscription Agreements are set out below.

a. Major terms of the Concert Party Subscription Agreements

- | | | |
|---------|---|--|
| Date | : | 12 January 2015. |
| Parties | : | (i) the Company as the issuer; and
(ii) GZ SOA Development and GZ Chengfa as the subscribers. |

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- Subscription Shares : Subject to the Share Adjustment, a maximum of 125,838,926 A Shares to be subscribed by GZ SOA Development, representing (i) approximately 11.74% of the issued A Shares and approximately 9.74% of the issued share capital of the Company as at the Price Determination Date; and (ii) approximately 8.44% of the enlarged issued A Shares and approximately 7.36% of the enlarged issued share capital of the Company upon completion of the Proposed Placing.
- Subject to the Share Adjustment, a maximum of 104,865,771 A Shares to be subscribed by GZ Chengfa, representing (i) approximately 9.79% of the issued A Shares and approximately 8.12% of the issued share capital of the Company as at the Price Determination Date; and (ii) approximately 7.03% of the enlarged issued A Shares and approximately 6.13% of the enlarged issued share capital of the Company upon completion of the Proposed Placing.
- Subscription Price : Subject to the Price Adjustment, RMB23.84 per A Share with a maximum subscription amount of approximately RMB3,000 million and RMB2,500 million payable by GZ SOA Development and GZ Chengfa respectively to the Company in cash.
- Lock-up undertaking : GZ SOA Development and GZ Chengfa respectively undertakes not to transfer or otherwise dispose of the new A Shares subscribed during the period commencing from the completion of the Proposed Placing and ending on the date which is 36 months from the time of such completion.
- Conditions precedent : Details of which are set out in the sub-section headed “I. Proposed issue and placing of new A Shares – 3. Conditions precedent of the Proposed Placing” in this section.

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Payment and completion : Subject to the satisfaction of the conditions precedent, payment of the subscription amounts will be made in cash by the Concert Party Subscribers respectively on the date to be determined by the Company and its advisers pursuant to the relevant PRC laws and regulations.

The Company will appoint a certified registered accountant in the PRC to verify the payment made by the Concert Party Subscribers for their respective subscriptions and issue the relevant verification reports. The Company will also apply in writing to register the A Shares subscribed by the Concert Party Subscribers with the securities and depository and clearing institution as soon as practicable.

In the event that the Concert Party Subscribers fail to make payment of their respective subscription amounts, the Concert Party Subscribers shall be liable to pay the Company 10% of their respective total subscription amounts as liquidated damages.

b. Information on GZ SOA Development and GZ Chengfa

GZ SOA Development is a state-owned enterprise established by, and under the administration of, the Guangzhou Municipal People's Government in the PRC. GZ SOA Development is principally engaged in the investment of its own funds, investment management services, business management services (except for projects required for license to operate), investment advisory services, product wholesale (except for products required permit to sell) and retail business (except for products required permit to sell).

GZ Chengfa is a limited partnership established under the laws of the PRC. Its general partner, Guangzhou China Life Urban Development Industry Investment Advisory Enterprise (Limited Partnership)* (廣州國壽城市發展產業投資諮詢企業(有限合夥)), is controlled by Guangzhou Industrial Investment Fund Management Company Limited* (廣州產業投資基金管理有限公司), a state-owned enterprise established by, and under the administration of, the Guangzhou Municipal People's Government of the PRC. GZ Chengfa is principally engaged in the investment of its own funds, equity investment, and investment advisory services.

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c. Implications under the Hong Kong Listing Rules and Hong Kong Takeovers Code

The Concert Party Subscribers are established by, and under the administration of, the Guangzhou Municipal People's Government in the PRC, which is a "PRC Governmental Body" as defined under Rule 19A.04 of the Hong Kong Listing Rules and therefore, the Concert Party Subscribers and their ultimate beneficial owners are not connected persons of the Company and the entering into the Concert Party Subscription Agreements by the Company are not connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

The Concert Party Subscription forms part of the Concert Group Subscription. Please refer to the sub-section headed "X. Whitewash Waiver" in this section for details of the implications of the Hong Kong Takeovers Code on the Concert Group Subscription.

For the purposes of the Hong Kong Takeovers Code, the Board will put forward special resolutions (see special resolutions Nos. 3.03 and 3.04 set out in the notice of the EGM, special resolutions Nos. 3.03 and 3.04 set out in the notice of the A Share Class Meeting and special resolutions Nos. 3.03 and 3.04 set out in the notice of the H Share Class Meeting, all dated 19 January 2015) for the Independent Shareholders, the Independent A Share Shareholders and the Independent H Share Shareholders to consider and approve the Concert Party Subscription Agreements at the EGM, the A Share Class Meeting and the H Share Class Meeting respectively.

Besides, for the purposes of the PRC laws and regulations, the Board will put forward the same special resolutions for the Shareholders, the A Share Shareholders and the H Share Shareholders to consider and approve the Concert Party Subscription Agreements at the EGM, the A Share Class Meeting and the H Share Class Meeting respectively.

d. Directors' confirmation

The Directors (including the independent non-executive Directors after receiving the advice from Proton Capital) are of the view that the terms of the Concert Party Subscription Agreements are fair, reasonable and on normal commercial terms taking into account the current market conditions and are in the interests of the Company and the Shareholders as a whole.

None of the Directors have a material interest in the Concert Party Subscription Agreements or is required to abstain from voting on the Board resolutions for considering and approving the Concert Party Subscription Agreements and the transactions contemplated thereunder pursuant to the Hong Kong Listing Rules and/or the Articles of Association.

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3. Proposed Employee Scheme Subscription

On 12 January 2015, the Company entered into the Employee Scheme Subscription Agreement with the Asset Manager (as trustee of the Employee Stock Trust). Pursuant to the Employee Scheme Subscription Agreement, the Asset Manager (as trustee of the Employee Stock Trust) has agreed to subscribe for a maximum of 21,189,000 new A Shares for a maximum subscription amount of approximately RMB505 million. Major terms of the Employee Scheme Subscription Agreement are set out below.

a. Major terms of the Employee Scheme Subscription Agreement

Date	:	12 January 2015.
Parties	:	(i) the Company as the issuer; and (ii) the Asset Manager (as trustee of the Employee Stock Trust) as the subscriber.
Subscription Shares	:	Subject to the Share Adjustment, a maximum of 21,189,000 A Shares, representing (i) approximately 1.98% of the issued A Shares and approximately 1.64% of the issued share capital of the Company as at the Price Determination Date; and (ii) approximately 1.42% of the enlarged issued A Shares and approximately 1.24% of the enlarged issued share capital of the Company upon completion of the Proposed Placing. Pursuant to the GPHL Undertaking, GPHL undertakes to subscribe for all the under-subscribed A Shares under the Employee Scheme Subscription if there is no and/or any under subscription by the Asset Manager.
Subscription Price	:	Subject to the Price Adjustment, RMB23.84 per A Share with a maximum subscription amount of approximately RMB505 million payable by the Asset Manager (as trustee of the Employee Stock Trust) to the Company in cash.

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- Lock-up undertaking : The Asset Manager (as trustee of the Employee Stock Trust) undertakes not to transfer or otherwise dispose of the new A Shares subscribed during the period commencing from the completion of the Proposed Placing and ending on the date which is 36 months from the time of such completion.
- Conditions precedent : Details of which are set out in the sub-section headed “I. Proposed issue and placing of new A Shares – 3. Conditions precedent of the Proposed Placing” in this section.
- Payment and completion : Subject to the satisfaction of the conditions precedent, payment of the subscription amounts will be made in cash by the Asset Manager (as trustee of the Employee Stock Trust) on the date to be determined by the Company and its advisers pursuant to the relevant PRC laws and regulations.

The Company will appoint a certified registered accountant in the PRC to verify the payment made by the Asset Manager (as trustee of the Employee Stock Trust) for the Employee Scheme Subscription and issue the relevant verification report. The Company will also apply in writing to register the A Shares subscribed by the Asset Manager (as trustee of the Employee Stock Trust) with the securities and depository and clearing institution as soon as practicable.

In the event that the Asset Manager (as trustee of the Employee Stock Trust) fails to make payment of its subscription amount, the Asset Manager (as trustee of the Employee Stock Trust) shall be liable to pay the Company 10% of the total subscription amounts as liquidated damages.

b. Information on the Asset Manager

The Asset Manager is a joint stock limited company established in the PRC, owned as to 47% by Orient Securities Company Limited (東方證券股份有限公司), as to 26.5% by Wenhui-Xinmin United Press Group (文匯新民聯合報業集團) (which merged with Jiefang Daily Group* (解放軍日報報業集團) in 2013 after which the merged entity became known as Shanghai United Media Group* (上海

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報業集團)), and as to 26.5% by CES Finance Holding Co., Ltd. (東航金戎控股有限責任公司). It is principally engaged in the fund raising and trading, asset management and other businesses as permitted by the CSRC.

c. Implications under the Hong Kong Listing Rules

To the best knowledge and belief of the Directors, having made all reasonable enquires, the Asset Manager and its ultimate beneficial owners are independent third parties of the Group and its connected persons. In addition, since all the employees (excluding the independent non-executive Directors) of the Company, its subsidiaries, joint ventures and associated companies as at 1 January 2015 have an equal opportunity to participate in the Employee Stock Ownership Scheme (2015) (there were 4,897 employees who have indicated their intentions to participate in the scheme), pursuant to Rule 14A.12 of the Hong Kong Listing Rules, the Employee Stock Ownership Scheme (2015) is an “employees’ share scheme for a wide scope of participants” and since the connected persons’ aggregate interests in the Employee Stock Ownership Scheme (2015) will be less than 30%, the Asset Manager will not be regarded as an associate of the connected persons of the Company. Accordingly, the entering into the Employee Scheme Subscription Agreement by the Company is not a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

The Employee Scheme Subscription constitutes a connected transaction under the PRC laws and, in this connection, the Board will put forward a special resolution (see special resolution No. 3.02 set out in the notice of the EGM, the notice of the A Share Class Meeting and the notice of the H Share Class Meeting respectively, all dated 19 January 2015) for the non-related Shareholders under the PRC laws to consider and approve the Employee Scheme Subscription Agreement.

d. Directors’ confirmation

The Directors (including the independent non-executive Directors) are of the view that the terms of the Employee Scheme Subscription Agreement are fair, reasonable and on normal commercial terms taking into account the current market conditions and are in the interests of the Company and the Shareholders as a whole.

All the executive Directors, namely Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong, Mr. Wu Changhai and Mr. Wang Wenchu, are materially interested in the Employee Scheme Subscription Agreement by virtue of them having indicated their intention to participate in the Employee Stock Ownership Scheme (2015) and had abstained from voting on the relevant Board resolutions approving the aforesaid transactions. Save as disclosed above, none of the Directors have a material interest in the Employee Scheme Subscription Agreement or is required to abstain from voting on the Board resolutions for considering and approving the Employee Scheme Subscription Agreement and the transactions contemplated thereunder pursuant to the Hong Kong Listing Rules and/or the Articles of Association.

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4. Proposed Fund Subscription

On 12 January 2015, the Company entered into the Fund Subscription Agreement with Shanghai Yunfeng (on behalf of the Fund). Pursuant to the Fund Subscription Agreement, Shanghai Yunfeng (on behalf of the Fund) has agreed to subscribe for a maximum of 20,973,154 new A Shares for a maximum subscription amount of approximately RMB500 million. Major terms of the Fund Subscription Agreement are set out below.

a. Major terms of the Fund Subscription Agreement

Date	:	12 January 2015.
Parties	:	(i) the Company as the issuer; and (ii) Shanghai Yunfeng (on behalf of the Fund) as the subscriber.
Subscription Shares	:	Subject to the Share Adjustment, a maximum of 20,973,154 A Shares, representing (i) approximately 1.96% of the issued A Shares and approximately 1.62% of the issued share capital of the Company as at the Price Determination Date; and (ii) approximately 1.41% of the enlarged issued A Shares and approximately 1.23% of the enlarged issued share capital of the Company upon completion of the Proposed Placing.
Subscription Price	:	Subject to the Price Adjustment, RMB23.84 per A Share with a maximum subscription amount of approximately RMB500 million payable by Shanghai Yunfeng (on behalf of the Fund) to the Company in cash.
Lock-up undertaking	:	Shanghai Yunfeng (on behalf of the Fund) undertakes not to transfer or otherwise dispose of the new A Shares subscribed during the period commencing from the completion of the Proposed Placing and ending on the date which is 36 months from the time of such completion.

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Condition precedent : Details of which are set out in the sub-section headed “I. Proposed issue and placing of new A Shares – 3. Conditions precedent of the Proposed Placing” in this section.

Payment and completion : Subject to the satisfaction of the conditions precedent, payment of the subscription amounts will be made in cash by Shanghai Yunfeng (on behalf of the Fund) on the date to be determined by the Company and its advisers pursuant to the relevant PRC laws and regulations.

The Company will appoint a certified registered accountant in the PRC to verify the payment made by Shanghai Yunfeng (on behalf of the Fund) and issue the relevant verification report. The Company will also apply in writing to register the A Shares subscribed by Shanghai Yunfeng (on behalf of the Fund) with the securities and depository and clearing institution as soon as practicable.

In the event that Shanghai Yunfeng (on behalf of the Fund) fails to make payment of its subscription amount, Shanghai Yunfeng (on behalf of the Fund) shall be liable to pay the Company 10% of the total subscription amounts as liquidated damages.

Once the Fund is set up by Shanghai Yunfeng, the Company will enter into a subscription agreement with the Fund directly to replace the Fund Subscription Agreement. All terms in the subscription agreement with the Fund, including the number of A Shares to be subscribed for, the aggregate subscription amount payable to the Company and all terms and conditions, will be the same as the Fund Subscription Agreement. The Fund Subscription Agreement will be terminated at the same time when the Company enters into the subscription agreement with the Fund.

b. Information on Shanghai Yunfeng

Shanghai Yunfeng is a limited liability company established in the PRC, owned as to 60% by Mr. Yu Feng (虞鋒先生) and as to 40% by Mr. Ma Yun (馬雲先生). It is principally engaged in investment management, investment advisory, management consultation and business consultation services.

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c. Implications under the Hong Kong Listing Rules

To the best knowledge and belief of the Directors, having made all reasonable enquires, Shanghai Yunfeng and its ultimate beneficial owners are independent third parties of the Group and its connected persons. Accordingly, the entering into the Fund Subscription Agreement is not a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

The Board will put forward a special resolution (see special resolution No. 3.05 set out in the notice of the EGM, the notice of the A Share Class Meeting and the notice of the H Share Class Meeting respectively, all dated 19 January 2015) for the Shareholders to consider and approve the Fund Subscription Agreement.

d. Directors' confirmation

The Directors (including the independent non-executive Directors) are of the view that the terms of the Fund Subscription Agreement are fair, reasonable and on normal commercial terms taking into account the current market conditions and are in the interests of the Company and the Shareholders as a whole.

None of the Directors have a material interest in the Fund Subscription Agreement or is required to abstain from voting on the Board resolutions for considering and approving the Fund Subscription Agreement and the transactions contemplated thereunder pursuant to the Hong Kong Listing Rules and/or the Articles of Association.

Shareholders and potential investors should be cautioned that the Proposed Placing is subject to the conditions precedent set out in this circular and, therefore, the Proposed Placing may or may not proceed. Accordingly, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

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III. PROPOSED IMPLEMENTATION OF THE EMPLOYEE STOCK OWNERSHIP SCHEME (2015)

In order to motivate the employees of the Group, the Board approved the Employee Stock Ownership Scheme (2015) on 12 January 2015, details of which are as follows:

1. Details of the Employee Stock Ownership Scheme (2015)

- Target participants : The target participants of the Employee Stock Ownership Scheme (2015) are all the employees of the Group as at 1 January 2015, including Directors (excluding independent non-executive Directors), supervisors, senior management and other employees of the Company, its subsidiaries, joint ventures and associated companies.
- Investment in new A Shares through the Employee Stock Ownership Scheme (2015) will be made in cash. The participating employees will only contribute funds to the Employee Stock Trust for the Asset Manager (acting as trustee of the Employee Stock Trust) to make the Employee Scheme Subscription. No shares will be issued to the participating employees, including those connected persons of the Company.
- Total size : No more than the maximum number of A Shares subscribed for and the maximum subscription amount under the Employee Scheme Subscription, being 21,189,000 A Shares and approximately RMB505 million respectively.
- Minimum participation : Subject to Price Adjustment, the minimum subscription amount of each participating employee is RMB11,920. The Company has no discretion or right to reject any eligible participant or vary his/her intended amount of participation.
- Source of funds : Remuneration and/or the own funds of the Group's employees. Employees of the Group shall voluntarily participate in the Employee Stock Ownership Scheme (2015) with funds from or raised by themselves and at their own risks in compliance with laws and regulations.

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The Company has not provided, and will not provide, any financing to the participants for such purpose.

- Class and par value of Shares to be subscribed : New A Shares with a par value of RMB1.00 each.
- In any event, the Employee Stock Ownership Scheme (2015) shall not in aggregate be entitled to more than 10% of the issued share capital of the Company upon completion of the Proposed Placing and any participating employee shall not be entitled to more than 1% of the issued share capital of the Company upon completion of the Proposed Placing.
- Method and date of issue : The new A Shares to be issued under the Employee Stock Ownership Scheme (2015) will be carried out by way of non-public issue of new A Shares simultaneously with the Proposed Placing within six (6) months from obtaining the endorsement of the Proposed Placing from the CSRC.
- Lock-up period : 36 months from the date when the Company announces that such new A Shares are registered under the Employee Stock Trust.
- Trading moratorium : The holding period of the new A Shares under the Employee Stock Ownership Scheme (2015) shall be 48 months from the date when the Company announces that such new A Shares are registered under the Employee Stock Trust and can be extended when the Board and the members of the Employee Stock Ownership Scheme (2015) Committee agree to do so. Such new A Shares will be free for transfer after the 36-month lock-up period provided that the Asset Manager can only dispose of such A Shares and pay the net proceeds to the relevant participant(s). Under no circumstances will the Asset Manager transfer any A Shares from the Employee Stock Trust to any participants.

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Voting right : During the holding period of the new A Shares under the Employee Stock Ownership Scheme (2015), the Employee Stock Trust shall give up the exercise of any voting right in respect of the A Shares and the Asset Manager cannot exercise any voting right attaching to or arising from any A Shares which it may hold as trustee of the Employee Stock Trust.

For the purpose of managing the Employee Stock Ownership Scheme (2015), the Company (on behalf of the Group's employees) will enter into the Asset Management Agreement with the Asset Manager and an asset custodian, details of which are set out in the sub-section headed "IV. Proposed asset management of the Employee Stock Ownership Scheme (2015)" in this section.

2. Conditions precedent of the Employee Stock Ownership Scheme (2015)

The Employee Stock Ownership Scheme (2015) is subject to, among other things, the passing of all relevant resolution(s) in respect of the Employee Stock Ownership Scheme (2015) by the Shareholders at the EGM, including ordinary resolution No. (2) to be voted on by the non-related Shareholders under PRC laws and ordinary resolution No. (11) to be voted on by the Shareholders set out in the notice of the EGM dated 19 January 2015. As the Employee Scheme Subscription forms part of the Proposed Placing, the Company will not proceed with the Employee Stock Ownership Scheme (2015) if the conditions precedent of the Proposed Placing set out in the sub-section headed "I. Proposed issue and placing of new A Shares – 3. Conditions precedent of the Proposed Placing" in this section are not fulfilled.

3. Rights of the new A Shares

As the Employee Scheme Subscription forms part of the Proposed Placing, details of rights of new A Shares under the Employee Scheme Subscription are the same as those under the Proposed Placing as set out in the sub-section headed "I. Proposed issue and placing of new A Shares – 4. Rights of the new A Shares" in this section except that the Asset Manager cannot exercise any voting right in respect of the A Shares held by it as trustee of the Employee Stock Trust by virtue of the terms of the Employee Stock Ownership Scheme (2015).

4. Authorization to the Board in connection with the Employee Stock Ownership Scheme (2015)

To ensure the smooth implementation of the Employee Stock Ownership Scheme (2015), an ordinary resolution will be proposed at the EGM (see ordinary resolution No. (11) set out in the notice of the EGM dated 19 January 2015) for consideration and approval by the Shareholders to authorize the Board to exercise full power to handle matters relating to the Employee Stock Ownership Scheme (2015), including but not limited to:

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- (i) handling any changes relating to, and termination of, the Employee Stock Ownership Scheme (2015);
- (ii) extending the holding period of the new A Shares subscribed for under the Employee Stock Ownership Scheme (2015);
- (iii) handling all matters relating to the lock-up arrangement of the new A Shares subscribed for under the Employee Stock Ownership Scheme (2015);
- (iv) appointing the asset management organization and making decisions on any changes relating to such appointment; and
- (v) (save for the matters required to be approved by the Shareholders at general meetings) taking all necessary actions, decisions and handling all other matters in relation to the Employee Stock Ownership Scheme (2015).

Such authorization shall be valid for a period of 12 months, commencing from the date of passing of the relevant resolution at the EGM.

IV. PROPOSED ASSET MANAGEMENT OF THE EMPLOYEE STOCK OWNERSHIP SCHEME (2015)

For the purpose of managing the A Shares held under the Employee Stock Ownership Scheme (2015), the Company (on behalf of the Group's employees) will enter into the Asset Management Agreement with the Asset Manager and an asset custodian after the approval of the Shanghai Stock Exchange has been given. Major proposed terms of the Asset Management Agreement are set out below.

1. Major terms of the Asset Management Agreement

- | | | |
|------------------|---|---|
| Parties | : | <ul style="list-style-type: none">(i) the Company (on behalf of the Group's employees) as the principal;(ii) the Asset Manager as the asset manager; and(iii) an asset custodian (to be appointed) (who and its ultimate beneficial owner(s) will be independent third parties of the Group and its connected persons). |
| Asset management | : | The Asset Manager shall be responsible for the management and operation of the assets entrusted by the Company (on behalf of the Group's participating employees), in particular the sale, disposal or transfer of the A Shares subscribed for under the Employee Scheme Subscription after the 36-month lock-up period. |

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- Voting right : Pursuant to the Employee Stock Ownership Scheme (2015), the exercise of any voting right in respect of the A Shares shall be given up and, accordingly, the Asset Manager cannot exercise any voting right attaching to or arising from any A Shares which it may hold as trustee of the Employee Stock Trust.
- Asset custodian and supervision : The asset custodian shall be responsible for the custodian of the assets entrusted by the Company, including the A Shares subscribed for under the Employee Stock Ownership Scheme (2015) and also responsible for the monitoring and supervision of the investment operation of the entrusted assets by the Asset Manager.
- Size of the assets to be entrusted : The initial size of the assets to be entrusted by the Company (on behalf of the Group's participating employees) will be no less than RMB30,000,000. Within the term of the Asset Management Agreement, the Company can request the Asset Manager and the asset custodian to manage additional assets to be entrusted by the Company (on behalf of the Group's participating employees).
- Assets to be entrusted : Mainly the subscription money and then the A Shares to be held for the Employee Stock Trust. If there is any fund unutilized, such fund can be used for short term bonds, bank deposits, bills of central bank, etc..
- Fees : The Asset Manager will charge the asset management fee and performance reward based on the market rates.
- The asset custodian will charge the asset custodian fee based on the market rates.
- An agreement will be entered into by the parties to the Asset Management Agreement to determine the applicable fee. The Company will comply with the Hong Kong Listing Rules when entering into such agreement.

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Term : No fixed term, subject to the holding period of the new A Shares under the Employee Stock Ownership Scheme (2015), which shall be 48 months from the date when the Company announces that such new A Shares are registered under the Employee Stock Trust and can be extended by the parties to the Asset Management Agreement.

2. Information on the Asset Manager

Details of the Asset Manager is set out in the sub-section headed “II. Proposed subscription of new A Shares – 3. Proposed Employee Scheme Subscription – b. Information on the Asset Manager” in this section.

3. Implications under the Hong Kong Listing Rules

To the best knowledge and belief of the Directors, having made all reasonable enquires, the Asset Manager and its ultimate beneficial owners are independent third parties of the Group and its connected persons. In addition, since all the employees (excluding the independent non-executive Directors) of the Company, its subsidiaries, joint venture and associated companies as at 1 January 2015 have an equal opportunity to participate in the Employee Stock Ownership Scheme (2015) (there were 4,897 employees who have indicated their intentions to participate in the scheme), pursuant to Rule 14A.12 of the Hong Kong Listing Rules, the Employee Stock Ownership Scheme (2015) is an “employees’ share scheme for a wide scope of participants” and the connected persons’ aggregate interests in the Employee Stock Ownership Scheme (2015) will be less than 30%, the Asset Manager will not be regarded as an associate of the connected persons of the Company. Besides, the Company will appoint an asset custodian who and its ultimate beneficial owner(s) will be independent third parties of the Group and its connected persons. Accordingly, the entering into the Asset Management Agreement by the Company will not be a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

The eligible participants of the Employee Stock Ownership Scheme (2015) are all the employees of the Group as at 1 January 2015, including Directors (excluding independent non-executive Directors), supervisors, senior management and other employees of the Company, its subsidiaries, joint ventures and associated companies. The participation in the Employee Stock Ownership Scheme (2015) by the directors and supervisors of the Company and its subsidiaries as well as their respective associates (if any, collectively, the “Connected Participants”), all being connected persons of the Company under the Hong Kong Listing Rules, may constitute potential connected transactions for the Company under the Hong Kong Listing Rules. As at the Latest Practicable Date, 4,897 employees (including the Connected Participants) had indicated their intention to participate in the Employee Stock Ownership Scheme (2015). The Company will keep monitoring the situation and, subject to the Proposed Placing and the Employee Stock Ownership Scheme (2015) being approved at the EGM, will comply with the applicable requirements governing connected transactions

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under the Hong Kong Listing Rules, including the reporting, announcement and independent shareholders' approval, as may be necessary, when the Connected Participants enter into the relevant subscription documents with the Asset Manager. Such subscription documents are targeted to be entered into prior to the Company's annual general meeting for year 2014 to be held in or about June 2015.

Pursuant to the GPLH Undertaking, GPLH undertakes that in the event that there is no and/or any under subscription by the eligible participants under the Employee Stock Ownership Scheme (2015) (including no/and or under subscription resulting from the approval of the subscription by the Connected Participants not being given by the independent Shareholders where such approval is necessary under the Hong Kong Listing Rules), it shall subscribe for all the under-subscribed A Shares under the Employee Scheme Subscription. The GPLH Subscription Agreement, of which the GPLH Undertaking forms part, is subject to the approval of the Independent Shareholders at the EGM, the Independent A Share Shareholders at the A Share Class Meeting and the Independent H Share Shareholders at the H Share Class Meeting. For more details, please refer to the sub-section headed "II. Proposed subscription of new A shares – 1. Connected transaction – proposed subscription of new A Shares by GPLH" in this section.

The provision of the GPLH Undertaking demonstrates GPLH's confidence in the Company and support of the development of the Company's business by subscribing additional new A Shares where applicable, this would assist the Company to raise the targeted amounts of proceeds even if there is under subscription by the eligible participants under the Employee Stock Ownership Scheme (2015) and is therefore in the benefit of the Company and the Shareholders as a whole.

4. Directors' confirmation

The Directors are of the view that the terms of the Employee Stock Ownership Scheme (2015) and the Asset Management Agreement are fair, reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

All the executive Directors, namely Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong, Mr. Wu Changhai and Mr. Wang Wenchu, are materially interested in the Employee Stock Ownership Scheme (2015) by virtue of them having indicated their intentions to participate in the Employee Stock Ownership Scheme (2015) and had abstained from voting on the relevant Board resolutions approving the aforesaid transactions. Save as disclosed above, none of the Directors have a material interest in the Employee Stock Ownership Scheme (2015) or is required to abstain from voting on the Board resolutions for considering and approving the Employee Stock Ownership Scheme (2015), the Asset Management Agreement and the transactions contemplated thereunder pursuant to the Hong Kong Listing Rules and/or the Articles of Association.

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V. EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after completion of the Proposed Placing (assuming GPHL is not required to take up any additional A Shares pursuant to the GPHL Undertaking and there is no change in the total issued share capital of the Company other than the issue of A Shares since the Latest Practicable Date and up to completion of the Proposed Placing); and (iii) immediately after the completion of the Proposed Placing (assuming GPHL is required to take up all the additional A Shares pursuant to the GPHL Undertaking and there is no change in the total issued share capital of the Company other than the issue of A Shares since the Latest Practicable Date and up to completion of the Proposed Placing):

Shareholders	(i) As at the Latest Practicable Date		(ii) Immediately after the completion of the Proposed Placing (assuming GPHL is not required to take up any additional A Shares pursuant to the GPHL Undertaking)		(iii) Immediately after the completion of the Proposed Placing (assuming GPHL is required to take up all the additional A Shares pursuant to the GPHL Undertaking)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
A Shares						
The Concert Group						
GPHL	584,228,036	45.24	730,824,272	42.72	752,013,272	43.96
GZ SOA Development	–	–	125,838,926	7.36	125,838,926	7.36
GZ Chengfa	–	–	104,865,771	6.13	104,865,771	6.13
Sub-total	584,228,036	45.24	961,528,969	56.20	982,717,969	57.44
Other non-public A Share Shareholders						
The Employee Stock Trust	–	–	21,189,000	1.24	–	–
Public A Share Shareholders						
The Fund	–	–	20,973,154	1.23	20,973,154	1.23
Other public A Share Shareholders	487,212,614	37.73	487,212,614	28.48	487,212,614	28.48
Sub-total	487,212,614	37.73	508,185,768	29.70	508,185,768	29.70
Total number of A Shares	1,071,440,650	82.97	1,490,903,737	87.15	1,490,903,737	87.15
H Shares						
Public H Share Shareholders	219,900,000	17.03	219,900,000	12.85	219,900,000	12.85
Total number of Shares	1,291,340,650	100.00	1,710,803,737	100.00	1,710,803,737	100.00

Note: The percentages shown are rounded to the nearest 2 decimal places. The numbers may not add up to 100% due to rounding.

The Company had no outstanding warrants, options or securities convertible into Shares as at the Latest Practicable Date.

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VI. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION PURSUANT TO THE PROPOSED PLACING

In order to comply with the applicable laws and regulations of the PRC with regard to the Proposed Placing, the Company proposes to amend the Articles of Association to reflect changes in, among other things, the registered capital and shareholding structure of the Company immediately after completion of the Proposed Placing. Exact details of such proposed amendments to the Articles of Association (including without limitation the number of issued Shares) will only be available after completion of the Proposed Placing. Upon passing of ordinary resolution No. (10) as set out in the notice of the EGM dated 19 January 2015, the Board will have full powers to handle matters relating to the non-public issue of A Shares, including the power to prepare a proposal on amendments to the Articles of Association to reflect the changes in the registered capital and shareholding structure of the Company resulting from the completion of the Proposed Placing. According to the PRC laws, the amendments to the Articles of Association proposed by the Board would still be subject to the approval by the Shareholders at a general meeting. The Company will convene a separate general meeting after the completion of the Proposed Placing for the Shareholders to approve the above proposal on amendments to the Articles of Association.

VII. EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not conducted any equity fund raising activities in the 12 months immediately preceding the Latest Practicable Date.

VIII. INFORMATION ON THE GROUP

The Company is a joint stock company established under the laws of the PRC with limited liability, the H Shares and 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 (a) research and development, manufacture and sales of Chinese and western patent medicine, chemical active pharmaceutical ingredients (API), natural medicine, biological medicine and chemical API intermediates; (b) wholesale, retail, import and export of western and Chinese pharmaceutical products and medical apparatus; (c) research and development, production and sales of great health products; and (d) investment in the healthcare industry such as medical treatment, health management, health nursing, etc..

IX. REASONS FOR THE PROPOSED PLACING AND THE EMPLOYEE STOCK OWNERSHIP SCHEME (2015)

1. The Proposed Placing

The Proposed Placing and the implementation of projects to be invested with the proceeds raised will help the Group to improve its financial condition, strengthen the Group's research and development capability, production facilities, distribution networks and promotion channel; and maximize its returns, which will be in the best interests of the the Group and Shareholders as a whole.

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The participation of GPLH in the Proposed Placing and the provision of the GPLH Undertaking also demonstrates GPLH's confidence in the Company and support of the development of the Company's business, which is conducive to enhancing the market image of the Company.

Following the completion of the Proposed Placing, GPLH intends to continue the existing business of the Group, and has no intention to introduce any major changes in such business (including redeployment of the fixed assets of the Group) or to terminate the continued employment of the employees of the Group. Given that GPLH has no intention to change any business and employment of the Group, the Directors are of the view that there will be no distortion or interruption to the Group's operations which will continue to be operated upon completion of the Proposed Offer as before.

The gross proceeds to be raised from the Proposed Placing will be a maximum of approximately RMB10,000 million. The net proceeds from the Proposed Placing, after deducting all related expenses incurred, will be used as to approximately RMB1,500 million for strengthening the Group's research and development capability on medicines, health products and medical technology; as to approximately RMB2,600 million for the expansion and reformation of part of the Group's production facilities; as to approximately RMB3,400 million for the expansion of and strengthening the Group's distribution networks and promotion channels; as to approximately RMB200 million for the establishment of a new management and information system of the Group; and as to approximately RMB2,300 million as for general working capital, details of which are set out below. In the event that the proceeds from the Proposed Placing are not enough to fund the above plans, the Group will use its internal resources to finance the shortfall. Further details on the proposed use of proceeds are set out below.

a. Establishment of the R&D platform for "Grand Southern TCM"

In order to maintain its competitiveness, the Company intends to apply approximately RMB1,500 million to establish the R&D platform, of which approximately RMB350 million will be used to construct the R&D center and acquire equipment and machinery; and approximately RMB1,150 million will be used to conduct further laboratory studies, clinical studies on various famous traditional Chinese medicines, chemical medicines (e.g. medicines for cancers, Parkinson's disease and other age-related diseases and new antibiotics), biological medicines (e.g. medicines for cardiovascular and cerebrovascular diseases and biological vaccines) and high-end health care products of the Group; studies on the development of high-end medical equipment and vitro diagnostic reagents for early detection of infectious diseases, cancer and HPV; and studies on some of the common and critical medical technologies (e.g. extraction and separation technology of Chinese medicines and chemical synthesis technology).

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b. Expansion and reformation of phase 1 of the production base for “Grand Southern TCM”

The production facilities of the Group are currently located in different areas of Guangzhou. With an aim to centralize its production facilities, the Company intends to establish an integrated production base and apply approximately RMB1,000 million for the establishment of phase 1 of the production base, relocation of the factories of Guangzhou Baiyunshan He Ji Gong Pharmaceutical Factory* (廣州白雲山何濟公製藥廠) and Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司) in the production base and refurbishment of production facilities of these two factories to increase their production capacities and technology level.

c. Capital injection into Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司)

The Company intends to apply approximately RMB1,000 million for additional capital injection into Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司) as the business platform of the “Grand Commerce”, which is a 50% joint venture of the Company, to establish a modern logistic system for medicines distribution and establish an e-commerce platform for medicines distribution. Alliance Boots (聯合博姿), the joint venture partner, will also inject RMB1,000 million into Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司) at the same time.

d. Sales and promotion of the “Wang Lao Ji” brand and products for “Great Health”

The Company intends to apply approximately RMB4,000 million for additional capital injection into Guangzhou Wang Lao Ji Great Health Industry Co., Ltd.* (廣州王老吉大健康產業有限公司), which is a wholly-owned subsidiary of the Company. Approximately RMB2,400 million of the amount injected will be used to conduct brand, culture and marketing activities, and enhance the reputation of the “Wang Lao Ji” brand and products to young consumers, expand the existing sale teams to further penetrate the food and beverage industry and increase the “Wang Lao Ji” market share in the PRC. The Company will use part of the proceeds to vigorously promote the culture of herbal tea and the “Wang Lao Ji” brand to overseas markets, and accelerate the establishment of a distribution network for the “Wang Lao Ji” drinks. Approximately RMB1,600 million of the amount injected will be used to construct the production bases for “Wang Lao Ji” drinks in Nansha Guangzhou, Meizhou Guangdong, Yaán Sichuan and other places in the PRC respectively in order to ensure product quality and reduce reliance on OEM manufacturers.

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e. Establishment of a new management and information platform

The Company intends to apply approximately RMB200 million for the establishment of a new management and information system of the Group, including establishing an information data base for procurements and suppliers management, customers' relationship, sales and distribution management and production management to enhance the efficiency of the Company's management and administration efficiency.

f. Use as general working capital

In addition, the Company intends to apply approximately RMB2,300 million to replenish its cash flow for general working capital use and to support the Company's future merger and acquisition and expansion opportunities.

2. The Employee Stock Ownership Scheme (2015)

According to the Several Opinions of the State Council on Further Promoting the Healthy Development of the Capital Market (Guo Fa [2014] No. 17) (《國務院關於進一步促進資本市場健康發展的若干意見》(國發[2014]17號), listed companies are allowed to adopt employee stock ownership schemes in various forms. The CSRC issued the Guidelines on Pilot Implementation of Employee Stock Ownership Schemes by Listed Companies (《關於上市公司實施員工持股計劃試點的指導意見》) (the "Guiding Opinions") on 20 June 2014 on the basis of the Companies Law of the PRC (《中華人民共和國公司法》) and the Law of the PRC on Securities (《中華人民共和國證券法》) pursuant to the approval by the State Council of the PRC for the trial of employee stock ownership schemes of listed companies. The Employee Stock Ownership Scheme (2015) is a long-term incentive and restriction scheme to fully motivate the employee of the Group and to enhance their sense of responsibility, to promote the degree of recognition of the Company in the capital market, to maintain the stability of the workforce and the effectiveness of its implementation of strategies.

X. WHITEWASH WAIVER

Each of GPLH and GZ SOA Development is a state-owned enterprise under the Guangzhou Municipal People's Government and GZ Chengfa is a limited partnership established under the laws of the PRC, whose general partner is controlled by a state-owned enterprise established by, and under the administration of, the Guangzhou Municipal People's Government, i.e. they are under the administration of different government departments. GPLH is under the administration of the Guangzhou Municipal People's Government State-owned Assets Supervision and Administration Commission while GZ SOA Development and GZ Chengfa are directly or indirectly under the administration of the Guangzhou Municipal People's Government. Assuming no further Shares will be issued by the Company prior to the completion of the Proposed Placing, upon completion of the Proposed Placing, the interests in the Company held by GPLH will decrease (i) from approximately 45.24% to approximately 42.72% of the total issued share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPLH is not required to take up any additional A Shares pursuant to the GPLH Undertaking) or (ii)

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from approximately 45.24% to approximately 43.96% of the total issue share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPLH is required to take up all the additional A Shares pursuant to the GPLH Undertaking); and the aggregate interests in the Company held by GZ SOA Development and GZ Chengfa will increase from 0% to approximately 13.49% of the total issued share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing.

GPLH, GZ SOA Development and GZ Chengfa would be treated as parties acting in concert by virtue of falling into the class (1) presumption of “acting in concert” as defined in the Hong Kong Takeovers Code as a result of the Proposed Placing from which their aggregate interests in the Company will increase (i) from approximately 45.24% to approximately 56.20% of the total issued share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPLH is not required to take up any additional A Shares pursuant to the GPLH Undertaking) or (ii) from approximately 45.24% to approximately 57.44% of the total issue share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPLH is required to take up all the additional A Shares pursuant to the GPLH Undertaking),

GPLH has confirmed that none of the members of the Concert Group and their respective parties acting in concert acquired any voting rights of the Company nor dealt in any securities of the Company and there have been no disqualifying transactions as stipulated under paragraph 3 of Schedule VI to the Hong Kong Takeovers Code, in the Relevant Period. GPLH has further confirmed that as at the Latest Practicable Date, save for 584,228,036 A Shares, representing approximately 45.24% of the issued share capital of the Company, held by GPLH as at the Latest Practicable Date:

- (i) the Concert Group and parties acting in concert with any of them did not hold, control or have direction over any Shares, convertible securities, warrants or options of the Company or any outstanding derivatives in respect of relevant securities (as defined in Note 4 to Rule 22 of the Hong Kong Takeovers Code) of the Company;
- (ii) the Concert Group and parties acting in concert with any of them did not receive any irrevocable commitment or arrangements to vote in favour of or against the resolutions in respect of the Proposed Placing, the Employee Stock Ownership Scheme (2015) and the Whitewash Waiver;
- (iii) save for the Subscription Agreements, there is no arrangement referred to in Note 8 to Rule 22 of the Hong Kong Takeovers Code (whether by way of option, indemnity or otherwise) in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Hong Kong Takeovers Code) of the Company or the Concert Group, which might be material to the Proposed Placing, the Employee Stock Ownership Scheme (2015) and the Whitewash Waiver;
- (iv) other than those conditions set out in the sub-section headed “I. Proposed issue and placing of new A Shares” in this section, there is no agreement or arrangement to which any of the Concert Group is a party which relates to

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circumstances in which any of them may or may not invoke or seek to invoke a pre-condition or a condition to the Proposed Placing, the Employee Stock Ownership Scheme (2015) and the Whitewash Waiver; and

- (v) there is no borrowing or lending of any relevant securities (as defined in Note 4 to Rule 22 of the Hong Kong Takeovers Code) of the Company by any member of the Concert Group and their respective parties acting in concert.

A formal application has been made by the Concert Group to the Executive for the Whitewash Waiver pursuant to Note 1 on Dispensations from Rule 26 of the Hong Kong Takeovers Code. It is a condition precedent to completion of the Proposed Placing, including the Concert Group Subscription, that the Whitewash Waiver is granted by the Executive. If the Whitewash Waiver is not granted by the Executive or if the conditions (if any) imposed thereon are not fulfilled, the Proposed Placing, including the Concert Group Subscription, will not proceed. In such case, the requirement of the Concert Group to make a mandatory general offer under Rule 26 of the Hong Kong Takeovers Code as a result of the Proposed Placing, Concert Party Subscription Agreement will not be triggered.

The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval by the Independent Shareholders at the EGM, the Independent A Share Shareholders at the A Share Class Meeting and the Independent H Share Shareholders at the H Share Class Meeting respectively by way of poll.

The Executive has indicated that it will agree, subject to the approval by the Independent Shareholders at the EGM, the Independent A Share Shareholders at the A Share Class Meeting and the Independent H Shares Shareholders at the H Share Class Meeting respectively by way of poll, to waive the Concert Group from any obligation to make a general offer for all the Shares under Rule 26 of the Hong Kong Takeovers Code as a result of the Proposed Placing and Concert Group Subscription.

If the Whitewash Waiver is granted by the Executive, and the voting rights of the Concert Group together with the respective persons acting in concert with them exceed 50% of the voting rights of the Company upon completion of the Proposed Placing, the Concert Group may increase their aggregate shareholding in the Company subsequent to the completion of the Proposed Placing without triggering any obligation under Rule 26 of the Hong Kong Takeovers Code to make a general offer.

An ordinary resolution will be put forward at the EGM, the A Share Class Meeting and the H Share Class Meeting respectively for the Independent Shareholders, the Independent A Share Shareholders and the Independent H Share Shareholders respectively to consider and, if thought fit, approve the Whitewash Waiver.

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(C) OTHER MATTERS

I. GENERAL MANDATE TO ISSUE NEW H SHARES

As at the Latest Practicable Date, the Company had 219,900,000 H Shares in issue. On 12 January 2015, the Board resolved to submit to the Shareholders for their consideration and approval a special resolution in respect of the grant of the General Mandate to the Board, pursuant to which the Board may issue, allot and/or deal with a maximum of 43,980,000 new H Shares, representing 20% of the existing issued H Shares, assuming that there will be no change in the number of issued H Shares on the date the proposed special resolution regarding the General Mandate is passed.

Subject to the passing of the special resolution (see special resolution No. (4) set out in the notice of the EGM, special resolution No. 4 set out in the notice of the A Share Class Meeting and special resolution No. 4 set out in the notice of the H Share Class Meeting, all dated 19 January 2015) for the approval of the General Mandate at the EGM, the A Share Class Meeting and the H Share Class Meeting, the General Mandate shall become effective immediately upon the passing of the relevant special resolution up to (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the 12-month period from the date of passing the relevant special resolution; and (iii) the date on which the General Mandate is revoked or varied by a special resolution of the Shareholders in general meeting, whichever is the earliest.

The Directors believe that the General Mandate will allow financial flexibility for the Company to raise further funds for its future business development and expansion. Accordingly, the Directors consider that the approval of the grant of the General Mandate is in the interests of the Company and the Shareholders as a whole.

II. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION PURSUANT TO THE PRC LAWS

As set out in the announcement of the Company dated 12 January 2015, in order to comply with the applicable laws and regulations of the PRC and taking into consideration of the actual circumstances of the Company, the Company proposed to amend the Articles of Association. Details of such amendments are as follows:

(a) Proposed new provisions

Article 6

All of the assets of the Company shall be divided into shares of equal value. The shareholders shall be liable to the extent of the shares subscribed and the Company shall be liable for its debts to the extent of all of its assets.

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Article 9

Other senior management referred to in the Articles of Association means the deputy manager of the Company, secretary to the Board and the financial controller of the Company.

Article 18

Domestic shares issued by the Company are deposited and under the custody of China Securities Depository and Clearing Corporation Limited.

Article 51

If a resolution of a general meeting of shareholders or a resolution of the Board violates the laws and administrative regulations, shareholders shall have the right to request a people's court to declare that such resolution as invalid.

If the procedure for convening a general meeting of shareholders or Board meeting, or the method of voting at either meeting, violates the laws, administrative regulations or the Articles of Association, or the contents of a resolution violates the Articles of Association, shareholders shall have the right to request a people's court to rescind the resolution within sixty days from the date on which the resolution is passed.

Article 55

Where the shareholdings of a shareholder is more than 5%, and any such shares carry voting rights of the Company, if the shareholders charges such shares held by him, he shall submit a written report to the Company upon the date on which the shares are charged.

Article 65

The supervisory committee is entitled to propose in writing to the Board to convene an extraordinary general meeting. The Board shall, in accordance with the laws, administrative regulations and the Articles of Association, furnish a written reply to the Supervisory Committee stating its agreement or disagreement to the convening of the extraordinary general meeting within ten days after having received such proposal.

In the event that the Board agrees to convene an extraordinary general meeting, it shall serve the notice of such meeting within five days after the relevant Board resolution is passed. Consent of the supervisory committee shall be obtained in the event of any changes made to the original proposal in the notice.

In the event that the Board does not agree to convene an extraordinary general meeting or does not furnish any written reply to the Supervisory Committee within ten days after having received such proposal, the Board is

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deemed to be unable or unwilling to perform the duty of convening a general meeting, in which case the supervisory committee may convene and preside over such meeting by itself.

Article 66

Any shareholder(s) who individually or jointly hold more than 10% of the shares of the Company is/are entitled to propose in writing to the Board to convene an extraordinary general meeting. The Board shall, in accordance with the laws, administrative regulations and the Articles of Association, furnish a written reply to the relevant shareholders stating its agreement or disagreement to the convening of the extraordinary general meeting within ten days after having received such proposal.

In the event that the Board agrees to convene an extraordinary general meeting, it shall serve the notice of such meeting within five days after the relevant Board resolution is passed. Consent of the relevant shareholders shall be obtained in the event of any changes made to the original proposal in the notice.

In the event that the Board does not agree to convene an extraordinary general meeting or does not furnish any written reply to the relevant shareholders within ten days after having received such proposal, any shareholder(s) who individually or jointly hold more than 10% of the shares of the Company is/are entitled to propose to the supervisory committee to convene an extraordinary general meeting.

In the event that the supervisory committee agrees to convene an extraordinary general meeting, it shall serve the notice of such meeting within five days after having received such proposal. Consent of the relevant shareholders shall be obtained in the event of any changes made to the original proposal in the notice.

In the event that the supervisory committee does not serve any notice of an extraordinary general meeting within the prescribed period, the supervisory committee is deemed not to convene and preside over such meeting, in which case the shareholder(s) who individually or jointly hold more than 10% of the shares of the Company for more than ninety consecutive days may convene and preside over such a meeting by himself/themselves.

Clause (1) of Article 73:

The Board, the supervisory committee and shareholder(s) who individually or jointly hold more than 3% of the total number of the shares of the Company is entitled to propose resolutions to the Company to be decided at the general meeting of shareholders convened by the Company.

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Article 217

(II) The management of the Company shall make reasonable proposals on profit distribution to the Board based on, among other things, the provisions of the Articles of Association, size of share capital, profits, investment arrangements, capital needs, cash flow and returns to the shareholders of the Company. The Board should fully and widely listen to the opinions of the independent directors and minority shareholders with respect to the profit distribution proposal through multiple channels and propose detailed annual or interim profit distribution plans which are scientific and reasonable. The independent directors shall fully express their independent opinions with respect to such profit distribution plan(s).

When the profit distribution plan(s) is being considered by the Board, it shall be approved by the majority of all directors and approved by more than one half of the independent directors who are also required to express their explicit independent opinions. When the profit distribution plan(s) is being considered by the supervisory committee, it shall be approved by the majority of all supervisors. The profit distribution plan(s) should only be submitted to the shareholders' meeting for consideration and approval after it has been considered and approved by the Board and the supervisory committee and the plan(s) shall be approved by shareholders present at the general meeting and who hold more than two-thirds of the voting rights.

(IV) The Company shall expressly disclose the details about the formulation and implementation of the cash dividend policy in its annual report, and state the details of the following matters:

1. Whether the policy is in compliance with the requirements of the Articles of Association or the resolutions passed at the general meeting;
2. Whether the basis and ratio of the distribution of dividends are specific and clear;
3. Whether the relevant decision making procedure and system are sound;
4. Whether the independent directors have duly performed their duties and functions;
5. Whether there are enough opportunities for minority shareholders to express their views and concerns, and whether their legal interests are sufficiently protected, etc.

If the cash dividend policy is to be adjusted or changed, the Company shall disclose the details of such policy, such as whether the conditions and procedures for the adjustments or changes are in compliance with the regulations and are transparent.

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(b) Proposed amendments

The existing Article 55 is proposed to be re-numbered and partially amended as follows:

Article 60

- (2) to elect and replace directors who are not the employees' representatives and to decide matters relating to the remuneration of directors;
- (3) to elect and replace supervisors who are not the employees' representatives and to decide matters relating to the remuneration of supervisors;

The existing Article 58 is proposed to be re-numbered and partially amended as follows:

Article 63

- (1) the number of directors fall short of the number stipulated by the Company Law or is less than 8;

The existing Article 66(2) is proposed to be re-numbered and amended as follows:

Article 73(2)

Shareholders(s) who individually or jointly hold 3% or more of the shares of the Company, and if any such shares carry voting rights of the Company, is/are entitled to proposed additional resolutions in writing to the convener ten days before the shareholders' meeting is held. The convener shall issue a supplemental notice of meeting with two days after receiving such proposal specifying the contents of such proposal, and, if such proposals are within the scope of the meeting, include such proposals in the agenda of the meeting.

The existing Article 81 is proposed to be re-numbered and partially amended as follows:

Article 88

Such registration shall be ceased prior to the announcement by the chairman of the general meeting of the number of shareholders and their proxies present at the meeting and the total number of their respective voting shares.

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The existing Article 82 is proposed to be re-numbered and amended as follows:

Article 89

The Company shall, on the condition that the shareholders' meeting is legally and validly held, use all means and methods as far as the conditions permit, give first priority to the use of modern information technology to provide a network voting platforms to domestic shareholders in order to increase participation of public shareholders at general meetings.

The existing Article 84 is proposed to be re-numbered and amended as follows:

Article 91

The Board, independent directors and eligible shareholders are entitled to solicit proxy from shareholders publicly. While soliciting proxy of shareholders, sufficient disclosure of information such as the specific voting preference shall be made to the shareholders from whom proxy is being solicited. No consideration or other form of actual consideration shall be involved in the solicitation of proxy from shareholders. The Company shall not impose any limitation related to the minimum shareholding ratio on the solicitation of proxy.

The existing Article 86 is proposed to be re-numbered and amended as follows:

Article 93

For the purpose of voting at a general meeting, a shareholder (including proxy) exercises his/her voting rights in accordance with the number of shares carrying voting rights represented by him. Each share has one vote.

Where material issues considered at a general meeting affect the interests of minority investors, the votes of minority investors shall be counted separately. The results of the separate votes shall be disclosed publicly in a timely manner.

No voting rights shall attach to the Company shares held by the Company, and such shares shall not be counted among the total number of shares with voting rights present at a general meeting.

Article 97

It is proposed that the existing Article 97 be deleted in its entirety.

Upon these revisions, the Articles of Association and the serial numbers referring to the existing provisions will be reordered according to the amendments made.

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Reasons for the proposed amendments to the Articles of Association

Pursuant to the relevant requirements under the Guidelines for the Articles of Association of Listed Companies (2014 Revision) (《上市公司章程指引(2014年修訂)》), the Listed Companies Regulatory Guidelines No. 3 – Cash Dividends Distribution of Listed Companies (the Announcement of CSRC [2013] No. 43) (《上市公司監管指引第3號–上市公司現金分紅(中國證券監督管理委員會公告[2013] 43號)》) and the Rules Governing the Procedures for the General Meeting of Shareholders for Listed Companies (2014 Revision) (《上市公司股東大會規則(2014年修訂)》) issued by the CSRC, and taking into consideration of the actual circumstances of the Company, the amendments as described above are proposed to be made to the Articles of Association.

The proposed amendments to the Articles of Association pursuant to the PRC laws are subject to the Shareholders' approval at the EGM by way of special resolution (see special resolution No. (6) set out in the notice of the EGM dated 19 January 2015).

All the Directors (including the independent non-executive Directors) consider that the proposed amendments to the Articles of Association pursuant to the PRC laws are in the interests of the Company and the Shareholders as a whole.

III. ELECTION OF AN INDEPENDENT NON-EXECUTIVE DIRECTOR

In the announcement of the Company dated 24 December 2014, the Company announced, among other things, that (i) Mr. Fang (“Mr. Fang”) Shuting had tendered his resignation as an independent non-executive Director, a member of each of the audit committee, the nomination and remuneration committee and the budget committee of the Board; (ii) Mr. Fang’s resignation would come into effect on the date on which his successor is elected at a general meeting of the Company to be held; and (iii) the number of independent non-executive Directors will be less than one-third of the Board following the resignation of Mr. Fang. At the meeting of the Board held on 12 January 2015, the Board resolved to nominate Mr. Jiang Wenqi(姜文奇先生) (“Mr. Jiang”) as a candidate for the election of an independent non-executive Director at the EGM.

The biographical details of Mr. Jiang is set out below:

Mr. Jiang, aged 57, is a master degree postgraduate, second-grade professor and tutor of Ph.D. students. Mr. Jiang graduated from medical science of Shanghai Medical University in 1982 and graduated as a master degree postgraduate of oncology of Sun Yat-sen University of Guangzhou in 1988. During 1988 to 2014, He was a physician, medical superintendent and the deputy head of medical department of the affiliated cancer hospital of Sun Yat-sen University of Guangzhou, and dean of the school of medicine of Shenzhen University. As at the Latest Practicable Date, Mr. Jiang was the head of medical department of the cancer affiliated hospital of Sun Yat-sen University of Guangzhou, and deputy director of the institute of clinical pharmacology of Sun Yat-sen University. Mr. Jiang has comprehensive knowledge and understanding in the medical industry and health sectors.

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According to the emoluments policy of the Company, the annual emoluments of the Directors (including the independent non-executive Directors) are proposed by the Board to the annual general meeting of the Company at which the Board will seek authorization to determine the amount of the emoluments and the method of payment for services of the Directors. If elected, Mr. Jiang will be entitled to emoluments to be determined by the Board in accordance with the authorization of the coming annual general meeting of the Company for year 2014 which is expected to be held in June 2015. For reference purpose, the remuneration of the existing independent non-executive Directors is an annual salary of RMB50,000 and an additional RMB30,000 annually for being a member or members of the committee(s) of the Board. If elected, the term of office of Mr. Jiang shall commence on the date on which he is elected and will be ended on the date on which members of the seventh session of the Board are elected. As at the Latest Practicable Date, it is expected that the members of the seventh session of the Board will be elected at the annual general meeting of the Company to be held in 2018. The election of Mr. Jiang as an independent non-executive Director is subject to the approval of the Shareholders at the EGM. Please refer to ordinary resolution No. (12) set out in the notice of the EGM dated 19 January 2015.

Mr. Jiang does not have any relationships with the Directors, senior management, substantial or controlling shareholders of the Company. Mr. Jiang does not have any interests in the shares of the Company within the meaning of Part XV of the SFO and had not held any directorships in other listed public companies in the past three years. There is no other information which is required to be disclosed pursuant to Rule 13.51(2) of the Hong Kong Listing Rules, nor is there any information relating to Mr. Jiang that needed to be brought to the attention of the Shareholders. Mr. Jiang will be a member of the audit committee, the nomination and remuneration committee and the budget committee of the Board should he be elected as an independent non-executive Director by the Shareholders at the EGM.

The resolution on the election of Mr. Jiang as an independent non-executive Director is proposed for the purpose of achieving the proportion of independent non-executive Directors in the Board required under the Hong Kong Listing Rules and the PRC regulatory requirements. All the Directors (including the independent non-executive Directors) consider that the election of Mr. Jiang as an independent non-executive Director in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

IV. PROPOSED AMENDMENTS TO THE UNDERTAKING OF GPHL IN RELATION TO THE PERFORMANCE PERIOD FOR INJECTION OF THE “WANG LAO JI” TRADEMARKS

1. Relevant contents of the original undertaking

As set out in the announcement of the Company dated 18 December 2014, when the Company prepared and considered the major assets reorganization proposal in March 2012 (details of which were set out in the circular of the Company dated 4 September 2012), the arbitration result in relation to the “Wang Lao Ji” trademarks has not yet been given. As GPHL had undertaken in the trademark license agreement between it and Hung To (Holdings) Company Limited* (鴻道(集團)有限公司) that “it was warranted that the “Wang Lao Ji” trademarks will not be transferred to any third party (including the subsidiaries of the licensor) during the licence period; and in case of any transfer, the licensee shall have pre-emptive right on the same terms”, there was an impediment in transferring the “Wang Lao Ji” trademarks and the Company had not included the “Wang Lao Ji” trademarks in the assets acquisition by issuing new shares to GPHL. To ensure the completeness of the assets of the listed company, GPHL issued the “Letter of Undertaking related to the Injection of the “Wang Lao Ji” trademarks” in February 2012 and a further supplemental undertaking in June 2012 respectively (collectively, the “Original Undertaking”) undertaking that, after all of the legal disputes regarding the “Wang Lao Ji” trademarks have been resolved and within two years commencing from the day on which the “Wang Lao Ji” trademarks are permitted to be transferred, GPHL shall, pursuant to the requirements of the laws and regulations which are valid at the material time and, after complying the relevant procedures regarding applications for approvals, transfer the series of “Wang Lao Ji” trademarks to Guangzhou Pharmaceutical Co., Ltd. (“GPC”, the predecessor of the Company). In February 2014, pursuant to the relevant requirements under the Regulatory Guidelines for Listed Companies No. 4 – the Giving and Performance of Undertakings by the De Facto Controllers, Shareholders, Related Parties and Offerors of Listed Companies and Listed Companies (Statements of the CSRC [2013] No. 55)* (《上市公司監管指引第4號 – 上市公司實際控制人、股東、關聯方、收購人以及上市公司承諾及履行》(中國證券監督管理委員會公告[2013]55號)) and the relevant requirements of the CSRC and Guangdong Securities Regulatory Bureau, and taking into account the developments of the legal disputes relating to the trademark license agreement, the Company clarified the timeline for the performance of the Original Undertaking (details of which were set out in the announcement in Chinese dated 14 February 2014 published by the Company by way of overseas regulatory announcement).

LETTER FROM THE BOARD

2. Proposed amendments to the undertaking by GPHL

It is stated in the “Letter in relation to Amending the Undertaking of Injecting the Series of Trademarks of Wang Lao Ji” received from GPHL in December 2014 that:

“After decision of the trademark arbitration case has been given, the company and its competitor each initiated legal proceedings to courts against each other parties in relation to the unauthorized use of the specific packaging and decoration of the well-known products (the “Case of Disputes relating to the Red-can Decoration”). The court case is still in the course of trial.

As the judgement of the Case of Disputes relating to the Red-can Decoration will have material impact on the trademark rights and sale of the red-canned “Wang Lao Ji” herbal tea in market which will, in turn, affect the valuation of the “Wang Lao Ji” trademarks, the company proposed to amend the undertaking by amending the performance period in the Original Undertaking to “within two years from the effective date of the judgement of the Case of Disputes relating to Red-can Decoration” for the purposes of minimizing uncertainties, and adequately protecting the legitimate interests of the Company and all kinds of shareholders.”

3. Directors’ confirmation

The Directors (including the independent non-executive Directors) are of the view that the proposed amendments to the undertaking of GPHL in relation to the performance period for injection of the “Wang Lao Ji” trademarks are fair, reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

The Directors who abstained from voting on the relevant Board resolutions approving the aforesaid transactions include Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong and Mr. Wang Wenchu, who are materially interested in the proposed amendments to the undertaking by GPHL as described in this sub-section by virtue of them also being the directors and/or members of the senior management or employee of GPHL. Save as disclosed above, none of the Directors have a material interest in the above mentioned proposed amendments or is required to abstain from voting on the relevant Board resolution pursuant to the Hong Kong Listing Rules and/or the Articles of Association.

4. Shareholders’ approval

The Board considered and approved the said proposed amendments to undertaking in the Board meeting held on 12 January 2015 and resolved to propose a resolution to the non-related Shareholders under the PRC laws for their consideration and approval at the EGM. The relevant resolution will be a special resolution at the EGM (see special resolution No. (5) set out in the notice of the EGM dated 19 January 2015).

LETTER FROM THE BOARD

V. PROPOSED AMENDMENTS TO THE RULES OF PROCEDURES OF THE GENERAL MEETINGS OF SHAREHOLDERS

According to the relevant requirements of the Rules Governing the Procedures for the General Meetings of Shareholders for Listed Companies (2014 Revision) (《上市公司股東大會規則(2014年修訂)》) issued by the CSRC and the Reminder on individual counting and disclosure of small-and medium-sized investors' votes (《關於對中小投資者表決單獨計票並披露的業務提醒》) issued by the Shanghai Stock Exchange, and taking into account the actual circumstances of the Company, the Company proposes to amend certain provisions of its rules of procedures of the general meetings of Shareholders, details of which are set out as follows:

No.	Existing provisions	Proposed amended provisions
1.	Provision 8. Subject to the legality and effectiveness of the Shareholders' meetings and all applicable conditions are qualified, the Company shall, through a variety of ways and means, including the provision of modern information technology means, e.g. network voting platform to the holders of domestic shares, increase the proportion of public Shareholders' participation in Shareholders' meetings.	Provision 8. Subject to the legality and effectiveness of the Shareholders' general meetings and the satisfaction of all relevant conditions, the Company shall facilitate Shareholders to attend the Shareholders' meetings through a variety of ways and means, including the provision of modern information technology (e.g. priority network voting platform) to the holders of domestic shares.
2.	Provision 9. The Board, the independent Directors and Shareholders who fulfill the relevant conditions can solicit their voting rights at the Shareholders' meetings. The voting rights to be solicited should be done without any compensation and the persons who are solicited should be provided with full information.	Provision 9. The Board, the independent Directors and Shareholders who satisfy the relevant conditions can solicit voting rights. The persons who are solicited should be provided with full information, including the right to vote. Any compensation or similar payments paid in relation to the solicitation of Shareholders' voting rights is prohibited. The Company shall not set a minimum threshold on shareholding to restrict the solicitation of voting rights.

LETTER FROM THE BOARD

No.	Existing provisions	Proposed amended provisions
3.	Provision 46. In the Shareholders' meetings, the Shareholders (including their proxies) can exercise their voting rights based on the number of Shares held by them, each Share has one vote.	Provision 46. At the Shareholders' general meetings, Shareholders (including their proxies) can exercise their voting rights based on the number of Shares held by them, each Share has one vote.

Where there are material matters in the Shareholders' general meetings which may affect the interests of small-and medium-sized investors, the votes of the small-and medium-sized investors should be counted separately and the results should be disclosed promptly and publicly.

The Shares held by the Company shall have no voting rights and such number of Shares shall not be counted as part of the total number of Shares held by the Shareholders who attend the general meetings.

This proposal will be put forward at the EGM as an ordinary resolution (see ordinary resolution No. (13) set out in the notice of the EGM dated 19 January 2015) for consideration and approval by the Shareholders.

(D) GENERAL

I. EGM, THE A SHARE CLASS MEETING AND THE H SHARE CLASS MEETING

The EGM, the A Share Class Meeting and the H Share Class Meeting will be held at the Conference Room of the Company, 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC on Friday, 13 March 2015. The EGM will be held at 10:00 a.m., the H Share Class Meeting will be held immediately after the conclusion of the EGM and the A Share Class Meeting will be held immediately after the conclusion of the H Share Class Meeting. At the EGM, the H Share Class Meeting and the A Share Class Meeting, resolutions will be put forward for the Independent Shareholders, the Independent A Share Shareholders and the Independent H Share Shareholders respectively to consider and, if thought fit, to approve, among other things, the Proposed Placing and the transactions contemplated thereunder and the Whitewash Waiver. At the EGM, the resolutions relating to the Employee Stock Ownership Scheme (2015) and the transactions contemplated thereunder will also be proposed for the consideration and, if thought fit, the approval by the Shareholders. All the members of the Concert Group and their respective parties acting in concert and associates and any Shareholders who are

LETTER FROM THE BOARD

interested in or involved in the Proposed Placing, the Employee Stock Ownership Scheme (2015) and/or the Whitewash Waiver will abstain from voting at the EGM, A Share Class Meeting and H Share Class Meeting for the relevant resolutions.

At the EGM and/or the A Share Class Meeting and the H Share Class Meeting (as the case may be), the resolutions relating to the granting of the General Mandate, the proposed amendments to the Articles of Association, the election of an independent non-executive Director, the proposed amendments to the undertaking of GPLH in relation to the performance period for injection of the “Wang Lao Ji” trademarks and the proposed amendments to the rules of procedures of the general meetings of the Shareholders will also be proposed for the consideration and, if thought fit, approval by the Shareholders.

All special resolutions proposed at the EGM and/or the A Share Class Meeting and the H Share Class Meeting (as the case may be) are required to be passed by over two-thirds of the voting rights held by those Shareholders having the right to attend and vote at the EGM and/or the A Share Class Meeting and the H Share Class Meeting respectively and not otherwise required by the applicable laws, rules or regulations to abstain from voting thereat.

The notices convening the EGM, the A Share Class Meeting and the H Share Class Meeting and forms of proxy were published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.equitynet.com.hk/0874) on 19 January 2015 and despatched to the Shareholders on 23 January 2015.

II. RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 65 to 66 in this circular which contains its recommendations to the Independent Shareholders as to voting at the EGM and the H Share Class Meeting in relation to the Proposed Placing and the Whitewash Waiver.

Your attention is also drawn to the letter from Proton Capital set out on pages 67 to 90 in this circular which contains its advice to the Independent Board Committee and the Independent Shareholders as regards to the Proposed Placing and the Whitewash Waiver and the principal factors and reasons considered by it in arriving thereat.

The Directors (including the independent non-executive Directors after receiving the advice from Proton Capital) consider that the Proposed Placing (including the GPLH Subscription and the Concert Party Subscription) and the Whitewash Waiver are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders and the Independent H Share Shareholders to vote in favour of the resolution(s) to be proposed at the EGM and the H Share Class Meeting to approve the Proposed Placing (including the GPLH Subscription and the Concert Party Subscription) and the Whitewash Waiver. You are advised to read the letter from the Independent Board Committee and the letter from Proton Capital mentioned above before deciding how to vote on the resolution(s) to be proposed at the EGM and the H Share Class Meeting.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors) consider that the proposal in relation to the compliance and satisfaction by the Company of the requirements of the non-public issue and placing of new A Shares, the implementation of the Employee Stock Ownership Scheme (2015), the granting of the General Mandate, the proposed amendments to the Articles of Association, the feasibility report for the use of proceeds raised by the non-public issue of A Shares, the report of use of proceeds raised in the previous fund raising of the Company, the establishment of a special saving account for proceeds raised by the Company, the formulation of management measures for proceeds raised by the Company, the proposal in relation to waiving the obligations of GPLH and persons acting in concert with it from making an offer to increase their shareholdings in the Company pursuant to the relevant PRC takeover laws and regulations, the election of an independent non-executive Director, the proposed amendments to the undertaking of GPLH in relation to the performance period for injection of the “Wang Lao Ji” trademarks and the proposed amendments to the rules of procedures of the general meetings of the Shareholders are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Shareholders having the right to attend and vote on the resolution(s) to be proposed at the EGM and/or the H Share Class Meeting (as the case may be) and not otherwise required by the applicable laws, rules or regulations to abstain from voting thereat to vote in favour of those resolutions.

III. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
The Board of
**Guangzhou Baiyunshan Pharmaceutical
Holdings Company Limited**

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in connection with (i) the Proposed Placing and the GPLH Subscription in accordance with the Hong Kong Listing Rules; and (ii) the Proposed Placing (including the Concert Group Subscription) and the Whitewash Waiver in accordance with the Hong Kong Takeovers Code for inclusion in this circular.



廣州白雲山醫葯集團股份有限公司
GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS CO., LTD.

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

(H Share Stock Code: 0874)

26 February 2015

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular of the Company dated 26 February 2015 (the “Circular”) of which this letter forms part. Capitalized terms defined in the Circular have the same meanings when used herein unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders in respect of the fairness and reasonableness of (i) the Proposed Placing and the GPLH Subscription in accordance with the Hong Kong Listing Rules; and (ii) the Proposed Placing (including the Concert Group Subscription) and the Whitewash Waiver in accordance with the Hong Kong Takeovers Code and to recommend whether or not the Independent Shareholders should vote in favour of the related resolutions to be proposed at the EGM and the H Share Class Meeting to approve the Proposed Placing (including the Concert Group Subscription) and the Whitewash Waiver. Proton Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the “Letter from the Board” set out on pages 9 to 64 of the Circular and the “Letter from Proton Capital” set out on pages 67 to 90 of the Circular.

Having taken into account the principal factors and reasons considered by, and the opinion of, Proton Capital as set out in the “Letter from Proton Capital” in the Circular, we are of the view that (i) terms of the Proposed Placing, the GPLH Subscription and the Concert Party Subscription are on normal commercial terms; (ii) the Proposed Placing, the GPLH Subscription, the Concert Party Subscription and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole; and (iii) the Proposed Placing, the GPLH Subscription, the Concert Party Subscription and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM and the H Share Class Meeting to approve the Proposed Placing (including the GPLH Subscription and the Concert Party Subscription) and the Whitewash Waiver.

Yours faithfully,

For and on behalf of

The Independent Board Committee of

Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited

Mr. Wong Lung

Tak Patrick

Independent

non-executive

Director

Mr. Qiu

Hongzhong

Independent

non-executive

Director

Mr. Fang

Shuting

Independent

non-executive

Director

Mr. Chu

Xiaoping

Independent

non-executive

Director

LETTER FROM PROTON CAPITAL

Set out below is the text of a letter received from Proton Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Proposed Placing and the Whitewash Waiver for the purpose of inclusion in this circular.



普頓資本有限公司
PROTON CAPITAL LIMITED

Unit 1001, 10th Floor, Chuang's Tower
30-32 Connaught Road Central, Hong Kong

26 February 2015

*To: The Independent Board Committee and the Independent Shareholders
of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited*

Dear Sirs,

**(1) PROPOSED ISSUE AND PLACING OF NEW A SHARES;
(2) CONNECTED TRANSACTION –
PROPOSED SUBSCRIPTION OF NEW A SHARES BY GPLH;
AND
(3) WHITEWASH WAIVER**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Proposed Placing (including the GPLH Subscription and the Concert Party Subscription) and the Whitewash Waiver, details of which are set out in the letter from the Board (the “**Board’s Letter**”) contained in the circular dated 26 February 2015 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 12 January 2015, the Board approved the Proposed Placing, pursuant to which and subject to the Share Adjustment, the Company shall issue new A Shares for subscription to 5 subscribers in total, being GPLH, GZ SOA Development, GZ Chengfa, Shanghai Yunfeng (on behalf of the Fund) and the Asset Manager (as trustee of the Employee Stock Trust). On even date, the Subscribers have entered into the Subscription Agreements respectively with the Company to subscribe for a total of up to 419,463,087 new A Shares at the Subscription Price of RMB23.84 per new A Share (subject to the Price Adjustment), representing total gross proceeds of approximately RMB10,000 million.

According to the Board’s Letter, GPLH is a controlling shareholder of the Company holding approximately 45.24% of the total issued share capital of the Company as at the Latest Practicable Date and, therefore, is a connected person of the Company. Accordingly, the entering into the GPLH Subscription Agreement by the Company constitutes a connected transaction under Chapter 14A of the Hong Kong Listing Rules.

LETTER FROM PROTON CAPITAL

GPHL, GZ SOA Development and GZ Chengfa would be treated as parties acting in concert by virtue of falling into the class (1) presumption of “acting in concert” as defined in the Hong Kong Takeovers Code. Assuming no further Shares will be issued by the Company prior to the completion of the Proposed Placing, upon completion of the Proposed Placing, the aggregate interests of the Concert Group (i.e. GPHL, GZ SOA Development and GZ Chengfa) in the Company will increase (i) from approximately 45.24% to approximately 56.20% of the total issued share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPHL is not required to take up any additional A Shares pursuant to the GPHL Undertaking) or (ii) from approximately 45.24% to approximately 57.44% of the total issued share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPHL is required to take up all the additional A Shares pursuant to the GPHL Undertaking).

The Concert Group will, in the absence of the Whitewash Waiver, be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Hong Kong Takeovers Code as a result of the Proposed Placing and the Concert Group Subscription.

The Concert Group has applied to the Executive for the Whitewash Waiver pursuant to Note 1 on Dispensations from Rule 26 of the Hong Kong Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval by the Independent Shareholders at the EGM, the Independent A Share Shareholders at the A Share Class Meeting and the Independent H Share Shareholders at the H Share Class Meeting respectively by way of poll. All members of the Concert Group and their respective parties acting in concert and associates and any Shareholders who are interested in or involved in the Proposed Placing, the GPHL Subscription, the Concert Group Subscription and the Whitewash Waiver will abstain from voting at the EGM, A Share Class Meeting and H Share Class Meeting for the relevant resolutions. It is a condition precedent to completion of the Proposed Placing, including the Concert Group Subscription that the Whitewash Waiver is granted by the Executive.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Wong Lung Tak Patrick, Mr. Qiu Hongzhong, Mr. Fang Shuting and Mr. Chu Xiaoping, has been formed to advise the Independent Shareholders on (i) the Proposed Placing and the GPHL Subscription in accordance with the Hong Kong Listing Rules; and (ii) the Proposed Placing (including the Concert Group Subscription) and the Whitewash Waiver in accordance with the Hong Kong Takeovers Code.

We, Proton Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in the aforementioned respect. We are not connected with the directors, chief executive and substantial shareholders of the Company, the Group, the Subscribers or their respective associates and do not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group as at the Latest Practicable Date, and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. During the last two years, there was no previous engagement between us and the Group and the Subscribers.

LETTER FROM PROTON CAPITAL

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the management of the Company. We have assumed that all information and representations that have been provided by the Directors and the management of the Company, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the despatch of the Circular, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Hong Kong Listing Rules and Rule 2 of the Hong Kong Takeovers Code.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Subscribers or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Proposed Placing and the Whitewash Waiver. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any A Shares and/or H Shares or any other securities of the Company.

Lastly, where information (other than statements of opinion or conclusions) in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Proton Capital is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources.

LETTER FROM PROTON CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

(A) The Proposed Placing

In arriving at our opinion in respect of the Proposed Placing, we have taken into consideration the following principal factors and reasons:

(1) *Background of the Proposed Placing*

Information on the Group

The Company is a joint stock company established under the laws of the PRC with limited liability, the H Shares and 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 (a) research and development, manufacture and sales of Chinese and western patent medicine, chemical active pharmaceutical ingredients (API), natural medicine, biological medicine and chemical API intermediates; (b) wholesale, retail, import and export of western and Chinese pharmaceutical products and medical apparatus; (c) research and development, production and sales of great health products; and (d) investment in healthcare industry such as medical treatment, health management, health nursing, etc..

Set out below are the information of the Group's unaudited financial information for the nine months ended 30 September 2014 and the six months ended 30 June 2014; and the Group's audited financial information for the two years ended 31 December 2013 as extracted from its third quarterly report for the nine months ended 30 September 2014 (the "**2014 Third Quarterly Report**"), interim report for the six months ended 30 June 2014 and annual report for the year ended 31 December 2013 (the "**2013 Annual Report**"), respectively:

LETTER FROM PROTON CAPITAL

	For the nine months ended 30 September 2014 <i>RMB'000</i> <i>(unaudited)</i>	For the six months ended 30 June 2014 <i>RMB'000</i> <i>(unaudited)</i>	For the year ended 31 December 2013 2012 <i>RMB'000</i> <i>RMB'000</i> <i>(audited)</i> <i>(audited)</i>		% change from 2012 to 2013 %
Operating revenue					
– Manufacturing	Not been disclosed	7,647,729	13,888,168	8,677,118	60%
– Trading	Not been disclosed	2,353,053	3,686,350	3,351,341	10%
– Unallocated	Not been disclosed	19,508	33,676	34,183	-1%
	<u>14,635,342</u>	<u>10,020,290</u>	<u>17,608,193</u>	<u>12,062,642</u>	<u>46%</u>
Total					
Net profit	873,652	697,653	980,045	729,040	34%
Total assets	14,249,339	13,799,090	12,249,123	9,394,208	30%
Total liabilities	6,636,751	6,364,067	5,226,886	3,638,244	44%
Net assets attributable to Shareholders	7,390,250	7,205,804	6,831,768	5,566,352	23%
Cash at bank and on hand	3,253,281	2,845,246	1,935,682	1,135,435	70%

As depicted in the above table, the Group's operating revenue increased by approximately 46% from 2012 to 2013 with manufacturing segment recorded the most significant increase of approximately 60% from approximately RMB8,677,118,000 in 2012 to approximately RMB13,888,168,000 in 2013. As disclosed in the 2013 Annual Report, such a growth was mainly due to the effective marketing strategies by the Group, especially Guangzhou Wang Lao Ji Great Health Industry Co., Ltd.* (廣州王老吉大健康產業有限公司) (“**WLJ Great Health**”) achieved substantial increase in sales volume of the Wang Lao Ji herbal tea in the year ended 31 December 2013. During the six months ended 30 June 2014, operating revenue of the Company amounted to approximately RMB10,020,290,000 in which the manufacturing segment continued to be the Company's profit driver. The Company's operating revenue for the nine months ended 30 September 2014 was approximately RMB14,635,342,000. Net profit of the Company had increased to approximately RMB980,045,000 in the year ended 31 December 2013 from approximately RMB729,040,000 in the year ended 31 December 2012. Net profit of the Company for the nine months ended 30 September 2014 was approximately RMB873,652,000.

LETTER FROM PROTON CAPITAL

The Company recorded increases in its total assets from approximately RMB9,394,208,000 as at 31 December 2012 to approximately RMB14,249,339,000 as at 30 September 2014. Net assets of the Company attributable to the Shareholders also improved from approximately RMB5,566,352,000 as at 31 December 2012 to approximately RMB7,390,250,000 as at 30 September 2014.

Information on the Subscribers

(a) GPLH

With reference to the Board's Letter, GPLH is a state-owned enterprise established by, and under the administration of, the Guangzhou Municipal People's Government State-owned Assets Supervision and Administration Commission in the PRC. GPLH is principally engaged in the investment in and management of state-owned assets, manufacturing and selling of Chinese and western medicine, Chinese raw medicine, bio-tech products, medical apparatus, packing materials for pharmaceutical products, health drinks and food, hygienic materials and pharmaceutical related merchandise; undertaking medicine related import and export affairs, development of real estate and lease of properties.

(b) GZ SOA Development and GZ Chengfa

With reference to the Board's Letter, GZ SOA Development is a state-owned enterprise established by, and under the administration of, the Guangzhou Municipal People's Government in the PRC. GZ SOA Development is principally engaged in the investment of its own funds, investment management services, business management services (except for projects required for license to operate), investment advisory services; and product wholesale (except for products required permit to sell) and retail business (except for products required permit to sell).

The Board's Letter further disclosed that GZ Chengfa is a limited partnership established under the laws of the PRC. Its general partner, Guangzhou China Life Urban Development Industry Investment Advisory Enterprise (Limited Partnership)* (廣州國壽城市發展產業投資諮詢企業(有限合夥)), is controlled by Guangzhou Industrial Investment Fund Management Company Limited* (廣州產業投資基金管理有限公司), a state-owned enterprise wholly-owned by, and under the administrative of, the Guangzhou Municipal People's Government of the PRC. GZ Chengfa is principally engaged in the investment of its own funds, equity investment, and investment advisory services.

(c) The Asset Manager

According to the Board's Letter, the Asset Manager is a joint stock limited company established in the PRC, owned as to 47% by Orient Securities Company Limited (東方證券股份有限公司), as to 26.5% by Wenhui Xinmin United Press Group (文匯新民聯合報業集團) (which merged with Jiefang Daily Group* (解放軍日報報業集團) in 2013 after which the merged entity became known as Shanghai

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United Media Group* (上海報業集團)), and as to 26.5% by CES Finance Holding Co., Ltd. (東航金戎控股有限責任公司). It is principally engaged in the fund raising and trading, asset management, and other businesses as permitted by the CSRC.

(d) Shanghai Yunfeng

According to the Board's Letter, Shanghai Yunfeng is a limited liability company established in the PRC, owned as to 60% by Mr. Yu Feng* (虞鋒先生) and as to 40% by Mr. Ma Yun* (馬雲先生). It is principally engaged in investment management, investment advisory, management consultation and business consultation services.

Financing alternatives available to the Group

As referred to in the Board's Letter, the Company has not conducted any equity fund raising activities in the 12 months immediately preceding the Latest Practicable Date.

Upon our enquiry with the Directors in this respect, we understand that the Directors have considered both debt and equity financing as fund raising methods for the Group from Hong Kong capital market and/or the PRC capital market. In relation to debt financing, the Directors advised us that in light of that (i) the debt financing may incur interest expenses as compared to equity financing; and (ii) the Company does not prefer to increase the Group's gearing level and create additional debt liabilities to the Group, debt financing is considered to be less preferable for the Group at present.

The Directors advised us that having considered that the Group mainly operates in the PRC with most of the transactions denominated and settled in RMB and the funding requirement of the Group for its development plan (as detailed in the sub-section headed "Reasons for the Proposed Placing and Use of Proceeds") will be in RMB, it will be in the interest of the Company to issue new A Shares to obtain the funding directly in RMB. If the Company conducts fund raising activities by issuance of new H Shares in Hong Kong, the Company is required to convert the foreign currencies raised from such issue to RMB, as well as to go through relevant procedures and approvals as required by the relevant PRC rules and regulations to transfer the proceeds back to the PRC for the Group's uses.

Furthermore, according to the Measures for the Administration of the Issue of Securities of Listed Companies* (《上市公司證券發行管理辦法》) and the Implementation Rules for the Non-public Issue of Shares by Listed Companies* (《上市公司非公開發行股票實施細則》) issued by the CSRC (the "Measures"), the non-public issuance of new A Shares is generally subject to a lock-up period of not less than (i) 36 months period for (a) the controlling shareholders, their beneficial owners, or their associates; (b) investors who obtain the controlling power upon the completion of the issuance; and (c) strategic investors as introduced by the board of the company; or (ii) 12 months period for the other

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investors from the date of the completion of the issuance. With reference to the Board's Letter, the A Shares to be subscribed by the Subscribers shall not be transferable for a period of 36 months commencing from the completion of the Proposed Placing. However, there is no similar compulsory regulatory requirement in relation to lock-up for H shares listed in Hong Kong. In light of the aforementioned, the Directors are of the view that the issuance of new A Shares will defer and has limited any potential negative impact to the A Share market price of the Company with a lock-up period.

Having considered the above, we concur with the Directors' opinion that the Proposed Placing is the most appropriate fund raising methods currently available for the Group.

Reasons for the Proposed Placing and Use of Proceeds

Pursuant to the Board's Letter, the Directors believe that the Proposed Placing and the implementation of projects to be invested with the proceeds raised will help the Group to improve its financial condition, strengthen the Group's research and development capability, production facilities, distribution networks and promotion channel; and maximize its returns, which will be in the best interests of the Company and Shareholders as a whole.

The participation of GPLH in the Proposed Placing also demonstrates its confidence in the Company and support of the development of the Company's business, which is conducive to enhancing the market image of the Company.

Following the completion of the Proposed Placing, GPLH intends to continue the existing business of the Group, and has no intention to introduce any major changes in such business (including redeployment of the fixed assets of the Group) or to terminate the continued employment of the Group.

The gross proceeds to be raised from the Proposed Placing will be a maximum of approximately RMB10,000 million. The net proceeds from the Proposed Placing, after deducting all related expenses incurred, will be used as to approximately RMB1,500 million for strengthening the Group's research and development capability on medicines, health products and medical technology; as to approximately RMB2,600 million for expansion and reformation of part of the Group's production facilities; as to approximately RMB3,400 million for expansion of and strengthening the Group's distribution networks and promotion channels; as to approximately RMB200 million for establishment of a new management and information system of the Group; and as to approximately RMB2,300 million as for general working capital, details of which are set out below. In the event that the proceeds from the Proposed Placing are not enough to fund the above plans, the Group will use its internal resources to finance the shortfall.

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(a) Establishment of the R&D platform for “Grand Southern TCM”

As advised by the Directors, in order to maintain its competitiveness, the Company intends to apply approximately RMB1,500 million to establish the research and development (“R&D”) platform, of which approximately RMB350 million will be used to construct the R&D center and acquire equipment and machinery; and approximately RMB1,150 million will be used to conduct further laboratory studies, clinical studies on various famous traditional Chinese medicines, chemical medicines (e.g. medicines for cancers, Parkinson’s disease and other age-related diseases and new antibiotics), biological medicines (e.g. medicines for cardiovascular and cerebrovascular diseases and biological vaccines) and high-end health care products of the Group; studies on the development of high-end medical equipment and vitro diagnostic reagents for early detection of infectious diseases, cancer and HPV; and studies on some of the common and critical medical technologies (e.g. extraction and separation technology of Chinese medicines and chemical synthesis technology).

(b) Expansion and reformation of phase 1 of the production base for “Grand Southern TCM”

As disclosed in the Board’s Letter, the production facilities of the Group are currently located in different areas of Guangzhou. With an aim to centralize its production facilities, the Company intends to establish an integrated production base and apply approximately RMB1,000 million for the establishment of phase 1 of the production base, relocation of factories of Guangzhou Baiyunshan He Ji Gong Pharmaceutical Factory* (廣州白雲山何濟公製藥廠) and Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司) in the production base and refurbishment of production facilities of these two factories to increase their production capacities and technology level.

(c) Capital injection into Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司)

As further disclosed in the Board’s Letter, the Company intends to apply approximately RMB1,000 million for additional capital injection into Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司) as the business platform of the “Brand Commerce”, which is a 50% joint venture of the Company, to establish a modern logistic system for medicines distribution and establish an e-commerce platform for medicines distribution. Alliance Boots (聯合博姿), the joint venture partner, will also inject RMB1,000 million into Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司) at the same time.

(d) Sales and Promotion of the “Wang Lao Ji” brand and products for “Great Health”

Pursuant to the Board’s Letter, the Company intends to apply approximately RMB4,000 million for additional capital injection into WLJ Great Health. Approximately RMB2,400 million of the amount injected will be used to conduct

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brand, culture and marketing activities, and enhance the reputation of “Wang Lao Ji” brand and products to young consumers, expand the existing sale teams to further penetrate the food and beverage industry and increase the “Wang Lao Ji” market share in the PRC. The Company will use part of the proceeds to vigorously promote the culture of herbal tea and the “Wang Lao Ji” brand to overseas markets, and accelerate the establishment of a distribution network for the “Wang Lao Ji” drinks. Approximately RMB1,600 million of the amount injected will be used to construct the production bases for the “Wang Lao Ji” drinks in Nansha Guangzhou, Meizhou Guangdong, Yaán Sichuan and other places in the PRC respectively in order to ensure product quality and reduce reliance on OEM manufacturers.

(e) Establishment of a new management and information platform

Further, the Company intends to apply approximately RMB200 million for the establishment of a new management and information system of the Group, including establishing an information data base for procurements and suppliers management, customers’ relationship, sales and distribution management and production management to enhance the efficiency of the Company’s management and administration efficiency.

(f) Use as general working capital

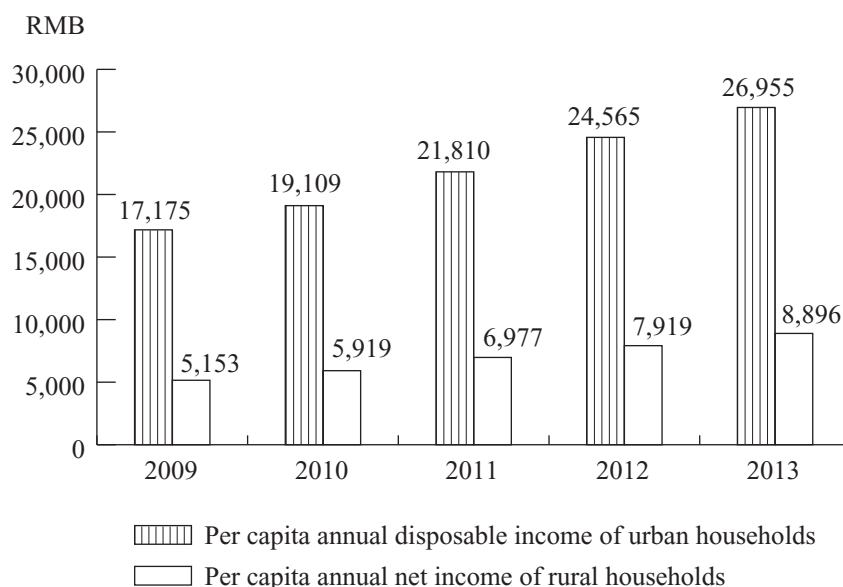
In addition, the Company intends to apply approximately RMB2,300 million to replenish its cash flow for general working capital use and to support the Company’s future merger and acquisition and expansion opportunities.

As discussed in the sub-section headed “Information on the Group”, in the year ended 31 December 2013, operating revenue of the Group in the manufacturing section had substantially increased by 60% and its net profit had materially increased by 34% to approximately RMB980.045 million and such an impressive growth was mainly contributed to the substantial increase in sales volume of the Wang Lao Ji herbal tea. We have noted that out of the intended use of net proceeds and the Proposed Placing, approximately RMB4,000 million will be applied for the sales and promotion of the “Wang Lao Ji” brand and products for “Great Health”, while the remaining net proceeds will be used as, among others, general working capital of the Group. According to the 2014 Third Quarterly Report, the Group’s cash at bank and on hand as at 30 September 2014 was approximately RMB3,253.28 million only. As such, we consider that the Proposed Placing could provide substantial amount of funds for further development of the Group’s existing profitable business and for its future development and therefore, we are of the view that the Proposed Placing is in the interests of the Company and the Shareholders as a whole.

(2) Industry Overview

China's economy has expanded rapidly since the adoption of reform and market liberalization policies by the PRC government beginning in the late 1970s. China's economy has experienced strong growth over the last three decades and has become one of the largest economies in the world. From 2009 to 2013, according to the National Bureau of Statistics of China, China's nominal GDP grew from RMB31.4 trillion to RMB56.9 trillion, representing a compound annual growth rate ("CAGR") of 13.74%. Along with China's rapid economic growth, disposable income levels have grown significantly. According to the National Bureau of Statistics of China, per capita annual disposable income of urban households in China increased from RMB17,175 in 2009 to RMB26,955 in 2013, representing a CAGR of 11.93% over this five-year period. During the same period, per capita annual net income of rural households in China increased from RMB5,153 in 2009 to RMB8,896 in 2013, representing a CAGR of 14.63%. The following chart sets forth per capita annual disposable income of urban households and per capita annual net income of rural households in China from 2009 to 2013.

Per capita annual disposable income of urban households and per capita annual net income of rural households in China



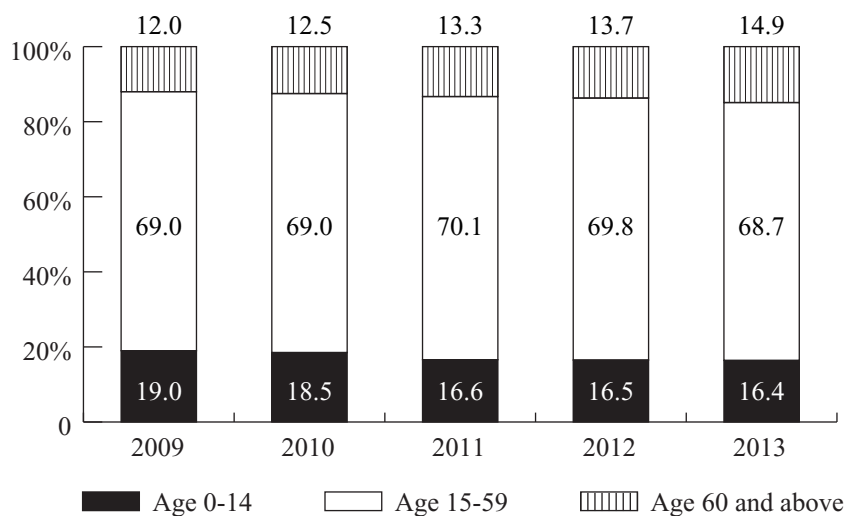
Source: National Bureau of Statistics of China

With continuous improvement of living standards and increasing healthcare spending, according to the information from National Health and Family Planning Commission of China in 2014, the average life expectancy of the population in China almost reached 75 years old. While the overall population of China grew at a very slow rate as a result of the One-Child Policy, the population aged 60 or above have increased over the past years. At the end of 2013, population at age 60 or above

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accounted for 14.9% of the total population. The following chart sets forth the percentage of population in different age groups to the total population in China from 2009 to 2013.

Population in different age groups as a percentage of the total population in China



Source: National Bureau of Statistics of China

The persistent increases in per capita annual disposable income, average life expectancy and population aged 60 or above mean that there is a great potential demand for medicines and health products in the PRC.

The PRC government is also supportive to the Chinese medicine industry. The PRC government assists the development of the industry through direct investments and creating favorable policies for the industry. It proposed an RMB850 billion three years spending plan to improve the healthcare infrastructure and expand insurance coverage in China in April of 2009. These types of investments into the healthcare sector gave a direct boost to the growth of the entire healthcare industry, of which the Chinese medicine industry forms an important part. The PRC government also reinforced a series of Chinese medicine industry favoring policies, some of which provided support for the construction of Chinese medicine hospitals, which increased the number of Chinese medicine prescriptions and consequently contributed to the growth of demand of Chinese medicine products. In early 2012, Proposal on Promoting the Development of Traditional Chinese Medicine Trade in Services was established and issued by 14 ministries of the PRC which contained a package of measures, including financial investment, taxation support, financial subsidy and measures to improve international recognition, to be introduced to support the development of the Chinese medicine industry. As part of the net proceeds of the Proposed Placing shall be applied for the establishment of the R&D platform for "Grand Southern TCM" which will involve, among others, conduct further laboratory studies, clinical studies on various famous traditional Chinese medicines, the future development plan of the Company is in line with the PRC government's supportive policy to the Chinese medicine industry.

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(3) The Subscription Agreements

On 12 January 2015, the Board approved the Proposed Placing, pursuant to which and subject to the Share Adjustment, the Company shall issue a total of up to 419,463,087 new A Shares, which represents (i) approximately 39.15% of the issued A Shares and approximately 32.48% of the total issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 28.13% of the enlarged issued A Shares and approximately 24.52% of the enlarged total issued share capital of the Company upon completion of the Proposed Placing, for subscription to the Subscribers.

As part of the Proposed Placing, the Company has entered into the following agreements on 12 January 2015:

- (a) GPLH, being a controlling shareholder of the Company, entered into the GPLH Subscription Agreement with the Company pursuant to which GPLH has agreed to subscribe for a maximum of 146,596,236 new A Shares for a maximum subscription amount of approximately RMB3,495 million and given the GPLH Undertaking whereby GPLH agrees to subscribe for all the under-subscribed A Shares under the Employee Scheme Subscription if there is no and/or under subscription by the Asset Manager pursuant to the Employee Scheme Subscription Agreement;
- (b) the Company entered into the Concert Party Subscription Agreements with the respective Concert Party Subscribers. Pursuant to the Concert Party Subscription Agreements, GZ SOA Development and GZ Chengfa have agreed to subscribe for an aggregate maximum of 230,704,697 new A Shares for a maximum subscription amount of approximately RMB5,500 million;
- (c) the Company entered into the Employee Scheme Subscription Agreement with the Asset Manager. Pursuant to the Employee Scheme Subscription Agreement, the Asset Manager (as trustee of the Employee Stock Trust) has agreed to subscribe for a maximum of 21,189,000 new A Shares for a maximum subscription amount of approximately RMB505 million; and
- (d) the Company entered into the Fund Subscription Agreement with Shanghai Yunfeng. Pursuant to the Fund Subscription Agreement, Shanghai Yunfeng (on behalf of the Fund) has agreed to subscribe for a maximum of 20,973,154 new A Shares for a maximum subscription amount of approximately RMB500 million.

Save for the parties to the agreement, the number of A Shares to be subscribed for, the aggregate subscription amount payable to the Company and the GPLH Undertaking, all other major terms of the Subscription Agreements are the same. Completion of each of the Subscription Agreements is not conditional upon each other.

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The Subscription Price

As stated in the Board's Letter, the Subscription Price was determined through arm's length negotiation between the Company and the Subscribers with reference to the trading prices of the A Shares on the Shanghai Stock Exchange. Subject to the Price Adjustment, the Subscription Price is RMB23.84 per new A Share, not less than 90% of the average trading price per A Share during the 20 trading days prior to the Price Determination Date.

If there is any ex-right event (such as declaration of dividend, bonus issue or capitalization of capital reserves) to the Company between the Price Determination Date and the date of issue of A Shares under the Proposed Placing, the Subscription Price and the number of new A Shares to be issued by the Company under the Proposed Placing shall be adjusted in accordance with the relevant regulations relating to the Price Adjustment and Share Adjustment respectively.

The Subscription Price represents:

- (i) a discount of approximately 12.06% to the closing price of RMB27.11 per A Share as at 3 December 2014, being the last trading day immediately before the Price Determination Date and the date of the Subscription Agreements;
- (ii) a discount of approximately 10.88% to the average closing price of RMB26.75 per A Share for the last five trading days up to and including 3 December 2014;
- (iii) a discount of approximately 22.22% to the closing price of RMB30.65 per A Share as at 17 February 2015, being the date of the last trading day of the Shanghai Stock Exchange immediately before the Latest Practicable Date (i.e. the Last Shanghai Trading Date);
- (iv) a premium of approximately 28.07% over the closing price of HK\$23.45 (equivalent to approximately RMB18.76 based on the exchange rate of RMB1 : HK\$1.25) per H Share as quoted on the Hong Kong Stock Exchange on 3 December 2014, being the last trading day immediately preceding the Price Determination Date;
- (v) a premium of approximately 26.00% over the average closing price of HK\$23.65 (equivalent to approximately RMB18.97 based on the exchange rate of RMB1 : HK\$1.25) per H Share as quoted on the Hong Kong Stock Exchange for the last five trading days immediately preceding the Price Determination Date;

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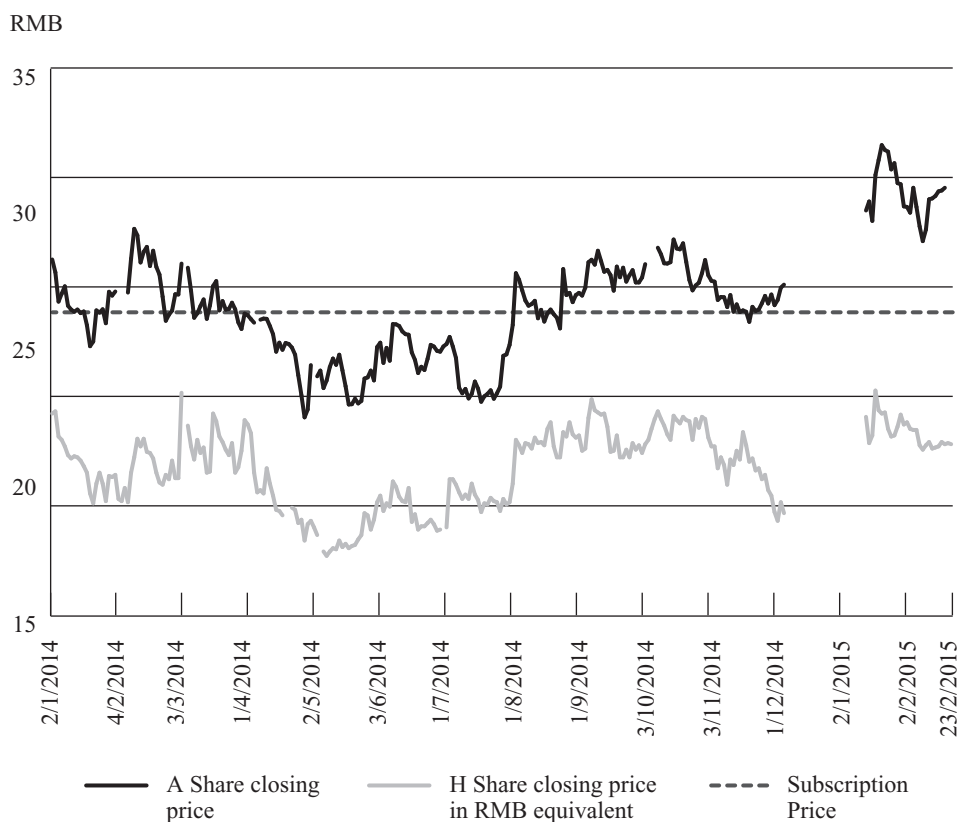
- (vi) a premium of approximately 351.62% over the audited net asset value per Share of approximately RMB5.29 as at 31 December 2013, which is calculated based on the number of Shares 1,291,340,650 in issue as at the Latest Practicable Date and the audited consolidated net asset value attributable to the Shareholders of approximately RMB6,831,767,892 as at 31 December 2013; and
- (vii) a premium of approximately 316.78% over the unaudited net asset value per Share of approximately RMB5.72 as at 30 September 2014, which is calculated based on the number of Shares 1,291,340,650 in issue as at the Latest Practicable Date and the unaudited consolidated net asset value attributable to the Shareholders of approximately RMB7,390,250,000 as at 30 September 2014.

As depicted above, we noticed that the Subscription Prices represents a premium to the price of the H Share and the net asset value per Share. In addition, we note that the Subscription Price was determined pursuant to the Measures issued by the CSRC, which requires the A share issue price to be not less than 90% of the average trading price of A Shares of the Company during the 20 trading days immediately preceding the Price Determination Date of RMB23.8307 and the Subscription Price of RMB23.84 is just above RMB23.8307.

In order to further assess the fairness and reasonableness of the Subscription Price, we have reviewed the daily closing price of the A Shares as quoted on Bloomberg during the period commencing from 2 January 2014 up to and including 3 December 2014, being the last trading day before the date of the Subscription Agreements (both dates inclusive) (the “**Pre-Announcement Period**”) and from 13 January 2015 to the Latest Practicable Date (the “**Post-Announcement Period**”, collectively known as the “**Review Period**”). The comparison of closing price of the A Shares and the Subscription Price are

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illustrated as follows (the daily closing price of the H Shares (presented in RMB equivalent based on the exchange rate of RMB1 : HK\$1.25) as quoted on the Hong Kong Stock Exchange is also included for reference):



Source: the Hong Kong Stock Exchange's website (www.hkex.com.hk) and Bloomberg

Notes:

1. Trading in the A Shares and H Shares was suspended on 5 March 2014.
2. Trading in the A Shares and H Shares was suspended from the afternoon trading session on 3 December 2014 to 12 January 2015 (both days inclusive).
3. Trading dates of the A Shares may vary from those of the H Shares.

Pre-Announcement Period

We note that during the Pre-Announcement Period, the daily closing price of the A Shares fluctuated in which the highest and lowest closing prices of the A Shares were RMB29.147 on 11 February 2014 and RMB22.262 on 28 April 2014, respectively with an average of approximately RMB25.920. The Subscription Price falls within the said price range. We have enquired with the Directors and noted that save for the voluntary and inside information announcements published by the Company from time to time in relation to the Group's business and development, the formation of joint venture(s) and legal proceedings, the Company had not issued any other material announcements during the period.

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Post-Announcement Period

The daily closing price of the A Shares had risen materially since the publication of the Announcement and reached RMB32.210 on 20 January 2015, being the highest closing price during the entire Review Period, (the “**Post Announcement Price Surge**”) and thereafter, decreased gradually. As at the Last Shanghai Trading Date, the closing price of the A Share was RMB30.65. Upon our enquiry, the Directors confirmed that save for the overall favourable stock market sentiment together with the market reaction towards the Proposed Placing and the Whitewash Waiver, they are not aware of any reasons which may lead to the Post Announcement Price Surge. We note that save for the Announcement and a voluntary announcement of the Company dated 15 January 2015 clarifying the Company’s strategic co-operation framework agreement with Alibaba Health Information Technology Limited and confirming that the Company did not have any plans on the proposed spin-off of WLJ Great Health for the purpose of listing, the Company had not issued other material announcement during the Post-Announcement Period. As such, we are of the view that the Post Announcement Price Surge might be due to overall favourable stock market sentiment together with the market reaction towards the Proposed Placing and the Whitewash Waiver and thus may not be sustainable.

From the above graph, we also noted that (i) the Subscription Price was at a premium to the closing price of the H Shares during the entire Review Period; and (ii) save as and except for early November 2014 to early December 2014, in which the Company issued two announcements on 10 November 2014 and 18 November 2014 regarding the formation of a joint venture and an order granted by court in relation to legal proceedings instituted by WLJ Great Health, respectively, and at late January 2015, the daily closing price of the H Shares more or less followed the general trend of the daily closing price of the A Shares during the Review Period.

As the Subscription Price was fixed before the Post-Announcement Period and the Post Announcement Price Surge during the Post-Announcement Period might be due to overall favourable stock market sentiment together with the market reaction towards the Proposed Placing and the Whitewash Waiver and thus may not be sustainable, we consider that it is appropriate to consider the fairness and reasonableness of the Subscription Price with reference to the closing prices of the Shares at the Pre-Announcement Period. Having taken into account that:

- (i) the Subscription Price falls within the lower range of the daily closing price of the A Shares during the Pre-Announcement Period;
- (ii) the Subscription Price is at a premium over the daily closing price of the H Shares during the Pre-Announcement Period;
- (iii) the Subscription Price was fairly and reasonably determined by the Directors after taking into account of the requirements of the Measures;

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- (iv) the Subscription Shares are subject to a lock-up period of 36 months commencing from the completion of the Proposed Placing thus will defer and has limited any negative impact to the A Share market price of the Company since the Subscribers have undertaken not to transfer or otherwise dispose of the Subscription Shares during the aforesaid lock-up period;
- (v) the Subscription Price is at a significant premium of approximately 351.62% over the audited net asset value per Share of RMB5.29 as at 31 December 2013; and
- (vi) the Subscription Price is at a significant premium of approximately 316.78% over and the unaudited net asset value per Share of RMB5.72 as at 30 September 2014;

we consider that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

Lock-up period

All the Subscribers shall not transfer the A Shares subscribed within 36 months from the date of completion of the Proposed Placing, we concur with the view of the Directors that the issuance of new A Shares will defer and has limited any negative impact to the A Share market price of the Company with a lock-up period.

Having considered the above, we are of the view that the terms of the Subscription Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(4) Comparison with other comparable companies

In addition to our analysis on the fairness and reasonableness based on the factors as stated in earlier part of this letter, we try to further assess the fairness and reasonableness of the Subscription Price by researching for companies which have A shares listed on the Shanghai Stock Exchange and H shares listed on the Main Board of the Hong Kong Stock Exchange and are engaged in more or less same line of business as the Company, i.e. manufacture and sales of medicine, pharmaceutical products and great health products. Based on the aforesaid selection criteria, we have identified 3 comparable listed companies (the “**Comparable Companies**”). Since the Comparable Companies fulfilled our foresaid selection criteria, we consider those Comparable Companies to be fair, representative and exhaustive samples.

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The following table sets out (a) the price to earnings ratio (“P/E”) and the price to book ratio (“P/B”) of the Comparable Companies based on the closing price of their A shares as at the Last Shanghai Trading Date and their latest published audited financial information; and (b) the implied P/E and P/B of the Company based on the Subscription Price and its latest published audited financial information:

Company name	Stock code at the Hong Kong Stock Exchange	Stock code at the Shanghai Stock Exchange	Year end date	P/E <i>(times)</i>	P/B <i>(times)</i>
Sinopharm Group Co. Ltd.	1099	600511	31/12/2013	68.96	4.11
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	2196	600196	31/12/2013	25.47	3.47
Shanghai Pharmaceutical Holding Co., Ltd.	2607	601607	31/12/2013	21.17	1.83
Maximum:				68.96	4.11
Minimum:				21.17	1.83
Average:				38.53	3.14
The Company			31/12/2013	31.04	4.51

Source: web-sites of the Hong Kong Stock Exchange and the Shanghai Stock Exchange

As shown in the table above, the Comparable Companies were traded at P/E ranging from 21.17 times to 68.96 times, with an average of 38.53 times. The implied P/E of the Company (based on the Subscription Price) of 31.04 times is close to the mid range but below the average P/E of the Comparable Companies. However, we note that out of the three Comparable Companies, the P/E of two Comparable Companies, i.e. Shanghai Fosun Pharmaceutical (Group) Co., Ltd. and Shanghai Pharmaceutical Holding Co., Ltd., were 25.47 times and 21.17 times, respectively. The implied P/E of the Subscription Price represented material premiums over the P/E of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. and Shanghai Pharmaceutical Holding Co., Ltd. The P/B of the Comparable Companies ranged from 1.83 times to 4.11 times with an average of 3.14 times. The implied P/B of the Company (based on the Subscription Price) of 4.51 times is higher than the P/B of all of the Comparable Companies. On the basis that (i) the implied P/E of the Subscription Price of 31.04 times represented material premiums over the P/E of two out of the three Comparable Companies; and (ii) the implied P/B of the Subscription Price of 4.51 times is higher than the P/B of all of the Comparable Companies, we consider that the Subscription Price is fair and reasonable.

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(5) Dilution effect on the shareholding interests of the existing public Shareholders

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after completion of the Proposed Placing (assuming GPLH is not required to take up any additional A Shares pursuant to the GPLH Undertaking and there is no change in the total issued share capital of the Company other than the issue of A Shares since the Latest Practicable Date and up to completion of the Proposed Placing); and (iii) immediately after the completion of the Proposed Placing (assuming GPLH is required to take up all the additional A Shares pursuant to the GPLH Undertaking and there is no change in the total issued share capital of the Company other than the issue of A Shares since the Latest Practicable Date and up to completion of the Proposed Placing):

Shareholders	(i) As at the Latest Practicable Date		(ii) Immediately after the completion of the Proposed Placing (assuming GPLH is not required to take up any additional A Shares pursuant to the GPLH Undertaking)		(iii) Immediately after the completion of the Proposed Placing (assuming GPLH is required to take up all the additional A Shares pursuant to the GPLH Undertaking)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
A Shares						
The Concert Group						
GPLH	584,228,036	45.24	730,824,272	42.72	752,013,272	43.96
GZ SOA Development	–	–	125,838,926	7.36	125,838,926	7.36
GZ Chengfa	–	–	104,865,771	6.13	104,865,771	6.13
Sub-total	<u>584,228,036</u>	<u>45.24</u>	<u>961,528,969</u>	<u>56.20</u>	<u>982,717,969</u>	<u>57.44</u>
Other non-public A Share Shareholders						
The Employee Stock Trust	–	–	21,189,000	1.24	–	–
Public A Share Shareholders						
The Fund	–	–	20,973,154	1.23	20,973,154	1.23
Other public A Share Shareholders	487,212,614	37.73	487,212,614	28.48	487,212,614	28.48
Sub-total	<u>487,212,614</u>	<u>37.73</u>	<u>508,185,768</u>	<u>29.70</u>	<u>508,185,768</u>	<u>29.70</u>
Total number of A Shares	<u>1,071,440,650</u>	<u>82.97</u>	<u>1,490,903,737</u>	<u>87.15</u>	<u>1,490,903,737</u>	<u>87.15</u>

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Shareholders	(i) As at the Latest Practicable Date		(ii) Immediately after the completion of the Proposed Placing (assuming GPHL is not required to take up any additional A Shares pursuant to the GPHL Undertaking)		(iii) Immediately after the completion of the Proposed Placing (assuming GPHL is required to take up all the additional A Shares pursuant to the GPHL Undertaking)	
	<i>No. of Shares</i>	%	<i>No. of Shares</i>	%	<i>No. of Shares</i>	%
<i>H Shares</i>						
Public H Share						
Shareholders	<u>219,900,000</u>	<u>17.03</u>	<u>219,900,000</u>	<u>12.85</u>	<u>219,900,000</u>	<u>12.85</u>
Total number of Shares	<u><u>1,291,340,650</u></u>	<u><u>100.00</u></u>	<u><u>1,710,803,737</u></u>	<u><u>100.00</u></u>	<u><u>1,710,803,737</u></u>	<u><u>100.00</u></u>

Note: The percentages shown are rounded to the nearest 2 decimal places. The numbers may not add up to 100% due to rounding.

As depicted by the table above, the shareholding interests of the existing public Shareholders (including all of the public holders of A Shares and H Shares) in the Company would be diluted by approximately 13.43 percentage point immediately after completion of the Proposed Placing. Taking into account (i) the reasons for and benefits of the Proposed Placing; (ii) the Subscription Price is at a significant premium of approximately 351.62% and approximately 316.78% over the audited net asset value per Share as at 31 December 2013 and the unaudited net asset value per Share as at 30 September 2014, respectively; and (iii) that the terms of the Subscription Agreements being fair and reasonable so far as the Independent Shareholders are concerned, we are of the view that the aforementioned level of dilution to the shareholding interests of the existing public Shareholders is acceptable.

(6) *Financial effects of the Proposed Placing*

(a) Positive impact on cash flow and net current assets of the Group

As disclosed in the 2014 Third Quarterly Report, the aggregate balance of cash at bank and on hand of the Group as at 30 September 2014 was approximately RMB3,253,281,000. Upon completion of the Proposed Placing, the liquidity and cash position of the Group will be improved by approximately 306% with the net proceeds from the Proposed Placing. Accordingly, the Proposed Placing would have positive impacts on the cash position and net current assets of the Group.

(b) Positive effect of the Proposed Placing on the Company's gearing ratio

As advised by the Directors, the gearing ratio (defined as total liabilities divided by total assets) was approximately 46.58% as at 30 September 2014. We have enquired with and understand from the Directors that upon completion of the

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Proposed Placing (assuming the total liabilities of the Group remain the same), the new equity capital from the Proposed Placing will improve the gearing ratio of the Group by approximately 19%.

(c) Positive effect on working capital

Among the net proceeds of the Proposed Placing, RMB2,300 million is intended to be used for general working capital. As such, the Directors expected that the working capital of the Group will be increased by the Proposed Placing.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the Proposed Placing.

Recommendation on the Proposed Placing (including the GPLH Subscription and the Concert Party Subscription)

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Proposed Placing (including the GPLH Subscription and the Concert Party Subscription) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) out of the three Comparable Companies, the implied P/E of the Subscription Price of 31.04 times represented material premiums over the P/E of two Comparable Companies; (iii) the implied P/B of the Subscription Price of 4.51 times is higher than the P/B of all of the Comparable Companies and (iv) the Proposed Placing (including the GPLH Subscription and the Concert Party Subscription) are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM and the H Share Class Meeting, respectively, to approve the Proposed Placing (including the GPLH Subscription and the Concert Party Subscription) and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

(B) The Whitewash Waiver

Referring to the Board's Letter, each of GPLH and GZ SOA Development is a state-owned enterprise under the Guangzhou Municipal People's Government and GZ Chengfa is a limited partnership established under the laws of the PRC, whose general partner is controlled by a state-owned enterprise established by, and under the administration of, the Guangzhou Municipal People's Government, but they are under the administration of different government departments. GPLH is under the administration of the Guangzhou Municipal People's Government State-owned Assets Supervision and Administration Commission while GZ SOA Development and GZ Chengfa are directly or indirectly under the administration of the Guangzhou Municipal People's Government.

As at the Latest Practicable Date, GPLH is a controlling shareholder of the Company holding approximately 45.24% of the total issued share capital of the Company. Assuming no further Shares will be issued by the Company prior to the completion of the Proposed

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Placing, upon completion of the Proposed Placing, the interests in the Company held by GPLH will decrease (i) from approximately 45.24% to approximately 42.72% of the total issued share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPLH is not required to take up any additional A Shares pursuant to the GPLH Undertaking) or (ii) from approximately 45.24% to approximately 43.96% of the total issue share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPLH is required to take up all the additional A Shares pursuant to the GPLH Undertaking); and the aggregate interests in the Company held by GZ SOA Development and GZ Chengfa will increase from 0% to approximately 13.49% of the total issued share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing.

GPLH, GZ SOA Development and GZ Chengfa would be treated as parties acting in concert by virtue of falling into the class (1) presumption of “acting in concert” as defined in the Hong Kong Takeovers Code as a result of the Proposed Placing from which their aggregate interests in the Company will increase (i) from approximately 45.24% to approximately 56.20% of the total issued share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPLH is not required to take up any additional A Shares pursuant to the GPLH Undertaking) or (ii) from approximately 45.24% to approximately 57.44% of the total issue share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPLH is required to take up all the additional A Shares pursuant to the GPLH Undertaking).

GPLH and the Concert Party Subscribers will, in the absence of the Whitewash Waiver, be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Hong Kong Takeovers Code as a result of the Proposed Placing and the Concert Group Subscription.

A formal application has been made by the Concert Group to the Executive for the Whitewash Waiver pursuant to Note 1 on Dispensations from Rule 26 of the Hong Kong Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval by the Independent Shareholders at the EGM, the Independent A Share Shareholders at the A Share Class Meeting and the Independent H Share Shareholders at the H Share Class Meeting respectively by way of poll. It is a condition precedent to completion of the Proposed Placing, including the Concert Group Subscription that the Whitewash Waiver is granted by the Executive.

If the Whitewash Waiver is not granted by the Executive or if the conditions (if any) imposed thereon are not fulfilled, none of the Proposed Placing, including the Concert Group Subscription will proceed. In such case, the requirement of the Concert Group to make a mandatory general offer under Rule 26 of the Hong Kong Takeovers Code as a result of the Proposed Placing, Concert Party Subscription Agreement will not be triggered.

The Executive has indicated that it will agree, subject to the approval by the Independent Shareholders at the EGM, the Independent A Share Shareholders at the A Share Class Meeting and the Independent H Shares Shareholders at the H Share Class Meeting

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respectively by way of poll, to waive the Concert Group from any obligation to make a general offer for all the Shares under Rule 26 of the Hong Kong Takeovers Code as a result of the Proposed Placing and Concert Group Subscription.

Having considered (i) the factors discussed under the section headed “Reasons for the Proposed Placing and use of proceeds”, in particular, the intended use of the net proceeds and the net proceeds from the Proposed Placing could provide substantial amount of funds for the development of the Group’s existing and future business; (ii) the expected positive financial effects of the Proposed Placing on the Group as discussed in the section headed “Financial effects of the Proposed Placing”; (iii) out of the three Comparable Companies, the implied P/E of the Subscription Price of 31.04 times represented material premiums over the P/E of two Comparable Companies; (iv) the implied P/B of the Subscription Price of 4.51 times is higher than the P/B of all of the Comparable Companies; and (v) the terms of the Subscription Agreements (including the GPLH Subscription Agreement and the Concert Party Subscription Agreements) being fair and reasonable so far as the Independent Shareholders are concerned, we are of the opinion that the approval of the Whitewash Waiver, which is a prerequisite for the completion of the Proposed Placing, is in the interests of the Company and the Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Proposed Placing.

RECOMMENDATION ON THE WHITEWASH WAIVER

Having taken into account the reasons for and possible benefits of the Proposed Placing, and that the Proposed Placing is conditional upon the grant of the Whitewash Waiver, we consider that the Whitewash Waiver is in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders at the EGM and the Independent H Share Shareholders at the H Share Class Meeting to vote in favour of the relevant resolution(s) to be proposed at the respective meetings to approve the Whitewash Waiver and we recommend the Independent Shareholders at the EGM and the Independent H Share Shareholders at the H Share Class Meeting to vote in favour of the relevant resolution(s) in this regard.

* *English translation for illustrative purpose only.*

Yours faithfully,

For and on behalf of

Proton Capital Limited

Alvin H. Y. Leung

Josephine Lau

Managing Director

Director – Corporate Finance

Note: Mr. Alvin H. Y. Leung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2012 and 2003, respectively. Mr. Leung has more than 20 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions of listed companies in Hong Kong in respect of the Hong Kong Takeovers Code and the Hong Kong Listing Rules. Ms. Josephine Lau has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2012 and 2007, respectively. Ms. Lau has more than 13 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions of listed companies in Hong Kong in respect of the Hong Kong Takeovers Code and the Hong Kong Listing Rules.

1. SUMMARY OF THE FINANCIAL INFORMATION

Set out below is a summary of (i) the audited consolidated financial results and assets and liabilities of the Company for the financial years ended 31 December 2011, 2012 and 2013, extracted from the 2011, 2012 and 2013 annual reports of the Company respectively; (ii) the unaudited consolidated financial results and assets and liabilities of the Company for the six months ended 30 June 30 2014, extracted from the 2014 interim report of the Company; and (iii) the unaudited consolidated financial results and assets and liabilities of the Company for the nine months ended 30 September 2014, extracted from the 2014 third quarterly report of the Company.

The consolidated financial statements for the financial years ended 31 December 2011 was audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company, and the consolidated financial statements for the financial years ended 31 December 2012 and 2013 were audited by BDO China Shu Lun Pan Certified Public Accountants LLP, both are the independent auditors of the Company. No qualification was made by the auditors of the Company in respect of the audited consolidated financial statements for the financial years ended 31 December 2011, 2012 and 2013 of the Company.

Save for the following, there is no exceptional item because of size, nature or incidence for each of the financial years ended 31 December 2011, 2012 and 2013, the six months ended 30 June 2014 and the nine months ended 30 September 2014.

Guangzhou Pharmaceutical Company Limited* (廣州藥業股份有限公司) (“GPC”), the predecessor of the Company, executed and completed the major assets reorganization in 2013, which include: (i) the issue of 445,601,005 A shares of GPC at RMB12.10 per share to all the then shareholders of Guangzhou Baiyunshan Pharmaceutical Co., Ltd.* (廣州白雲山製藥股份有限公司) (“BYS”) for absorption and merger of the entire issued share capital of BYS by GPC in May 2013; and (ii) the issue of 34,839,645 A shares of GPC at RMB12.10 per share to acquire the assets from GPHL in July 2013. Upon completion of the above mentioned major assets reorganization, BYS was deregistered, all assets and liabilities of BYS were taken up by the Company. The Company consolidated all the assets absorbed and liabilities assumed from BYS in the consolidated balance sheets of the Company for the year ended 31 December 2013 and restated the consolidated balance sheets of the Company for the year ended 31 December 2012 for illustrative purpose.

Results

	For the year ended 31 December			For the six months ended	For the nine months ended
	2011	2012	2013	30 June 2014	30 September 2014
	RMB (audited)	(restated) RMB (audited)	RMB (audited)	RMB (unaudited)	RMB (unaudited)
Revenue	5,439,611,318.46	12,062,641,788.39	17,608,193,312.31	10,020,290,337.63	14,635,342,188.97
Less: Cost of sales	4,042,751,834.94	8,231,937,806.17	11,806,294,800.38	6,453,609,857.96	9,454,203,849.64
Taxes and surcharges	44,042,757.85	108,192,397.58	148,250,638.48	89,535,264.35	127,146,184.91
Selling and distribution expenses	710,833,473.66	1,971,897,959.52	3,485,311,357.52	2,159,617,604.65	3,232,809,626.18
General and administrative expenses	480,531,999.72	1,086,927,622.51	1,227,255,352.75	616,146,099.74	932,959,623.99
Financial expenses	1,853,078.95	49,503,646.95	28,305,296.93	(3,043,187.20)	(350,926.69)
Asset impairment losses	916,864.96	8,153,034.67	12,914,064.93	6,106,650.01	11,696,716.23
Add: Profit arising from the changes in fair value	(3,541,599.52)	(251,772.50)	486,747.20	45,693.30	1,122,700.50
Investment income	153,785,668.56	249,407,725.45	219,725,064.77	141,647,947.34	197,195,438.04
Including: Share of profit of associates and jointly controlled entities	153,343,410.54	249,538,034.02	208,182,916.04	142,114,609.80	196,825,231.07
Operating profit	308,925,677.42	855,315,682.51	1,120,073,613.29	840,011,688.77	1,075,195,253.25
Add: Non-operating income	33,370,701.19	45,798,507.80	125,847,060.45	21,111,186.57	29,003,835.01
Less: Non-operating expense	7,303,369.86	20,051,622.09	16,730,234.49	5,151,263.45	8,475,989.60
Including: Losses on disposal of non-current assets	1,333,448.86	1,370,583.51	3,776,158.49	796,820.20	927,311.20
Total profit	334,993,008.75	881,062,568.22	1,229,190,439.25	855,971,611.89	1,095,723,098.66
Less: Income tax expenses	34,996,150.14	114,365,354.31	222,243,432.31	158,318,794.74	222,071,331.06
Net profit	<u>299,996,858.61</u>	<u>766,697,213.91</u>	<u>1,006,947,006.94</u>	<u>697,652,817.15</u>	<u>873,651,767.60</u>
Including: Net profit made by the entities being absorbed before the combination	–	228,260,377.05	242,018,569.90	–	–
– Attributable to shareholders of the Company	287,530,980.07	729,039,715.80	980,045,077.10	673,659,153.85	856,842,320.62
– Minority interest	<u>12,465,878.54</u>	<u>37,657,498.00</u>	<u>26,901,929.84</u>	<u>23,993,663.30</u>	<u>16,809,446.98</u>
Other comprehensive income	<u>(5,206,746.38)</u>	<u>403,652.73</u>	<u>(1,517,010.51)</u>	<u>(2,614,147.96)</u>	<u>(1,348,410.12)</u>
Items will be classified into profit or loss when satisfied with certain conditions at following accounting period	–	403,652.73	(2,777,554.51)	(2,614,147.96)	(1,348,410.12)
Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period	–	–	1,260,544.00	–	–
Total comprehensive income	<u>294,790,112.23</u>	<u>767,100,866.64</u>	<u>1,005,429,996.43</u>	<u>695,038,669.19</u>	<u>872,303,357.48</u>
– Attributable to shareholders of the Company	282,327,760.64	729,440,139.95	978,516,199.79	671,044,727.21	855,490,804.17
– Minority interest	<u>12,462,351.59</u>	<u>37,600,726.69</u>	<u>26,913,796.64</u>	<u>23,993,941.98</u>	<u>16,812,553.31</u>
Earning per share:					
– Basic earning per share	0.355	0.578	0.768	0.522	0.664
– Diluted earning per share	0.355	0.578	0.768	0.522	0.664
Dividends	81,090,000.00	–	297,008,349.50	–	–
Dividends per share	0.10	–	0.23	–	–

Assets and Liabilities

	As at 31 December		2013	As at 30 June		As at 30
	2011	2012		2014	September	
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	2014
	(audited)	(restated) (audited)	(audited)	(unaudited)	(unaudited)	(unaudited)
Assets						
Total current assets	2,312,170,928.26	5,351,665,881.31	7,298,788,281.51	8,721,317,254.36	9,080,511,771.61	
Total non-current assets	<u>2,539,094,920.09</u>	<u>4,042,542,171.24</u>	<u>4,950,334,869.88</u>	<u>5,077,772,909.05</u>	<u>5,168,827,160.83</u>	
Total assets	<u>4,851,265,848.35</u>	<u>9,394,208,052.55</u>	<u>12,249,123,151.39</u>	<u>13,799,090,163.41</u>	<u>14,249,338,932.44</u>	
Liabilities and shareholders' equity						
Total current liabilities	871,340,727.31	3,474,350,628.29	5,050,078,080.31	6,178,790,807.05	6,416,329,674.69	
Total non-current liabilities	<u>84,753,103.47</u>	<u>163,893,869.10</u>	<u>176,808,376.14</u>	<u>185,276,428.33</u>	<u>220,421,641.43</u>	
Total liabilities	956,093,830.78	3,638,244,497.39	5,226,886,456.45	6,364,067,235.38	6,636,751,316.12	
Equity attributable to shareholders of the Company	3,781,651,961.89	5,566,352,326.06	6,831,767,891.88	7,205,804,269.59	7,390,250,346.55	
Minority interest	<u>113,520,055.68</u>	<u>189,611,229.10</u>	<u>190,468,803.06</u>	<u>229,218,658.44</u>	<u>222,337,269.77</u>	
Total liabilities and equity attributable to shareholders	<u>4,851,265,848.35</u>	<u>9,394,208,052.55</u>	<u>12,249,123,151.39</u>	<u>13,799,090,163.41</u>	<u>14,249,338,932.44</u>	

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

Set out below are the audited consolidated financial statements of the Company for the financial year ended 31 December 2013 together with the accompanying notes as extracted from the 2013 annual report of the Company.

CONSOLIDATED BALANCE SHEET

As at 31 December 2013

(All amounts in renminbi yuan unless otherwise stated)

Assets	<i>Note</i>	31 December 2013	31 December 2012 (restated)
Current assets			
Cash at bank and on hand	5(1)	1,935,681,740.06	1,135,435,400.94
Financial assets held for trading	5(2)	3,362,667.20	2,875,920.00
Notes receivable	5(3)	1,326,353,755.90	844,429,241.87
Accounts receivable	5(5)	973,184,749.11	734,068,939.45
Advances to suppliers	5(7)	613,882,321.78	446,667,535.38
Interest receivable		–	–
Dividends receivable	5(4)	–	–
Other receivables	5(6)	181,145,718.26	120,692,089.05
Inventories	5(8)	2,245,829,748.05	2,065,898,134.19
Current portion of non-current assets		–	–
Other current assets	5(9)	19,347,581.15	1,598,620.43
Total current assets		<u>7,298,788,281.51</u>	<u>5,351,665,881.31</u>

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

Assets	<i>Note</i>	31 December 2013	31 December 2012 (restated)
Non-current assets			
Available-for-sale financial assets	5(10)	17,608,107.28	20,401,660.98
Held-to-maturity investments		–	–
Long-term receivables		–	–
Long-term equity investments	5(12)	1,972,490,292.04	1,716,546,921.55
Investment properties	5(13)	246,309,245.37	136,194,437.45
Fixed assets	5(14)	1,731,881,945.85	1,591,996,126.73
Construction in progress	5(15)	335,422,694.18	140,077,689.32
Construction materials		–	–
Fixed assets pending for disposal		–	–
Intangible assets	5(16)	368,856,694.63	305,600,782.57
Development costs	5(17)	3,716,517.68	4,112,051.69
Goodwill		–	–
Long-term prepaid expenses	5(18)	7,099,055.93	7,922,664.10
Deferred tax assets	5(19)	266,950,316.92	119,689,836.85
Other non-current assets		–	–
Total non-current assets		<u>4,950,334,869.88</u>	<u>4,042,542,171.24</u>
TOTAL ASSETS		<u><u>12,249,123,151.39</u></u>	<u><u>9,394,208,052.55</u></u>

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

Assets	<i>Note</i>	31 December 2013	31 December 2012 (restated)
Current liabilities			
Short-term borrowings	5(21)	509,651,500.77	681,217,807.78
Financial liabilities held for trading		–	–
Notes payable	5(22)	130,773,655.25	75,970,070.30
Accounts payable	5(23)	1,470,360,537.61	1,080,597,534.53
Advances from customers	5(24)	875,579,547.32	608,781,707.72
Employee benefits payable	5(25)	334,427,927.83	192,466,940.29
Taxes payable	5(26)	403,383,688.38	154,532,046.97
Interest payable	5(27)	675,414.98	1,069,051.16
Dividends payable	5(28)	113,513,301.13	25,443,653.91
Other payables	5(29)	1,211,712,507.04	654,271,815.63
Current portion of non-current liabilities		–	–
Other current liabilities		–	–
Total current liabilities		<u>5,050,078,080.31</u>	<u>3,474,350,628.29</u>
Non-current liabilities			
Long-term borrowings	5(30)	8,627,419.10	–
Debentures payable		–	–
Long-term payables	5(31)	22,215,752.40	24,413,469.62
Payables for specific projects	5(32)	19,058,160.00	–
Provisions	5(33)	500,191.19	500,191.19
Deferred tax liabilities	5(19)	3,475,327.44	5,609,484.82
Other non-current liabilities	5(34)	122,931,526.01	133,370,723.47
Total non-current liabilities		<u>176,808,376.14</u>	<u>163,893,869.10</u>
Total liabilities		<u>5,226,886,456.45</u>	<u>3,638,244,497.39</u>

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

Assets	<i>Note</i>	31 December 2013	31 December 2012 (restated)
Shareholders' equity			
Share capital	5(35)	1,291,340,650.00	810,900,000.00
Capital surplus	5(36)	2,493,788,078.69	1,702,773,872.77
Less: Treasury share		–	–
Surplus reserve	5(37)	723,819,753.76	787,731,574.82
Undistributed profits	5(38)	2,330,514,583.35	2,271,551,430.93
Difference on translation of foreign currency financial statements		<u>(7,695,173.92)</u>	<u>(6,604,552.46)</u>
Total equity attributable to shareholders of the Company		6,831,767,891.88	5,566,352,326.06
Minority interest	5(39)	<u>190,468,803.06</u>	<u>189,611,229.10</u>
Total shareholders' equity		<u><u>7,022,236,694.94</u></u>	<u><u>5,755,963,555.16</u></u>
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		<u><u>12,249,123,151.39</u></u>	<u><u>9,394,208,052.55</u></u>

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	The year ended 31 December 2013	The year ended 31 December 2012 (restated)
1. Revenue	5(40)	17,608,193,312.31	12,062,641,788.39
Less: Cost of sales	5(40)	11,806,294,800.38	8,231,937,806.17
Taxes and surcharges	5(41)	148,250,638.48	108,192,297.58
Selling and distribution expenses	5(42)	3,485,311,357.52	1,971,897,959.52
General and administrative expenses	5(43)	1,227,255,352.75	1,086,927,622.51
Financial expenses	5(44)	28,305,296.93	49,503,646.95
Asset impairment losses	5(45)	12,914,064.93	8,153,034.67
Add: Profit arising from the changes in fair value	5(46)	486,747.20	(251,772.50)
Investment income	5(47)	219,725,064.77	249,538,034.02
Including: Share of profit of associates and jointly controlled entities		208,182,816.04	249,407,725.45
2. Operating profit		1,120,073,613.29	855,315,682.51
Add: Non-operating income	5(48)	125,847,060.45	45,798,507.80
Less: Non-operating expenses	5(49)	16,730,234.49	20,051,622.09
Including: Losses on disposal of non-current assets		3,776,158.49	1,370,583.51
3. Total profit		1,229,190,439.25	881,062,568.22
Less: Income tax expenses	5(50)	222,243,432.31	114,365,354.31
4. Net profit		<u>1,006,947,006.94</u>	<u>766,697,213.91</u>
Including: Net profit made by the entities being absorbed before the combination		242,018,569.90	228,260,377.05
– Attributable to shareholders of the Company		980,045,077.10	729,039,715.80

Item	<i>Note</i>	The year ended 31 December 2013	The year ended 31 December 2012 (restated)
– Minority interest		26,901,929.84	37,657,498.11
5. Earnings per share			
– Basic earnings per share	5(51)(a)	0.768	0.578
– Diluted earnings per share	5(51)(b)	0.768	0.578
6. Other comprehensive income	5(52)	<u>(1,517,010.51)</u>	<u>403,652.73</u>
– Items will be classified into profit or loss when satisfied with certain conditions at following accounting period		(2,777,554.51)	403,652.73
– Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period		1,260,544.00	–
7. Total comprehensive income		<u><u>1,005,429,996.43</u></u>	<u><u>767,100,866.64</u></u>
– Attributable to shareholders of the Company		978,516,199.79	729,440,139.95
– Minority interest		26,913,796.64	37,660,726.69

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2013

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	The year ended 31 December 2013	The year ended 31 December 2012 (restated)
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		16,271,441,218.47	10,139,462,058.77
Refund of taxes and surcharges		52,794,028.43	31,258,742.57
Cash received relating to other operating activities	5(53)(a)	299,465,582.00	261,698,855.18
Sub-total of cash inflows		<u>16,623,700,828.90</u>	<u>10,432,419,656.52</u>
Cash paid for goods and services		9,357,283,231.90	5,366,169,585.73
Cash paid to and on behalf of employees		2,414,203,686.86	1,795,820,992.85
Payments of taxes and surcharges		1,438,360,526.89	1,017,427,750.26
Cash paid relating to other operating activities	5(53)(b)	2,074,713,244.43	1,253,773,903.08
Sub-total of cash outflows		<u>15,284,560,690.08</u>	<u>9,433,189,231.92</u>
Net cash flows from operating activities	5(54)(a)	<u>1,339,140,138.82</u>	<u>999,230,424.60</u>

Item	<i>Note</i>	The year ended 31 December 2013	The year ended 31 December 2012 (restated)
2. Cash flows from investing activities			
Cash received from disposal of investments		–	–
Net cash received from disposal of subsidiaries		–	–
Cash received from returns on investments		29,374,916.98	78,518,033.48
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		4,003,512.62	2,579,369.65
Cash received relating to other investing activities	5(53)(c)	<u>257,916.74</u>	<u>31,271,635.97</u>
Sub-total of cash inflows		<u>33,636,346.34</u>	<u>112,369,039.10</u>
Cash paid to acquire fixed assets, intangible assets and other long-term assets		350,345,602.25	170,002,387.75
Cash paid to acquire investments		4,050,000.00	2,620,000.00
Net cash paid to acquire subsidiaries		–	–
Cash paid relating to other investing activities	5(53)(d)	<u>2,940,358.55</u>	<u>5,840,450.25</u>
Sub-total of cash outflows		<u>357,335,960.80</u>	<u>178,462,838.00</u>
Net cash flows from investing activities		<u>(323,699,614.46)</u>	<u>(66,093,798.90)</u>

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

Item	<i>Note</i>	The year ended 31 December 2013	The year ended 31 December 2012 (restated)
3. Cash flows from financing activities			
Cash received from capital contributions		7,151,685.03	9,025,000.00
Including: Cash received from capital contributions by minority shareholders of subsidiaries		5,800,000.00	9,025,000.00
Cash received from borrowings		587,332,488.38	959,437,807.78
Cash received relating to other financing activities		—	—
Sub-total of cash inflows		594,484,173.41	968,462,807.78
Cash repayments of borrowings		750,271,376.29	1,228,948,849.42
Cash payments for interest expenses and distribution of dividends or profits		55,901,780.51	185,941,320.78
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		19,102,518.85	22,032,423.59
Cash payments relating to other financing activities		—	—
Sub-total of cash outflows		806,173,156.80	1,414,890,170.20
Net cash flows from financing activities		(211,688,983.39)	(446,427,362.42)
4. Effect of foreign exchange rate changes on cash and cash equivalents		854,221.14	1,347,828.78
5. Net increase/(decrease) in cash and cash equivalents		804,605,762.11	488,057,092.06
Add: Cash and cash equivalents at beginning of year	5(54)(a)	1,114,346,524.75	626,289,432.69
	5(54)(b)	1,114,346,524.75	626,289,432.69
6. Cash and cash equivalent at end of year	5(54)(b)	1,918,952,286.86	1,114,346,524.75

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 2013

(All amounts in Renminbi yuan unless otherwise stated)

	Attributable to shareholders of the Company						Total		
							Minority	shareholders'	
	Share capital	Capital surplus	Less: Treasury share	Share capital	Capital surplus	Less: Treasury share	Shareholders' equity	Less: Treasury share	
1. Balance at 31 December 2012									
(restated)	810,900,000.00	1,702,773,872.77	-	787,731,574.82	-	2,271,551,430.93	(6,604,552.46)	189,611,229.10	5,755,963,555.16
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2013	810,900,000.00	1,702,773,872.77	-	787,731,574.82	-	2,271,551,430.93	(6,604,552.46)	189,611,229.10	5,755,963,555.16
3. Movements for the year ended 2013									
(1) Net profit	480,440,650.00	791,014,205.92	-	(63,911,821.06)	-	58,963,152.42	(1,090,621.46)	857,573.96	1,266,273,139.78
(2) Other comprehensive income	-	-	-	-	-	980,045,077.10	-	26,901,929.84	1,006,947,006.94
Subtotal of items (1) and (2)	-	(438,255.85)	-	-	-	-	(1,090,621.46)	11,866.80	(1,517,010.51)
(3) Capital contribution and withdrawal by shareholders	-	(438,255.85)	-	-	-	980,045,077.10	(1,090,621.46)	26,913,796.64	1,005,429,996.43
(3) Capital contribution and withdrawal by shareholders	480,440,650.00	795,936,263.43	-	(118,558,621.34)	-	(793,598,292.09)	-	5,800,000.00	370,020,000.00
Capital contribution by the shareholders	480,440,650.00	795,936,263.43	-	(118,558,621.34)	-	(793,598,292.09)	-	5,800,000.00	370,020,000.00
Share-based payment charged to equity	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
(4) Profit distribution	-	-	-	55,083,461.99	-	(132,563,900.99)	-	(31,156,411.76)	(108,636,850.76)
Appropriation to surplus reserves	-	-	-	55,083,461.99	-	(55,083,461.99)	-	-	-
Appropriation to general risk provision	-	-	-	-	-	-	-	-	-
Profit distribution to shareholders	-	-	-	-	-	(77,480,439.00)	-	(31,156,411.76)	(108,636,850.76)
Others	-	-	-	-	-	-	-	-	-
(5) Transfer within shareholders' equity	-	(4,643,606.69)	-	(436,661.71)	-	5,080,268.40	-	-	-
Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-
Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-
Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-
Others	-	(4,643,606.69)	-	(436,661.71)	-	5,080,268.40	-	-	-
(6) Others	-	159,805.03	-	-	-	-	-	(699,810.92)	(540,005.89)
4. Balance at 31 December 2013	<u>1,291,340,650.00</u>	<u>2,493,788,078.69</u>	<u>-</u>	<u>723,819,753.76</u>	<u>-</u>	<u>2,330,514,583.35</u>	<u>(7,695,173.92)</u>	<u>190,468,803.06</u>	<u>7,022,236,694.94</u>

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

	Attributable to shareholders of the Company						Minority Shareholders' equity	Total shareholders' equity	
	Less: Treasury share			Less: Treasury share					
	Share capital	Capital surplus	Share capital	Capital surplus	Share capital	Capital surplus			Less: Treasury share
1. Balance at 31 December 2011	810,900,000.00	1,148,016,718.97	-	602,895,675.46	-	1,219,839,567.46	-	113,520,055.68	3,895,172,017.57
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-	-	-	-
Business combination involving entities under common control	-	554,522,598.83	-	125,952,027.55	-	488,443,972.37	(6,610,910.76)	59,272,663.32	1,221,580,351.31
2. Balance at 1 January 2012	810,900,000.00	1,702,539,317.80	-	728,847,703.01	-	1,708,283,539.83	(6,610,910.76)	172,792,719.00	5,116,752,368.88
3. Movements for the year ended 2012	-	234,554.97	-	58,883,871.81	-	563,267,891.10	6,358.30	16,818,510.10	639,211,186.28
(1) Net profit	-	-	-	-	-	729,039,715.80	-	37,657,498.11	766,697,213.91
(2) Other comprehensive income	-	394,065.85	-	-	-	-	6,358.30	3,228.58	403,652.73
Subtotal of items (1) and (2)	-	394,065.85	-	-	-	729,039,715.80	6,358.30	37,660,726.69	767,100,866.64
(3) Capital contribution and withdrawal by shareholders	-	(271,792.21)	-	-	-	-	-	9,296,792.21	9,025,000.00
Capital contribution by the shareholders	-	-	-	-	-	-	-	9,025,000.00	9,025,000.00
Share-based payment charged to equity	-	-	-	-	-	-	-	-	-
Others	-	(271,792.21)	-	-	-	-	-	271,792.21	-
(4) Profit distribution	-	-	-	58,883,871.81	-	(165,771,824.70)	-	(30,176,435.91)	(137,064,388.80)
Appropriation to surplus reserves	-	-	-	58,883,871.81	-	(58,883,871.81)	-	-	-
Appropriation to general risk provision	-	-	-	-	-	-	-	-	-
Profit distribution to shareholders	-	-	-	-	-	(106,887,952.89)	-	(30,176,435.91)	(137,064,388.80)
Others	-	-	-	-	-	-	-	-	-
(5) Transfer within shareholders' equity	-	-	-	-	-	-	-	-	-
Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-
Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-
Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
(6) Others	-	112,281.33	-	-	-	-	-	37,427.11	149,708.44
4. Balance at 31 December 2012 (restated)	<u>810,900,000.00</u>	<u>1,702,773,872.77</u>	<u>-</u>	<u>787,731,574.82</u>	<u>-</u>	<u>2,271,551,430.93</u>	<u>(6,604,552.46)</u>	<u>189,611,229.10</u>	<u>5,755,963,555.16</u>

BALANCE SHEET*As at 31 December 2013**(All amounts in Renminbi yuan unless otherwise stated)*

Assets	<i>Note</i>	31 December 2013	31 December 2012
Current assets			
Cash at bank and on hand		462,902,261.84	141,232,654.49
Financial assets held for trading		3,362,667.20	2,875,920.00
Notes receivable		491,846,637.36	–
Accounts receivable	15(1)	134,987,242.57	–
Advances to suppliers		35,096,096.56	–
Interest receivable		–	–
Dividends receivable		213,565,667.45	102,098,616.47
Other receivables	15(2)	943,517,098.26	806,021,195.77
Inventories		372,106,673.49	553,530.28
Current portion of non-current assets		–	–
Other current assets		1,666,244.75	84,871.03
Total current assets		<u>2,659,050,589.48</u>	<u>1,052,866,788.04</u>
Non-current assets			
Available-for-sale financial assets		16,093,000.00	18,452,500.00
Held-to-maturity investments		–	–
Long-term receivables		–	–
Long-term equity investments	15(3)	3,382,596,132.60	2,642,423,792.52
Investment properties		228,088,909.74	34,778,855.83
Fixed assets		458,451,623.08	13,990,379.68
Construction in progress		61,761,556.59	–
Construction materials		–	–
Fixed assets pending for disposal		–	–
Intangible assets		266,747,080.35	–
Development costs		2,200,000.00	–
Goodwill		–	–
Long-term prepaid expenses		448,929.68	–
Deferred tax assets		36,608,854.15	6,703,617.32
Other non-current assets		–	–
Total non-current assets		<u>4,452,996,086.19</u>	<u>2,716,349,145.35</u>
TOTAL ASSETS		<u><u>7,112,046,675.67</u></u>	<u><u>3,769,215,933.39</u></u>

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

Assets	<i>Note</i>	31 December 2013	31 December 2012
Current liabilities			
Short-term borrowings		250,000,000.00	–
Financial liabilities held for trading		–	–
Notes payable		–	–
Accounts payable		210,276,551.36	853,283.35
Advances from customers		73,149,096.14	32,584.69
Employee benefits payable		60,386,689.87	5,877,718.22
Taxes payable		59,481,082.89	7,456,266.36
Interest payable		675,414.98	–
Dividends payable		77,540,856.01	588.16
Other payables		475,829,440.43	219,985,169.21
Current portion of non-current liabilities		–	–
Other current liabilities		–	–
Total current liabilities		<u>1,207,339,131.68</u>	<u>234,205,609.99</u>
Non-current liabilities			
Long-term borrowings		8,627,419.10	–
Debentures payable		–	–
Long-term payables		7,802,224.39	–
Payables for specific projects		–	–
Provisions		500,191.19	–
Deferred tax liabilities		3,301,646.15	3,361,888.01
Other non-current liabilities		37,507,212.17	–
Total non-current liabilities		<u>57,738,693.00</u>	<u>3,361,888.01</u>
Total liabilities		<u>1,265,077,824.68</u>	<u>237,567,498.00</u>
Shareholders' equity			
Share capital		1,291,340,650.00	810,900,000.00
Capital surplus		2,456,941,082.91	1,095,415,498.20
Less: Treasury share		–	–
Surplus reserve		351,211,319.16	296,127,857.17
Undistributed profits		1,747,475,798.92	1,329,205,080.02
Difference on translation of foreign currency financial statements		–	–
Total shareholders' equity		<u>5,846,968,850.99</u>	<u>3,531,648,435.39</u>
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		<u><u>7,112,046,675.67</u></u>	<u><u>3,769,215,933.39</u></u>

INCOME STATEMENT

For the year ended 2013

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	The year ended 2013	The year ended 2012
1. Revenue	15(4)	1,691,217,530.23	70,671,111.00
Less: Cost of sales	15 (4)	1,022,989,924.63	4,049,254.37
Taxes and surcharges		19,029,456.08	4,651,091.13
Selling and distribution expenses		179,575,086.16	218,887.43
General and administrative expenses		236,171,957.63	44,517,403.18
Financial expenses		19,032,419.65	4,659,582.92
Asset impairment losses		506,256.18	(580,072.85)
Add: Profit arising from changes in fair value		486,747.20	(251,772.50)
Investment income	15 (5)	413,437,475.35	259,671,885.87
Including: Share of profit of associates and jointly controlled entities	15 (5)(c)	140,571,475.14	152,183,110.63
2. Operating profit		627,836,652.45	272,575,078.19
Add: Non-operating income		6,363,731.17	1,300,485.83
Less: Non-operating expenses		2,144,771.94	4,418,159.62
Including: Losses on disposal of non-current assets		753,924.80	15,577.32
3. Total profit		632,055,611.68	269,457,404.40
Less: Income tax expenses		81,220,991.79	5,790,948.97
4. Net Profit		<u>550,834,619.89</u>	<u>263,666,455.43</u>
5. Other comprehensive income		<u>(1,296,968.03)</u>	<u>777,590.56</u>
– Items will be classified into profit or loss when satisfied with certain conditions at following accounting period		(1,296,968.03)	777,590.56
– Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period		–	–
6. Total comprehensive income		<u>549,537,651.86</u>	<u>264,444,045.99</u>

CASH FLOW STATEMENT

For the year ended 2013

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	The year ended 2013	The year ended 2012
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		1,957,266,099.53	7,026,444.68
Refund of taxes and surcharges		–	–
Cash received relating to other operating activities		<u>315,478,444.29</u>	<u>40,502,272.65</u>
Sub-total of cash inflows		<u>2,272,744,543.82</u>	<u>47,528,717.33</u>
Cash paid for goods and services		1,530,056,761.01	3,018,702.76
Cash paid to and on behalf of employees		334,865,661.47	14,253,973.23
Payments of taxes and surcharges		163,462,947.12	7,618,783.51
Cash paid relating to other operating activities		<u>136,638,818.07</u>	<u>23,154,648.42</u>
Sub-total of cash outflows		<u>2,165,024,187.67</u>	<u>48,046,107.92</u>
Net cash flows from operating activities	15(6)	<u>107,720,356.15</u>	<u>(517,390.59)</u>

Item	<i>Note</i>	The year ended 2013	The year ended 2012
2. Cash flows from investing activities			
Cash received from disposal of investments		–	–
Net cash received from disposal of subsidiaries		–	–
Cash received from returns on investments		162,998,723.12	162,155,773.74
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		3,742,258.11	1,040.00
Cash received relating to other investing activities		714,516,256.41	424,513,849.68
Sub-total of cash inflows		<u>881,257,237.64</u>	<u>586,670,663.42</u>
Cash paid to acquire fixed assets, intangible assets and other long-term assets		61,710,117.51	653,288.00
Cash paid to acquire investments		6,000,000.00	93,900,000.00
Net cash paid to acquire subsidiaries		–	–
Cash paid relating to other investing activities		445,801,896.91	470,432,299.04
Sub-total of cash outflows		<u>513,512,014.42</u>	<u>564,985,587.04</u>
Net cash flows from investing activities		<u>367,745,223.22</u>	<u>21,685,076.38</u>

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Item	<i>Note</i>	The year ended 2013	The year ended 2012
3. Cash flows from financing activities			
Cash received from capital contributions		1,351,685.03	–
Including: Cash received from capital contributions by minority shareholders of subsidiaries		–	–
Cash received from borrowings		8,033,905.10	–
Cash received relating to other financing activities		<u>105,373,400.60</u>	<u>200,000,000.00</u>
Sub-total of cash inflows		<u>114,758,990.73</u>	<u>200,000,000.00</u>
Cash repayments of borrowings		242,000,000.00	–
Cash payments for interest expenses and distribution of dividends or profits		12,519,467.78	81,472,780.30
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		–	–
Cash payments relating to other financing activities		<u>14,014,288.88</u>	<u>106,153,388.84</u>
Sub-total of cash outflows		<u>268,533,756.66</u>	<u>187,626,169.14</u>
Net cash flows from financing activities		<u>(153,774,765.93)</u>	<u>12,373,830.86</u>
4. Effect of foreign exchange rate changes on cash and cash equivalents		<u>(21,206.09)</u>	<u>121.57</u>
5. Net increase/(decrease) in cash and cash equivalents		321,669,607.35	33,541,638.22
Add: Cash and cash equivalents at beginning of year	15(6)	<u>141,232,654.49</u>	<u>107,691,016.27</u>
6. Cash and cash equivalent at end of period		<u><u>462,902,261.84</u></u>	<u><u>141,232,654.49</u></u>

STATEMENT OF CHANGES IN EQUITY

For the year ended 2013

(All amounts in Renminbi yuan unless otherwise stated)

	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	Undistributed profits	Total shareholders' equity
1. Balance at 31 December 2012	810,900,000.00	1,095,415,498.20	–	296,127,857.17	1,329,205,080.02	3,531,648,435.39
Add: Changes in accounting period	–	–	–	–	–	–
Corrections of prior period errors	–	–	–	–	–	–
2. Balance at 1 January 2013	810,900,000.00	1,095,415,498.20	–	296,127,857.17	1,329,205,080.02	3,531,648,435.39
3. Movements for the year ended 2013	480,440,650.00	1,361,525,584.71	–	55,083,461.99	418,270,718.90	2,315,320,415.60
(1) Net profit	–	–	–	–	550,834,619.89	550,834,619.89
(2) Other comprehensive income	–	(1,296,968.03)	–	–	–	(1,296,968.03)
Subtotal of items (1) and (2)	–	(1,296,968.03)	–	–	550,834,619.89	549,537,651.86
(3) Capital contribution and withdrawal by shareholders	480,440,650.00	1,362,822,552.74	–	–	–	1,843,263,202.74
Capital contribution by the shareholders	480,440,650.00	1,362,822,552.74	–	–	–	1,843,263,202.74
Share-based payment charged to equity	–	–	–	–	–	–
Others	–	–	–	–	–	–
(4) Profit distribution	–	–	–	55,083,461.99	(132,563,900.99)	(77,480,439.00)
Appropriation to surplus reserves	–	–	–	55,083,461.99	(55,083,461.99)	–
Appropriation to general risk provision	–	–	–	–	–	–
Profit distribution to shareholders	–	–	–	–	(77,480,439.00)	(77,480,439.00)
Others	–	–	–	–	–	–
(5) Transfer within shareholders' equity	–	–	–	–	–	–
Transfer from capital surplus to share capital	–	–	–	–	–	–
Transfer from surplus reserves to share capital	–	–	–	–	–	–
Surplus reserves used to offset accumulated losses	–	–	–	–	–	–
Others	–	–	–	–	–	–
(6) Others	–	–	–	–	–	–
4. Balance at 31 December 2013	<u>1,291,340,650.00</u>	<u>2,456,941,082.91</u>	<u>–</u>	<u>351,211,319.16</u>	<u>1,747,475,798.92</u>	<u>5,846,968,850.99</u>

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	Undistributed profits	Total shareholders' equity
1. Balance at 31 December 2011	810,900,000.00	1,094,637,907.64	–	269,761,211.63	1,172,995,270.13	3,348,294,389.40
Add: Changes in accounting policies	–	–	–	–	–	–
Corrections of prior period errors	–	–	–	–	–	–
2. Balance at 1 January 2012	810,900,000.00	1,094,637,907.64	–	269,761,211.63	1,172,995,270.13	3,348,294,389.40
3. Movements for the year ended 2012	–	777,590.56	–	26,366,645.54	156,209,809.89	183,354,045.99
(1) Net profit	–	–	–	–	263,666,455.43	263,666,455.43
(2) Other comprehensive income	–	777,590.56	–	–	–	777,590.56
Subtotal of items (1) and (2)	–	777,590.56	–	–	263,666,455.43	264,444,045.99
(3) Capital contribution and withdrawal by shareholders	–	–	–	–	–	–
Capital contribution by the shareholders	–	–	–	–	–	–
Share-based payment charged to equity	–	–	–	–	–	–
Others	–	–	–	–	–	–
(4) Profit distribution	–	–	–	26,366,645.54	(107,456,645.54)	(81,090,000.00)
Appropriation to surplus reserves	–	–	–	26,366,645.54	(26,366,645.54)	–
Appropriation to general risk provision	–	–	–	–	–	–
Profit distribution to shareholders	–	–	–	–	(81,090,000.00)	(81,090,000.00)
Others	–	–	–	–	–	–
(5) Transfer within shareholders' equity	–	–	–	–	–	–
Transfer from capital surplus to share capital	–	–	–	–	–	–
Transfer from surplus reserves to share capital	–	–	–	–	–	–
Surplus reserves used to offset accumulated losses	–	–	–	–	–	–
Others	–	–	–	–	–	–
(6) Others	–	–	–	–	–	–
4. Balance at 31 December 2012	<u>810,900,000.00</u>	<u>1,095,415,498.20</u>	<u>–</u>	<u>296,127,857.17</u>	<u>1,329,205,080.02</u>	<u>3,531,648,435.39</u>

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

1 GENERAL INFORMATION

Approved by the Circular Ti Gai Sheng [1997] No.139 issued by the State Commission for Restructuring the Economic Systems, Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (the “Company”) was 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 in the Company. The Company obtained business license on 1 September 1997 and the registered number is 440101000005674.

Approved by the Circular Ti Gai Sheng [1997] No.145 issued by the State Commission for Restructuring the Economic Systems and Circular Zheng Wei Fa [1997] No.56 issued by the Securities Regulatory Commission of the State Council, the Company issued 210,990,000 shares listed in Hong Kong Stock Exchange (H shares) in October 1997. Approved by China Securities Regulatory Commission on 10 January 2001, 78,000,000 A shares of the Company were issued and became listed in Shanghai Stock Exchange on 6 February 2001. The stock abbreviation is GYBYS, and stock code is 600332.

The Company executed and completed the material assets reorganization transaction, which include: (1) The Company issued an addition of 445,601,005 A shares by way of share swap to absorb and merger Baiyunshan Co., Ltd. (Baiyunshan), a subsidiary of GPHL, in May 2013. (2) The Company issued an addition of 34,839,645 A shares to GPHL as consideration payment, to acquire the buildings and trademarks which are owned by GPHL or GPHL has the right to dispose of, and 100% equity interest of the subsidiary of GPHL, Guangyao Baiyunshan (Hong Kong) Co., Ltd. (“Guangyao Baiyunshan (Hong Kong)”) (Previously named “Polian Development Co., Ltd.”) and 12.5% equity interest of Baxter Healthcare Co., Ltd. (“Baxter Healthcare”) held by GPHL, The Company completed the registration of share on 5 July 2013. After the above-mentioned assets reorganization was completed, the Company’s total number of shares in issue was 1,291,340,650.

The parent company is GPHL, and the ultimate holding company is Guangzhou State-owned Assets Supervision and Administration Commission.

The Company and its consolidated subsidiaries (together, the “Group”) are principally engaged in the manufacture of (1) Western and Chinese patent drug, chemical raw material medicine, natural medicine, biological medicine, research and development for intermediate product of API, manufacturing and sales. (2) The wholesale, retail, import and export of western pharmaceutical products, CPM and medical apparatus and the wholesale. (3) Research, development, manufacturing and sales of Great Health products.

The major CPM products of the Group include Xiao Ke Pill (“消渴丸”), Xia Sang Ju (“夏桑菊”), Wu Ji Bai Feng Pill (“烏雞白鳳丸”), Hua Tuo Zai Zao Pill (“華佗再造丸”) and Mi Lian Chuan Bei Pi Pa Jelly (“蜜煉川貝枇杷膏”), Qi Kai Ling Tonic (“清開靈口服液”), Xiao Chai Hu Chong Ji (“小柴胡冲”) etc. The major western medicine products of the Group include cefathiamidine, amoxicillin and ceftriaxone sodium. The major pre-packaged food of the Group are Wang Lao Ji Herbal Tea (“王老吉涼茶”), etc.

The Group's current structure mainly include 10 CPM manufacturing companies, 2 western medicine manufacturing companies, 1 chemical raw materials manufacturing company, 1 pre-packaged food manufacturing company, 3 pharmaceutical research and development companies and 4 pharmaceutical trading companies.

These financial statements were approved for issue by the Board of Directors on 17 March 2014.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Basis of preparation

The Ministry of Finance 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 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") and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 – General Provisions on Financial Reporting (revised 2010) issued by the China Securities Regulatory Commission.

The Ministry of Finance issued 5 new and revised standards in January and February 2014, which include <Accounting Standards for Business Enterprises No.9 – Employee Compensation> (revised), <Accounting Standards for Business Enterprises No.30 – The Presentation of Financial Statements> (revised), <Accounting Standards for Business Enterprises No.33 – Consolidated Financial Statements> (revised), <Accounting Standards for Business Enterprises No.39 – Fair Value Measurement>, <Accounting Standards for Business Enterprises No.40 – The Joint Venture Arrangements>, such standards are required to perform from 1 July 2014 and the listed overseas enterprises are encouraged to perform these standards in advance. As a company listed in Hong Kong and domestic, the Group have performed above standards as at the year 2013.

(2) Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company for the year ended 31 December 2013 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position as of 31 December 2013 and the operating results, cash flows and other information for the year then ended of the Group and the Company.

(3) Accounting period

Accounting year starts on 1 January and ends on 31 December. The financial statements cover the period from 1 January 2013 to 31 December 2013.

(4) Recording currency

The recording currency is Renminbi (“RMB”).

Guangyao Baiyunshan (Hong Kong), a subsidiary of the Company, an overseas operating company, which uses Hong Kong Dollar as its recording currency.

(5) Accounting treatments for business combinations involving entities under and not under common control**(a) 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. Transaction fees of equity securities or debt securities issued for a business combination are included in the initially recognised amount of equity securities or debt securities.

(b) 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 recognised 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 recognised 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. Transaction fees of equity securities or debt securities issued for a business combination are included in the initially recognised amount of equity securities or debt securities.

(6) Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Subsidiaries are consolidated from the date on which the Group 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 under common control of the ultimate controlling party. The portion of the net profits realised 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 Company and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the 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 unrealised 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 Company are recognised as minority interests and presented separately in the consolidated financial statements within equity and net profits respectively.

(7) 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.

(8) Foreign currency translation

(a) Foreign currency transactions

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 recognised 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 capitalised 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 recognised in profit or loss or capital surplus in the current year.

(b) Translation of foreign currency financial statements

The assets and liabilities items among the balance sheet of foreign operation shall be translated using the spot exchange rate at the balance sheet date. Other items other than the undistributed profits among shareholder's equity shall be translated using the spot exchange rate at the transaction date. The income and expenses among the income statement shall be translated using the average on translation of foreign currency financial statements exchange rate during the reporting period. Differences are individually listed in shareholder's equity. The cash flow items of overseas operation shall be translated using average exchange rate during the reporting period. The effect of exchange rate changes on cash is presented individually in the cash flow statement.

(9) Financial Instruments**(a) Financial assets***(i) Classification*

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 Group'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 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.

(ii) Recognition and measurement

Financial assets are recognised at fair value on the balance sheet when the Group 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 recognised 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 amortised 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 recognised 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 recognised 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 recognised 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 derecognised, the cumulative gain or loss previously recognised directly in equity is reclassified to 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 recognised as investment income, which is recognised in profit or loss for the period.

(iii) Impairment of financial assets

The Group 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 Group shall determine the amount of impairment loss.

At the ending of the period, if the fair value of the available-for-sale financial assets declined dramatically, or it is expected the downturn is not temporary after considers all relevant factors, the impairment has occurred. Transfer the accumulated loss which is occurred by the fair value included in the owner equity decreased and verify that the impairment losses.

The standard of the fair value of the available-for-sale financial assets of the company decrease seriously: Closing fair value declines relative to the cost has reached or exceeded 50%:

The standard of fair value decrease is not temporary: 12 months in a row fell.

Computing method of investment cost: consideration of payment at acquisition (net of cash dividends declared but not yet paid or due but unpaid interest on bonds) and the relevant transaction cost are recognized as the investment cost.

Determination basis of: Falling or downturn continued during the rally up less than 20% margin. Rebound duration not more than six months are treated as continue decrease period.

For available-for-sale debt instruments which impairment losses is confirmed, in subsequent accounting periods, the fair value is arisen and it is objectively connected with the event after impairment loss previously recognized. This impairment loss previously recognized shall reverse through profit or loss. When impairment loss of available-for-sale equity instrument has occurred, this loss shall not reverse thought profit or loss.

Impairment of held to maturity investment: Measurement method of the impairment loss of held to maturity investments is according to the measurement method of the impairment loss of receivables.

(iv) *The basis and measurement for the transfer of financial assets and the derecognition of financial assets*

When the Group transfers financial assets, the financial assets should be derecognised when all the risks and rewards of ownership of the financial asset have been substantially transferred. The financial assets shall not be derecognised if the Group substantially retains all the risks and rewards of ownership of the financial asset. If the Group 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 derecognised.

In addition to two circumstances of the derecognition mentioned above, a financial assets shall be derecognised 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 recognised in profit or loss.

(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 the Group mainly comprise 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 amortised 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 amortised 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 derecognised or partly derecognised when the present obligation is discharged or partly discharged. The difference between the carrying amount of the derecognised portion of the financial liability and the consideration paid shall be recognised 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 the Group.

(10) 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 RMB1,000,000 (including RMB1,000,000) and other receivables are individually more than RMB 100,000 (including RMB100,000).
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 recognised 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 Group 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	Receivables with extremely low credit risk based on measurement of historical evidence
Group 3	Other receivables due from related parties
Group 4	Deposits and staff advances

Accounts receivable which are subject to group provision

Method for provision by groups are summarised as followed:

Group name	Method for provision
Group 1	Aging analysis method
Group 2	Percentage of bad-debt provision is 0%
Group 3	Percentage of bad-debt provision is 0%
Group 4	Percentage of bad-debt provision is 0%

Ratios of provision for bad debts used in the aging analysis method for groups are as follows:

Ageing	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 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.

(11) Inventories**(a) Classification of inventories**

Inventories include goods in transit, raw materials, work in progress, semi-finished goods, finished goods, low-value consumables, packaging materials, goods in processing contract, goods on consignment and commodity stocks.

(b) Cost of inventories

Inventories are measured at actual cost at the time of acquisition.

Cost is determined using the weighted average method. The cost of finished goods, 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.

(c) Basis for the determination of net realizable value and the method of provision 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 realisable value. Net realisable 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

The Group adopts the perpetual inventory system.

(e) Amortisation of low-value consumables and packaging materials

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

(12) Long-term equity investments**(a) Initial recognition**

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, the Group's long-term equity investments in its jointly controlled entities and associates, as well as the long-term equity investments where the Group 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 Company is able to control. Jointly controlled entities are the investees over which the Group is able to exercise joint control together with other venturers. Associates are all entities over which the Group has significant influence, but not control, on their financial and operating policies.

Investments in subsidiaries are measured using the cost method in the Company's financial statements, and adjusted by 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 Group 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 Group'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 Group'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.

(b) Subsequent measurement

Under the cost method of accounting, investment income is recognised in profit or loss for the cash dividends or profit distribution declared by the investee.

Under the equity method of accounting, the Group recognised the investment income based on its share of net profit or loss of the investee. While the accounting policies and accounting period of the investees are inconsistent with the Group, the financial statements of the investees are all adjusted according to the accounting policies and accounting period of the Group and recognised investment income accordingly. The Group discontinues recognising 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 Group has obligations for additional losses and the conditions on recognition of provision are satisfied in accordance with the accounting standards on contingencies, the Group continues to recognise 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 Group record directly in capital surplus, provided that the Group's proportion of shareholding in the investee remains unchanged. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by the investee. The unrealised profits or losses arising from the intra-group transactions amongst the Group and its investees are eliminated in proportion to the Group's equity interest in the investees, and then based which the investment gain or losses are recognised. The loss on the intra-group transaction amongst the Group and its investees, of which the nature is asset impairment, is recognised in full, and the related unrealised loss is not eliminated.

(c) 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 Company is able to exercise control over the investee, the effect of potential voting rights of the investee shall be considered, such as convertible debts 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.

(d) 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 recognised as impairment loss and cannot be reversed once recognised.

(13) 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 Group and its cost can be reliably measured; otherwise, the expenditures are recognised in profit or loss in the period in which they are incurred.

The Group 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 amortised on a basis consistent with the amortisation policy which the Group 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 (amortisation) method applied are reviewed and adjusted as appropriate at each year-end.

An investment property is derecognised 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 recognised 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 recognised 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 recognised 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 recognised, it will not be reversed for the value recovered in the subsequent periods.

(14) 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 to other parties or administrative purposes, with useful life more than one year.

Fixed asset is recognised when it is probable that the economic benefits associated with the fixed asset will flow to the Group and its cost can be reliably measured. Fixed assets purchased or constructed by the Group 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 Group and its cost can be reliably measured. The carrying amount of those parts that are replaced is derecognised and all the other subsequent expenditures are recognised 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 capitalisation 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, machinery and equipment, motor vehicles, computer and electronic equipment, office equipment and fixed asset renovation. The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates are as follows:

Category	Estimated useful lives	Estimated 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%

(c) Impairment of fixed assets

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 recognised 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 recognised 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 recognised, 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 unrecognised finance charge.

Fixed assets held under a finance lease are depreciated on a basis consistent with the depreciation policy which the Group 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.

(e) Other specification*Disposal of fixed assets*

A fixed asset is derecognised 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 recognised in profit or loss.

(15) 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 capitalisation 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 Group's 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 recognised 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 recognised 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 recognised, it will not be reversed for the value recovered in the subsequent periods.

(16) 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 capitalised 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 capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use, the borrowing costs incurred thereafter are recognised in profit or loss for the current year. Capitalisation 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 capitalisation 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 capitalisation period.

For the general borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalisation 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.

(17) Intangible assets**(a) Recognition and measurement of intangible assets**

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Group, including land use rights, industrial property and patent technology, and non-patent technology etc. An intangible asset is recognised 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, amortisation of other patents and licenses and capitalised interest expenses in the development phase, and other costs which are directly attributable to bringing the intangible assets ready for their intended use.

(b) Periodical review of useful life and amortisation method

For an intangible asset with a finite useful life, review and adjustment on its useful life and amortisation method are performed at each year-end.

(c) Intangible asset with an indefinite useful life

An intangible asset is regarded by the Group as having an indefinite useful life when based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

The Company owns trademarks including Baiyunshan, Xingqun, Zhongyi, Pangaoshou, Chenliji, Jingxiutang, Qixing, which are identified as uncertain useful life due to expected economic interest in future. The Company reviews the indefinite useful life of intangible assets at every accounting period. The reviewed useful life of above intangible assets is indefinite.

(d) 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 recognised in profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalised 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.

Other development expenditures that do not meet the conditions above are recognised in profit or loss in the period in which they are incurred. Development costs previously recognised as expenses are not recognised as an asset in a subsequent period. Capitalised expenditure on the development phase is presented as development costs in the balance sheet and transferred to intangible assets at the date that the asset is ready for its intended use.

(e) 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 recognised 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 recognised 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 recognised, it will not be reversed for the value recovered in the subsequent periods.

(18) 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 recognised as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortised on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortisation.

(19) Provisions

Provisions for product warranties, onerous contracts etc. are recognised 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 recognised as interest expense.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

(20) Revenue

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Group.

(a) Revenue recognition

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the group entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(b) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer and the customer has accepted the goods, the Group 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 Group and the relevant revenue and costs can be measured reliably.

(c) Rendering of services

The revenue from rendering of services is recognised using the percentage of completion method.

(d) Transfer of asset use rights

Income from transfer of asset use rights include:

- Interest income is recognised on a time-proportion basis using the effective interest method;
- License fee income is recognised when the right to receive payment is established;
- Income from an operating lease is recognised on a straight-line basis over the period of the lease.

(e) Dividend income

Dividend income from long-term equity investment accounted for using cost method, financial assets at fair value through profit or loss and available-for-sale financial assets is recognised when the right to receive dividend is established.

(21) Government grants**(a) Classification**

Government grants are the obtained monetary assets and non-monetary assets from the government freely, which are divided into assets-related Government grants and income-related government grants.

The assets-related government grants refers to the obtained long-term assets with purchase, construction or otherwise formed, which is includes financial appropriation of the purchase on fixed assets or intangible assets and the financial discounts of special borrowings on fixed assets, etc. The profit-related government grants refers to the government grants other than the assets-related grants.

The specific standard of the asset-related grants: Government's documents defined the grants are used to purchase fixed assets or intangible assets, or the financial discounts of specific borrowing, or the grants is undefined by government's documents but is related to the form of long-term assets of the enterprise.

The specific standard of the income-related grants: It shall be defined to the income-related when not consistent with standard of asset-related grants.

Basis of the specific standard of grants when qualified objects are not defined: Unqualified Objects with sufficient evidence that the government grants related to long-term assets, recognized as asset-related government grants. The remaining shall be defined as income-related grants.

(b) Accounting treatment

The assets-related government grants shall be recognized as deferred income in accordance with the useful life of long-term assets;

The income-related government grants for compensation to the related expenses or loss of enterprise at subsequent periods shall be recognized as deferred income and current revenue from non-operation during the recognition of related expenses; in addition, it shall be directly recognized as current revenue from non-operation to compensate the related expenses incurred.

(c) The point of recognition

Government grants shall be recognized and measured in accordance with the account when actual amount received. Only if there is sufficient evidence to show that grants is allocated in accordance with fixed quotas and comply with the conditions of financial policies and is expected to receive supporting funds, the grants shall be recognized and measured by certain amount.

(22) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised 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 recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised 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 realised or the liability is settled.

Deferred tax assets are only recognised 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 utilised.

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries, jointly controlled entities and associates, except where the Group 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 recognised.

Deferred tax assets and liabilities are offset when:

- the deferred taxes are related to the same tax payer within the Group and the same taxation authority; and
- the tax payer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

(23) 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.

(a) Operating leases

Lease payments under an operating lease are recognised on a straight-line basis over the period of the lease, and are either capitalised as part of the cost of related assets, or charged as an expense for the current year.

(b) 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 unrecognised finance charge and is amortised 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 unrecognised finance charge.

(24) Changes in significant accounting policies and accounting estimates**(a) Changes in accounting policies**

The Group has performed the 5 new and revised Accounting Standards for Business Enterprises issued by the Ministry of Finance in the year 2014 in advance, the adapting of above standards do not significantly impact the financial statements of the Group and the financial statements have presented in accordance with the above standards.

(b) Changes in accounting estimates

There are no changes in accounting estimates in the current period.

(25) Correction of prior period's accounting errors

There are no corrections of significant accounting errors in the current period.

(26) Other significant accounting policies**(a) Segment information**

The Group identifies operating segments based on the internal organisation 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 Group 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 Group'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 Group.

An operating segment's revenue, expenses, operating result, assets and liabilities include those directly attributable to the operating segment, and those allocated to the segment on a reasonable basis. Revenue, expenses, assets and liabilities of the operating segment are determined at the amounts before the elimination of inter-group transactions and balances. Transfer price between operating segments is calculated on terms similar to those in arm's length transactions.

(b) 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 Group 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 recognised, with a corresponding charge to profit or loss when the Group 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 Group unilaterally.

Employee benefits are recognised 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.

(c) Profit distribution

Cash dividend distribution is recognised as a liability in the period in which it is approved by the shareholders' meeting.

(27) Critical accounting estimates and judgements**(a) Current and deferred income tax**

The Group is subject to income taxes only in the People's Republic of China (the "PRC") and Hong Kong. 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 Group recognises 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 utilized. 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.

Baiyunshan which was merged with the Company during the reporting period received the "Certificate of High/New Technology Enterprise", the certificated 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 Tax Bureau in November 2012, numbering GR201244000005 and the effective period is 3 years. The Company has applied for High/New Technology Enterprise in accordance with the main body of a merged company. Base on the recent information, management consider the certificate will be obtained in the year of 2014 in all probability and enjoy the tax rate of 15%. The deferred income tax is charged as this discount.

3 TAXATION

(1) Main tax and tax rate

(a) Turnover tax and Real-estate tax

Taxable item	Type	Tax rate
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	VAT	6%
Rental income	Business tax	5%
Transferred Technology income	VAT	3%, 6%
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%

(b) City maintenance and construction tax

Calculated and paid based on 7% of the amount of VAT, business tax and consumption tax paid.

(c) Education surcharge

Calculated and paid based on 3% of the amount of VAT, business tax and consumption tax paid.

(d) Local education surcharge

Calculated and paid based on 2% of the amount of VAT, business tax and consumption tax paid.

(e) Enterprise income tax

Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. (Zhong Yi), Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. (Jing Xiu Tang), Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. (Qi Xing), Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd. (Xing Qun), Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd. (Chen Li Ji), Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (Pan Gao Shou), Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. (Tian Xin), Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. (Ming Xing), Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd. (Guang Hua), 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.

The certificates of the 8 subsidiaries (namely, Zhong Yi etc), numbering GF201144000520, GF201144000114, GF201144000043, GF201144000298, GF201144000144, GF201144000400, GF201144000016, GF201144000599 respectively, were issued in 2011 and the effective period is 3 years. The certificate of Guang Hua, numbering GR201244000497, was issued in November 2012 and the effective period is 3 years.

A subsidiary of the Group, Guangxi Ying Kang Co. Ltd. (Guangxi Ying Kang) received the “Certificate of High/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, numbering GF201245000068, was issued in November 2012 and the effective period is 3 years.

Baiyunshan which has merged with the Company during the Reporting Period received the “Certificate of High/New Technology Enterprise”, the certificate 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 Tax Bureau in November 2012, numbering GR201244000005 and the effective period is 3 years.

Pursuant to the relevant national preferential tax policies for High/New Technology Enterprise, The company which is recognised as a High/New Technology Enterprise could enjoy these policies of enterprise income tax at the reduced rate of 15%.

Except for the preferential tax preference mentioned above, the group companies 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 of these entities is 25%. Guangyao Baiyunshan (Hong Kong) Co., Ltd. of the group, pays the corporation profits tax in accordance with “Hong Kong Inland Revenue Ordinance” at a the corporation profit tax rate of 16.5%.

4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

(1) Subsidiaries

(a) Subsidiaries acquired from establishment or investment

Name of subsidiary	Type of subsidiary	Registration place	Nature of business and principal activities	Registered capital ('0000)	Scope of business	Paid-in capital at end of period ('0000)	Other assets constitution investment in substance ('0000)	Legal Representative	Organisation code	% equity interest held by the Company	% voting rights held	Consolidated or not	Minority interests at end of period ('0000)	Minority interests adjusted against minority interest in the profit or loss ('0000)	Amount of minority interest shared by minority interest exceeded the opening balance of minority interest ('0000)	Ending balance after the Company's equity interest adjusted against the amount of the current year's losses in subsidiaries
Direct subsidiaries																
Xing Qun	Subsidiary	Guangzhou	Pharmaceutical manufacturing	7,717	Production of CPM	6,867	-	Yao Jianguo	19051196-X	88.99	88.99	Yes	1,742	-	-	-
Zhong Yi	Wholly-owned subsidiary	Guangzhou	Pharmaceutical manufacturing	21,741	Production of CPM	21,741	-	Zhang Chunbo	19045979-4	100.00	100.00	Yes	-	-	-	-
Chen Li Ji	Wholly-owned subsidiary	Guangzhou	Pharmaceutical manufacturing	11,285	Production of CPM	11,285	-	Ouyang Qiang	19045881-5	100.00	100.00	Yes	-	-	-	-
Guangzhou Han Fan ⁽ⁱ⁾	Subsidiary	Guangzhou	Pharmaceutical manufacturing	24,606	Research and development of medicine and health products	24,490	-	Huang Xiang	71241860-8	99.49	99.53	Yes	74	-	-	-
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Pharmaceutical manufacturing	8,242	Production of CPM	8,242	-	Li Guangfeng	19045800-7	100.00	100.00	Yes	-	-	-	-
Jing Xin Tang	Subsidiary	Guangzhou	Pharmaceutical manufacturing	8,623	Production of CPM	7,623	-	Wang Wenchu	19047922-6	88.40	88.40	Yes	1,580	-	-	-
Pan Gao Shou	Subsidiary	Guangzhou	Pharmaceutical manufacturing	6,544	Production of CPM	5,744	-	Wei Dahua	19045780-8	87.77	87.77	Yes	2,619	-	-	-
Cai Zhi Lin	Wholly-owned subsidiary	Guangzhou	Pharmaceutical trading	3,222	Retailing of Chinese raw medicine and CPM	3,222	-	Zhou Lushan	19050398-6	100.00	100.00	Yes	-	-	-	-
Guangzhou Pharmaceutical Import & Export Co., Ltd. ("Pharmaceutical Import & Export")	Wholly-owned subsidiary	Guangzhou	Pharmaceutical trading	2,400	Import and export trading of medicine	2,400	-	Feng Yaowen	19047897-7	100.00	100.00	Yes	-	-	-	-
Guangzhou Baiyunshan Bai Di Bio-Technology Co., Ltd. (Guangzhou Bai Di)	Subsidiary	Guangzhou	Pharmaceutical manufacturing	13,160	Research and Development of medicine	12,960	-	Chen Jianrong	73154713-0	98.48	98.48	Yes	135	-	-	-
Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. ("W LJ Great Health")	Wholly-owned subsidiary	Guangzhou	Food manufacturing	1,000	Production And Sales of Pre-packaged food and dairy	1,000	-	Chen Mao	59151288-3	100.00	100.00	Yes	-	-	-	-
Guangzhou Guang Yao Yi Gan Biological Product Co., Ltd. (Guangzhou Yi Gan) ⁽ⁱ⁾	Subsidiary	Guangzhou	Pharmaceutical manufacturing	2,100	Advisory of research and development and technological transformation of biological products	1,260	-	Lin Jiyun	05659089-8	60.00	60.00	Yes	181	-	-	-
Indirect subsidiaries																
Qi Xing	Subsidiary	Guangzhou	Pharmaceutical manufacturing	10,000	Production of CPM	7,500	-	Wu Changhai	61841434-4	75.00	75.00	Yes	4,046	-	-	-
Guangzhou Jing Xin Tang 1790 Trading Co., Ltd. (Jing Xin Tang 1790) ⁽ⁱ⁾	Subsidiary	Guangzhou	Pharmaceutical trading	300	Sales of cosmetic	153	-	Chen Zhixiong	76611890-X	45.08	51.00	Yes	170	-	-	-
Guangzhou Pan Gao Shou Natural Healthcare Products Co., Ltd. (Pan Gao Shou Natural Healthcare) ⁽ⁱ⁾	Subsidiary	Guangzhou	Pharmaceutical manufacturing	1,400	Production and processing of food and health products	1,400	-	Wei Dahua	19145513-8	87.77	100.00	Yes	-	-	-	-
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	Wholly-owned subsidiary	Guangzhou	Pharmaceutical trading	294	Retailing of Chinese raw medicine and CPM	294	-	Zhou Lushan	19056067-3	100.00	100.00	Yes	-	-	-	-
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Wholly-owned subsidiary	Guangzhou	Pharmaceutical manufacturing	80	Processing of Chinese Raw medicine	80	-	Zhou Lushan	19066119-1	100.00	100.00	Yes	-	-	-	-

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

Name of subsidiary	Type of subsidiary	Registration place	Nature of business and principal activities	Registered capital ('000)	Scope of business	Paid-in capital at end of period ('000)	Other assets constitution investment in substance ('000)	Legal Representative	Organisation code	% equity interest held by the Company	% voting rights held	Consolidated or not	Ending balance after the Company's equity interest adjusted against the amount of the current year's losses in subsidiaries		
													Minority interests at end of period ('000)	minority interests adjusted against minority interest in the profit or loss balance of minority interest ('000)	Minority interests shared by minority interest exceeded the opening balance of minority interest ('000)
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese raw medicine Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Pharmaceutical trading	500	Retailing of Chinese raw medicine and CPM	500	-	Zhou Lushan	78120107-4	100.00	100.00	Yes	-	-	-
Guangzhou Ao Ma Medical Apparatus Co., Ltd. (Guangzhou Ao Ma)	Wholly-owned subsidiary	Guangzhou	Pharmaceutical trading	668	Trading of medical apparatus	668	-	Lao Zhicong	6876959-4	100.00	100.00	Yes	-	-	-
Tibet Lin Zhi Guangyao Development Co., Ltd. ⁽¹⁾	Subsidiary	Linzi	Pharmaceutical trading	200	Production and trading of local product, and craft	110	-	Huang Xiang	5857530-1	54.74	55.00	Yes	50	-	-
Guangzhou Pan Gao Shou Food Beverage Co., Ltd. ⁽¹⁾	Subsidiary	Guangzhou	Pharmaceutical manufacturing	100	Wholesale of pre-packaged food	100	-	Wei Dahua	58339020-6	87.77	100.00	Yes	-	-	-
Wulancahu Guangyao Chinese Raw Medicine Development Co., Ltd.	Subsidiary	Wulancahu	Pharmaceutical trading	100	Cultivation, purchase and sales of Chinese medicine herbs and agricultural by-products, development, advisory and service of Chinese medicine herbs	80	-	Zhou Lushan	59195946-6	80.00	80.00	Yes	15	-	-
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Subsidiary	Linzi	Pharmaceutical trading	200	Cultivation, purchase and sales of Chinese medicine herbs	120	-	Kong Jian	59033290-7	60.00	60.00	Yes	122	-	-
Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd. ⁽¹⁾	Subsidiary	Kaili	Pharmaceutical trading	200	Cultivation, purchase and sales of Chinese medicine herbs, research and development of CPM, agricultural by-products, development, advisory	140	-	Kong Jian	05084458-6	67.67	70.00	Yes	57	-	-
Jingyuan Dong E Guangyao Chinese Raw Medicine Development Co., Ltd. ⁽¹⁾	Subsidiary	Jingyu	Pharmaceutical trading	300	Cultivation, purchase and sales of Chinese medicine herbs	180	-	Zhou Lushan	06863552-0	57.50	60.00	Yes	212	-	-
Heilongjiang Songong Guangyao Raw Medicine Development Co., Ltd. ⁽²⁾	Subsidiary	Hartin	Pharmaceutical trading	300	Research, cultivation, purchasing, sales of Chinese Raw medicine; Purchasing and sales of agricultural by-products and wild products.	180	-	Zhou Lushan	07001547-8	60.00	60.00	Yes	120	-	-
Chongqing Guangyao Raw Medicine Development Co., Ltd. (Chongqing Guangyao) ⁽¹⁾⁽³⁾	Subsidiary	Chongqing	Pharmaceutical trading	300	Cultivation, purchasing, sales of Chinese raw medicine and agricultural by-products; Advisory and service of Chinese raw medicine cultivation technology	240	-	Wei Dahua	07567346-1	75.23	80.00	Yes	60	-	-
Wang Lao Ji Great Health Yan Co., Ltd. ⁽⁴⁾	Wholly-owned subsidiary	Yan	Pharmaceutical manufacturing	5,000	In preparation	5,000	-	Wu Changhai	07145320-9	100.00	100.00	Yes	-	-	-

- Note 1:* The reason of difference between ratio of equity interest held and ratio of voting rights held of these eight companies is that the Company indirectly holds these eight companies through subsidiaries which are not wholly-owned by the Company, making the ratio of equity interest held lower than ratio of voting rights held.
- Note 2:* Caizhilin, Qinghe Forestry Bureau, Xinglong Forestry Bureau, Shanhetun Forestry Bureau and Commercial Department of Heilongjiang General Forestry Bureau invested RMB3,000 thousand to establish Heilongjiang Sengong Guangyao Chinese Raw Medicine Co., Ltd. in September 2013, investment amounted to RMB1,800 thousand, RMB300 thousand, RMB300 thousand, RMB300 thousand, RMB300 thousand respectively, ratio of equity interest held are 60%, 10%, 10%, 10% and 10% respectively.
- Note 3:* Pangaoshou, Caizhilin, Chengkou Xinhe Agricultural Development Co., Ltd. and Cao Changjin invested RMB3,000 thousand to establish Chongqing Guangyao in August 2013, investment amounted to RMB1,170 thousand, RMB1,230 thousand, RMB450 thousand, RMB150 thousand respectively, ratio of equity interest held are 39%, 41%, 15% and 5% respectively.
- Note 4:* WLJ Great Health invested RMB50,000 thousand to establish Wao Lao Ji Great Health Yaan Co., Ltd. in July 2013, ratio of equity interest held are 100%.
- Note 5:* The Company, Guangdong Haohong Investment Co., Ltd. and Guangdong Gongchuang Economic Development Co., Ltd. increased capital amounted to RMB10,000 thousand to Guangyao Yigan in September 2013, the increment amounted to RMB6,000 thousand, RMB2,000 thousand, RMB2,000 thousand respectively.

(b) Subsidiaries acquired in a business combination involving enterprises under common control

Name of subsidiaries	Type of subsidiaries	Registration place	Nature of business and principle of activities	Registered capital ('000)	Scope of business	Paid-in capital at end of period ('000)	Other assets constitution investment in substance ('000)	Legal Representative	Organisation Code	% equity interest held by the Company	% Voting rights held	Consolidated or not	Minority interests at end of period ('000)	Amount of minority interests adjusted against minority interest in the profit or loss ('000)	Ending balance after the Company's equity interest adjusted against the amount of the current year's losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest ('000)
Tian Xin	Subsidiary	Guangzhou	Pharmaceutical manufacturing	4,569	Manufacture, sales of chemical medicine, CPM, crude drug and health products	3,769	-	Chen Kannan	190485108	82.49	82.49	Yes	2,939	-	-
Guang Hua	Subsidiary	Guangzhou	Pharmaceutical manufacturing	5,529	Manufacture of chemical medicine material, CPM and veterinary medicine, cosmetics	4,670	-	Wang Wenchu	190485116	84.48	84.48	Yes	1,688	-	-
Ming Xing	Wholly-owned subsidiary	Guangzhou	Pharmaceutical manufacturing	2,649	Manufacture of chemical medicine material, chemical preparation medicine, CPM and health products	2,649	-	Li Hong	19040200X	100.00	100.00	Yes	-	-	-
Baiyunshan Weiling Pharmaceutical Co., Ltd. ("Weiling")	Wholly-owned subsidiary	Jieci	Pharmaceutical manufacturing	1,179	Manufacture and sales of tablet, capsules and granule	1,179	-	Fang Limin	618225177	100.00	100.00	Yes	-	-	-
Guangzhou Baiyunshan Pharmaceutical Technological Development Co., Ltd. ("BYS Pharmaceutical Technological")	Subsidiary	Guangzhou	Pharmaceutical trading	200	Wholesale of CPM, chemical medicine material and antibiotic	102	-	Wang Wenchu	721974948	51.00	51.00	Yes	1,953	-	-
Guangzhou Baiyunshan Pharmacy	Wholly-owned subsidiary	Guangzhou	Retailing	100	Retail of CPM, common Chinese and western medicine, tobacco and wine, sales of grocery	100	-	Wen Xianwen	19056006-7	100.00	100.00	Yes	-	-	-
Guangzhou Guangyao Baiyunshan Great Health Hotel Co., Ltd. ("Great Health Hotel")	Wholly-owned subsidiary	Guangzhou	Hotel	50	Retailing, hospitality industry, Chinese catering	50	-	Cai Jingui	58760950-0	100.00	100.00	Yes	-	-	-
Guangyao Baiyunshan (Hong Kong) Limited	Wholly-owned subsidiary	Hongkong	Pharmaceutical trading	HK\$500	Import and export trading of medicine	HK\$ 500	-	Xu Hantao	Not applicable	100.00	100.00	Yes	-	-	-

(c) Subsidiaries acquired in a business combination involving enterprises not under common control

Name of subsidiary	Type of subsidiary	Registration place	Nature of business and principal activities	Registered capital ('000)	Scope of business	Paid-in capital at end of period ('000)	Other assets constitution investment in substance ('000)	Legal Representative	Organisation code	% equity interest held by the company	% Voting rights held	Consolidated or not	Minority interests at end of period ('000)	Amount of minority interests adjusted against minority interest in the profit or loss ('000)	Ending balance after the Company's equity interest adjusted against the amount of the current year's losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest ('000)
Ying Kang	Subsidiary	Nanning	Pharmaceutical manufacturing	3,188	Wholesale of CPM, chemical material medicine and antibiotic	1,626	-	Xu Keyi	19028518-6	51.00	51.00	Yes	1,284	-	-

(2) Notes to the change of scope of consolidation

- (a) The reason for the increase of the 11 companies in consolidation scope comparing to the preceding periods are: (1) The Company issued an addition of 445,601,005 A shares by way of share swap to absorb and merge Baiyunshan, a subsidiary of GPLH, in May 2013. The 7 subsidiaries of Baiyunshan was consolidated into the Company. (2) The Company issued an addition of 4,738,818 A shares to acquire 100% equity interest of Guangyao Baiyunshan (Hong Kong) Limited, a subsidiary of GPLH, in June, 2013. (3) WLJ Great Health, a subsidiary of the Company, invested RMB50,000 thousand to establish Wao Lao Ji Great Health Yaan Co., Ltd. in July 2013, ratio of equity interest held is 100%. (4) Pangaoshou, Caizhilin and other shareholders invested RMB3,000 thousand to establish Chongqing Guangyao in August 2013, ratio of equity interest held by the Group is 75.23%. (5) Caizhilin and other shareholders invested RMB3,000 thousand to establish Heilongjiang Sengong Guangyao Chinese Raw Medicine Co., Ltd. in September 2013, ratio of equity interest held by the Group is 60%.
- (b) The reason for the decrease of 1 company in the consolidation scope is: As in May, 2013, 80% equity interest of Bo Zhou Baiyunshan owned by Baiyunshan has been transferred to HWBYS.

(3) New entities in the scope of consolidation and entities no-longer in the scope of consolidation**(a) New entities in the scope of consolidation**

Name of Subsidiary	Net Assets as at 31 December 2013	Net Profits for the year then ended 2013
Tian Xin	167,825,681.41	59,991,503.97
Guang Hua	108,731,945.51	46,022,856.69
Ming Xing	94,864,523.80	46,931,299.68
Weiling	28,607,410.97	3,281,832.96
Baiyunshan Pharmaceutical Technological	39,858,021.35	14,744,949.56
Guangzhou Baiyunshan Pharmacy	(162,851.16)	-
Baiyunshan Great Health Hotel	626,617.92	23,483.11
Guangyao Baiyunshan (Hong Kong) Limited	36,509,211.79	3,776,776.02
Wanglaoji Great Health (Yaan) Co., Ltd.	49,708,383.39	(291,616.61)
Chongqing Guangyao	3,000,000.00	-
Heilongjiang Sengong Guangyao	2,992,270.27	(7,729.73)

(b) Entities no-longer in the scope of consolidation

Name of Subsidiary	Net Assets at the Disposal Date	Net Profits from 1 January 2013 to Disposal Date
Bozhou Baiyunshan	(12,887,925.53)	(1,186,266.10)

4) Business combination involving entities under common control

- (a) The combination date is 31 May 2013, The Company issued an addition of 445,601,005 A shares (RMB 1 per share) of equity securities as combination cost for absorbing and merging Baiyunshan through share swap.
- (i) Determination basis of combination date: The date of the Company obtaining control of Baiyunshan is recognised as combination date.
- (ii) The share swap price of absorbing and merging Baiyunshan is based on the A shares' average price of the 20 transaction days before the announcement date of the board resolution regarding the first discussion of the related matters of the assets reorganisation. The price is RMB12.10 and RMB11.5 per share confirmed after ex right and ex interest respectively, which determined the share swap ratio is 1:0.95, The number of shares capital of Baiyunshan before the swap is 469,053,689 shares, in exchange for the 445,601,005 A shares of the Company.
- (iii) Baiyunshan is a jointly stock company reorganised in year 1992. Approved by the China Securities Regulatory Commission to issue shares for public flotation. The headquarter is located in Guangzhou, major business scope is pharmaceutical manufacturing. As at the date of combination, Baiyunshan has 7 subsidiaries.
- (iv) For investment properties, Baiyunshan and its subsidiaries adopts fair value model for their subsequent measurement, but the Company uses cost model as the basic for subsequent measurement, and the two policies are inconsistent with each other. The Company retrospectively adjusted then consolidated the assets and liabilities of Baiyunshan in accordance with the article 7 in the Accounting Standard for Business Enterprises-Business Combination. The information is as follows:

Item	Combination date (before retroactive adjustment)	Combination date (after retroactive adjustment)
Total assets	2,783,368,290.43	2,525,349,622.76
Including: Investment properties	252,975,150.00	33,450,853.22
Total liabilities	1,122,404,509.48	1,081,716,426.89

- (v) The assets and liabilities of Baiyunshan when combining into the Company are as follows:

Item	Combination date	As at previous balance sheet date
Current assets	1,335,391,826.15	1,303,941,767.74
Non-current assets	1,189,957,796.61	1,116,943,758.34
Including: Investment properties	33,450,853.22	34,103,919.04
Current liabilities	968,885,355.20	1,045,020,791.21
Non-current liabilities	112,831,071.69	83,219,503.14

- (vi) The relevant information of Baiyunshan from the beginning to the date of combination is as follows:

Party being absorbed	From the beginning to the combination date		
	Income	Net profits	Net cash flow from operating activities
Baiyunshan	1,250,164,778.28	150,987,964.15	76,776,452.20

- (vii) Only Tian Xin among the 7 subsidiaries of Baiyunshan has investment properties. The Company retrospectively adjusted and consolidated the financial statement of Tian Xin in accordance with the Accounting the article 12 in the Accounting Standard for Business Enterprises – Consolidated Financial Statements. The information is as follows:

Item	Combination date (before retroactive adjustment)	Combination date (after retroactive adjustment)
Total assets	415,542,648.23	390,673,761.53
Including: Investment properties	15,063,340.00	1,311,330.65
Total liabilities	206,165,342.43	202,463,964.37

- (viii) The assets and liabilities of 7 subsidiaries of Baiyunshan on the date of combination are as follows:

Name of company	As at the combination date		As at previous balance sheet date	
	Total assets	Total liabilities	Total assets	Total assets
Tian Xin	390,673,761.53	202,463,964.37	431,246,832.54	275,419,451.92
Guang Hua	316,825,458.83	193,345,727.22	248,009,729.40	146,304,868.19
Ming Xing	318,634,618.42	209,147,185.73	267,056,346.84	179,299,810.01
Weiling	64,674,609.37	37,830,183.29	47,184,790.78	21,859,212.77
Baiyunshan Pharmaceutical Technology	227,127,041.42	193,896,573.34	212,942,262.23	173,329,190.44
Guangzhou Baiyunshan Pharmacy	(33,044.27)	129,806.89	(33,044.27)	129,806.89
Great Health Hotel	1,589,894.63	1,156,902.55	1,520,836.66	917,701.85

- (ix) The information of subsidiaries of Baiyunshan from the beginning to the date of combination is as follows:

Acquiree	Basis of business combination involving enterprises under common control	Controller	From the beginning to the combination date		
			Income	Net profits	Net cash flow from operating activities
Tian Xin	Tian Xin and the Company are under control of GPLH, and the control is not transitory	GPLH	403,359,221.44	32,382,416.54	11,225,236.31
Guang Hua	Guang Hua and the Company are under control of GPLH, and the control is not transitory	GPLH	240,238,314.64	21,774,870.40	372,451.18
Ming Xing	Ming Xing and the Company are under control of GPLH, and the control is not transitory	GPLH	251,018,254.22	21,745,134.93	63,990,303.57
Weiling	Weiling and the Company are under control of GPLH, and the control is not transitory	GPLH	95,719,648.38	1,518,848.07	9,745,029.91
Pharmaceutical Technology	Pharmaceutical Technology and the Company are under control of GPLH, and the control is not transitory	GPLH	1,014,204,553.92	8,117,396.29	12,524,307.82
Guangzhou Baiyunshan Pharmacy	Guangzhou Baiyunshan Pharmacy and the Company are under control of GPLH, and the control is not transitory	GPLH	-	-	-
Great Health Hotel	Baiyunshan Great Health Hotel (ZHU XIN CUN) and the Company are under control of GPLH, and the control is not transitory	GPLH	1,001,569.39	(170,142.73)	(30,802.69)

- (b) The combination date is 30 June 2013, the Company issued an addition of 4,738,818 shares (RMB 1 per share) as combination cost, and acquire 100% equity of Guangyao Baiyunshan (Hong Kong) Limited
- (i) Determination basis of combination date: The date of the company obtaining control of Guangyao Baiyunshan (Hong Kong) Co., Ltd. is determined as combination date.
- (ii) The share swap price of acquiring Guangyao Baiyunshan (Hong Kong) Limited is based on the A shares' average price of the 20 transaction days before the announcement date of the board resolution regarding the first discussion of the related matters of the assets reorganisation. The price is RMB12.10 per share confirmed after ex right and ex interest respectively. Pursuant to the "Report of asset appraisal on the equity of Guangyao Baiyunshan (Hong Kong) Limited acquired by the Company." (Zhong Tian Heng Ping Bao Zi [2012] No. 027) issued by China Valuer International Co., Ltd. the appraisal value on 31 December 2011 of Polian Company is RMB57,339.7 thousand, and the Company has issued 4,738,818 A shares for the acquisition of Guangyao Baiyunshan (Hong Kong) Limited.
- (iii) Guangyao Baiyunshan (Hong Kong) Limited was incorporated in the year of 1988 in Hong Kong, its major business scope is operation of State-owned assets and investment.

- (iv) For investment properties, Guangyao Baiyunshan (Hong Kong) Co., Ltd. adopts fair value model for subsequent measurement, but the Company uses cost model as a basis for subsequent measurement, and the two policies are inconsistent with each other. The Company adjusted then consolidated the financial statements of Guangyao Baiyunshan (Hong Kong) Co., Ltd. in accordance with the article 12 in the Accounting Standard for Business Enterprises – Consolidated Financial Statements. The information is as follows:

Item	Combination date (before retroactive adjustment)	Combination date (after retroactive adjustment)
Total assets	95,347,312.99	76,553,037.23
Including: Investment properties	23,060,122.50	4,266,799.33
Total liabilities	43,203,965.49	41,143,030.36

- (v) The assets and liabilities of Guangyao Baiyunshan (Hong Kong) Limited on the date of combination are as follows:

Name of company	As at the combination date		As at previous balance sheet date	
	Total assets	Total liabilities	Total assets	Total assets
Guangyao Baiyunshan (Hong Kong) Limited	76,553,037.23	41,143,030.36	71,162,613.85	37,339,556.62

- (vi) The relevant information of Guangyao Baiyunshan (Hong Kong) Limited from the beginning to the date of combination is as follows:

Acquiree	Basis of business combination involving enterprises under common control	Controller	Income from	Net profit from	Cash flow
			the beginning to the combination date	the beginning to the combination date	of operating activities from the beginning to the combination date
Guangyao Baiyunshan (Hong Kong) Limited	Guangyao Baiyunshan (Hong Kong) Limited and the Company are under control of GPHL, and the control is not transitory	GPHL	135,875,425.65	2,203,045.88	12,888,392.07

(5) Notes to the adjustment of the previous statements made by Business combination involving entities under common control

The Baiyunshan share absorbed and merged by the way of share swap and acquired 100% equity interest of Guangyao Baiyunshan (Hong Kong) Limited by issuing shares are business combination involving entities under common control. They are included in the consolidated financial statements as if the combination had occurred from the date when Baiyunshan, Guangyao Baiyunshan (Hong Kong) Limited and together with the Company first came under the control of the ultimate controlling party in accordance with the articles of Accounting Standard for Business Enterprise-Business Combination. The previous financial statement should be adjusted and the information of adjustment is as below:

Main information of balance sheet	The group (audited)	31 December 2012			
		Baiyunshan (restated)	Guangyao Baiyunshan (Hong Kong) Limited (restated)	Adjustment (restated)	Consolidation (restated)
Current assets	3,547,287,907.87	1,872,708,877.89	60,795,063.41	(129,125,967.86)	5,351,665,881.31
Non-current assets	2,688,105,810.02	1,343,968,258.27	10,367,550.44	100,552.51	4,042,542,171.24
Current liabilities	1,915,390,486.71	1,568,932,773.27	37,037,585.54	(47,010,217.23)	3,474,350,628.29
Non-current liabilities	95,682,897.89	135,002,946.42	301,971.08	(67,093,946.29)	163,893,869.10
Equities	4,224,320,333.29	1,512,741,416.47	33,823,057.23	(14,921,251.83)	5,755,963,555.16

Main information of balance sheet	The group (audited)	The year ended 2012			
		Baiyunshan (restated)	Guangyao Baiyunshan (Hong Kong) Limited (restated)	Adjustment (restated)	Consolidation (restated)
Revenue	8,229,058,538.06	4,310,760,489.27	98,734,400.02	(575,911,638.96)	12,062,641,788.39
Profits	438,071,481.52	427,252,963.85	(449,647.31)	(9,559,115.55)	855,315,682.51
Total profits	457,839,196.56	433,232,134.52	(449,647.31)	(9,559,115.55)	881,062,568.22
Net profits	408,330,681.14	367,348,261.03	(449,647.31)	(8,532,080.95)	766,697,213.91

The information of Baiyunshan which is restated in the above-mentioned table based on audited consolidated financial statement of Baiyunshan and its 7 subsidiaries, and this information has been retrospectively adjusted by using the cost method to measure investment properties.

The information of Guangyao Baiyunshan (Hong Kong) Limited which is restated in the above-mentioned table is the information after the adjustment for the non-coterminous accounting years of the Group and Guangyao Baiyunshan (Hong Kong) Limited, and this information also included retrospective adjustment made for measuring the investment properties using the cost method.

The significant inter-group balance, transactions and unrealised profits among the 3 companies have been eliminated by the adjustment of the above-mentioned table.

(6) Translation of overseas operating entity

Guangyao Baiyunshan (Hong Kong) Limited, a subsidiary of the Company, is a foreign operating entity, the assets and liabilities items among the balance sheet of Guangyao Baiyunshan (Hong Kong) Limited shall be translated using the spot exchange rate at the balance sheet date. Other items other than the undistributed profits among shareholder's equity shall be translated using the spot exchange rate at the transaction date. The income and expenses among the income statement shall be translated using the average exchange rate during the reporting period. Differences on translation of foreign currency financial statement are individually listed in shareholder's equity. The cash flow items of foreign operation shall be translated using average exchange rate during the reporting period. The effect of exchange rate changes on cash is presented individually in the cash flow statement.

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**(1) Cash at bank and on hand**

	31 December 2013			31 December 2012		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash on hand -						
RMB			754,930.02			2,229,430.51
Hong Kong Dollars ("HKD")	3,587.38	0.7862	2,820.40	7,950.98	0.8109	6,447.05
			<u>757,750.42</u>			<u>2,235,877.56</u>
Bank deposits -						
RMB			1,878,374,679.49			1,099,904,272.22
US Dollars ("USD")	3,151,972.60	6.0969	19,217,261.74	146,867.20	6.2855	923,132.60
HKD	2,463,147.39	0.7862	1,936,576.41	5,004,306.80	0.8109	4,057,742.17
Euro (EUR)	535,955.54	8.4189	4,512,156.10	467,470.45	8.3132	3,886,193.87
Yen (JPY)	10,000,002.00	0.0578	577,710.12	2.00	0.0730	0.15
Great Britain Pound (GBP)	0.11	10.091	1.11	0.11	10.1611	1.12
			<u>1,904,618,384.97</u>			<u>1,108,771,342.13</u>
Other deposits -						
RMB			30,271,005.98			24,392,497.78
HKD	44,007.49	0.7862	34,598.69	44,007.49	0.8109	35,683.47
			<u>30,305,604.67</u>			<u>24,428,181.25</u>
			<u>1,935,681,740.06</u>			<u>1,135,435,400.94</u>

Details of restricted cash are listed as follows:

	31 December 2013	31 December 2012
Cash deposit of notes payable within 3 months	11,232,987.27	—
Cash deposit of notes payable over 3 months	16,053,239.48	20,540,491.86
Cash deposit of construction	100,543.50	—
Housing fund	575,670.22	548,384.33
	<u>27,962,440.47</u>	<u>21,088,876.19</u>

(2) Financial assets held for trading

	31 December 2013	31 December 2012
Listed shares	<u>3,362,667.20</u>	<u>2,875,920.00</u>
Including: market value of listed investment	<u>3,362,667.20</u>	<u>2,875,920.00</u>

The fair value of listed shares is determined at the closing price quoted in the Shanghai Stock Exchange on the last trading day of the reporting period.

(3) Notes receivable**(a) Classification of notes receivable**

	31 December 2013	31 December 2012
Bank acceptance notes	1,315,644,828.33	840,354,449.11
Commercial acceptance notes	<u>10,708,927.57</u>	<u>4,074,792.76</u>
	<u>1,326,353,755.90</u>	<u>844,429,241.87</u>

- (b) As at 31 December 2013, notes receivable that are being pledged of the Group amounted to RMB11,000 thousand. (as at 31 December 2012: nil). The top five of which are summarized as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2013.11.7	2014.5.7	2,000,000.00
Entity 2	2013.9.13	2014.3.13	1,000,000.00
Entity 3	2013.9.26	2014.3.26	1,000,000.00
Entity 4	2013.9.26	2014.3.26	1,000,000.00
Entity 5	2013.9.27	2014.3.27	1,000,000.00

- (c) Notes receivable that are reclassified to accounts receivable due to inability of the companies of issuance and that are not matured but have been endorsed are summarised as follows:

- (i) As at 31 December 2013, notes receivable that are reclassified to accounts receivable due to inability of the companies of issuance amounted to RMB4,585 thousand (as at 31 December 2012: nil), the top five of which are summarised as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2011.12.15	2012.6.15	1,000,000.00
Entity 2	2013.1.17	2013.7.17	500,000.00
Entity 3	2013.3.22	2013.9.21	400,000.00
Entity 4	2013.5.7	2013.11.1	250,000.00
Entity 5	2013.3.28	2013.9.28	200,000.00

The Group has charged total provision for bad debts when transferred notes receivables of Entity 1 to accounts receivables.

- (ii) The bank acceptance notes receivable that are not matured but have been endorsed amounted to RMB1,053,687 thousand (as at 31 December 2012: RMB1,449,306 thousand), the top five of which are summarised as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2013.7.31	2014.1.31	10,000,000.00
Entity 2	2013.7.4	2014.1.4	10,000,000.00
Entity 3	2013.8.29	2014.2.28	9,000,000.00
Entity 4	2013.11.27	2014.5.27	8,979,000.00
Entity 5	2013.7.31	2014.1.31	8,570,000.00

- (iii) As at 31 December 2013, the commercial acceptance notes that are not matured but have been endorsed amounted to RMB7,698 thousand (as at 31 December 2012: RMB2,952 thousand). the top five of which are summarised as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2013.10.16	2014.1.16	2,079,900.00
Entity 2	2013.12.23	2014.6.23	1,300,000.00
Entity 3	2013.9.23	2014.3.23	1,000,000.00
Entity 4	2013.12.6	2014.2.6	877,992.45
Entity 5	2013.7.29	2014.1.29	725,849.10

(d) notes receivable that are not matured but have been discounted:

(i) Amount as at 31 December 2013, the bank acceptance notes that are not matured but have been discounted amounted to RMB114,178 thousand (as at 31 December 2012: RMB115,632 thousand), and the top five of which are summarised as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2013.7.9	2014.1.8	5,000,000.00
Entity 2	2013.8.29	2014.2.28	4,705,178.20
Entity 3	2013.9.11	2014.3.11	3,500,000.00
Entity 4	2013.10.31	2014.4.30	3,451,503.00
Entity 5	2013.11.8	2014.5.8	2,390,345.00

(ii) As at 31 December 2013 and 31 December 2012, there are no commercial acceptance notes that are not matured but have been discounted.

(e) The balance of notes receivable dated 31 December 2013 will expiry before 30 June 2014.

(4) Dividends receivable

Item	31 December 2012	Current increase	Current decrease	31 December 2013
Dividends receivable within 1 year aging	–	20,000,000.00	20,000,000.00	–
Including: HWBYS	–	20,000,000.00	20,000,000.00	–

(5) Accounts receivable

The majority of the Group's sales are transacted with credit terms of 3 to 6 months granted to customers. The remaining transactions are settled by cash upon delivery, advance from customers or bank acceptance notes.

(a) The aging of accounts receivable is analysed as follows:

	31 December 2013	31 December 2012
Within 1 year	961,563,413.82	732,153,204.20
1 to 2 years	21,462,412.04	9,434,815.86
2 to 3 years	5,779,861.24	1,412,507.17
3 to 4 years	871,321.18	5,258,079.41
4 to 5 years	4,836,377.21	4,098,045.03
Over 5 years	8,577,552.93	55,780,992.95
	<u>1,003,090,938.42</u>	<u>808,137,644.62</u>

(b) Accounts receivable by categories are analysed as follows:

	31 December 2013			Ratio
	Ending balance	% of total balance	Provision for bad debts	
Individually significant and subject to separate provision	5,874,187.50	0.59%	5,391,750.00	91.79%
Subject to provision by groups:				
Group 1	991,218,442.23	98.81%	18,516,130.62	1.87%
Individually insignificant but subject to separate provision	<u>5,998,308.69</u>	0.60%	<u>5,998,308.69</u>	100.00%
	<u><u>1,003,090,938.42</u></u>	100.00%	<u><u>29,906,189.31</u></u>	2.98%

	31 December 2012			Ratio
	% of total balance	% of total balance	% of total balance	
Individually significant and subject to separate provision	4,947,794.34	0.61%	4,333,356.84	87.58%
Subject to provision by groups:				
Group 1	794,304,269.21	98.29%	60,849,767.26	7.66%
Individually insignificant but subject to separate provision	<u>8,885,581.07</u>	1.10%	<u>8,885,581.07</u>	100.00%
	<u><u>808,137,644.62</u></u>	100.00%	<u><u>74,068,705.17</u></u>	9.17%

Classification of accounts receivable: refer to Note 2(10).

- (c) As at 31 December 2013, accounts receivable that are individually significant and subject to separate provision are analysed as follows:

	Ending balance	Provision for bad debts	Ratio	Reason
Customer 1	3,374,187.50	2,891,750.00	85.70%	It is expected the amount could not be recovered in full due to significant delinquency in repayment by this customer.
Customer 2	1,500,000.00	1,500,000.00	100.00%	Although the group has sued this company, it is expected that the amount could not be recoverable.
Customer 3	1,000,000.00	1,000,000.00	100.00%	it is expected that the amount could not be recoverable.
	<u>5,874,187.50</u>	<u>5,391,750.00</u>	91.79%	

- (d) The groups of accounts receivable in which provisions are made using aging analysis method are analysed as follows:

	31 December 2013			31 December 2012		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
Within 1 year	960,108,483.73	96.85%	9,601,084.85	731,958,099.59	92.15%	7,319,581.00
1 to 2 years	21,462,412.04	2.17%	2,146,241.19	7,463,705.76	0.94%	746,370.56
2 to 3 years	3,393,212.69	0.34%	1,017,963.81	962,968.50	0.12%	288,890.56
3 to 4 years	458,736.15	0.05%	229,368.09	1,552,009.82	0.20%	776,004.92
4 to 5 years	1,370,624.76	0.14%	1,096,499.82	3,242,826.60	0.41%	2,594,261.28
Over 5 years	4,424,972.86	0.45%	4,424,972.86	49,124,658.94	6.18%	49,124,658.94
	<u>991,218,442.23</u>	100.00%	<u>18,516,130.62</u>	<u>794,304,269.21</u>	100.00%	<u>60,849,767.26</u>

- (e) As at 31 December 2013, accounts receivable that are individually insignificant but subject to separate provision are analysed as follows:

	Ending balance	Provision for bad debts	Ratio	Reason
Customer 1	508,889.00	508,889.00	100.00%	Although the company has won the lawsuit, it is expected that the amount could not be recovered.
Customer 2	477,000.16	477,000.16	100.00%	This company is in poor situation and it is expected that the amount could not be recovered.
Customer 3	470,000.00	470,000.00	100.00%	It is expected that the amount could not be recovered.
Customer 4	467,462.40	467,462.40	100.00%	Although the Group has sued this company, it is expected that the amount could not be recovered.
Customer 5	400,000.00	400,000.00	100.00%	It is expected that the amount could not be recovered.
Others	3,674,957.13	3,674,957.13	100.00%	It is expected that the amount could not be recovered.
	<u>5,998,308.69</u>	<u>5,998,308.69</u>	100.00%	

- (f) As at 31 December 2013 and 31 December 2012, there is no material accounts receivable which have past due but not impaired.

- (g) Reversal or collection during the current period is as follows:

Item	Reason of reversal or collection	Basis of provisions previously made	Accumulated provision for bad debts made before reversal or collection	Amount received	Amount of reversal of provision for bad debts
Accounts receivable due from certain customers	Some receivables were collected due to efforts on collection	Certain customer were not able to settle the receivables according to contracts or agreements	377,255.40	376,006.41	1,248.99
			<u>377,255.40</u>	<u>376,006.41</u>	<u>1,248.99</u>

- (h) There are no accounts receivable that have been collected by restructuring or other manners during the current period.
- (i) Accounts receivable (RMB46,809 thousand) that are written off during the current period are analysed as follows:

	Nature	Amount	Reason	Arising from related party transaction or not
Baiyun Trading Department	Payment	8,146,626.00	It is verified that the amount could not be recovered.	Yes
HongKong Xin Min Pharmaceutical Co., Ltd.	Payment	7,965,357.40	It is verified that the amount could not be recovered.	Yes
Beijing Heng He Kang Jian Pharmaceutical Co., Ltd.	Payment	1,441,606.84	It is verified that the amount could not be recovered.	No
Anguo Jin Zhou Medicine Store	Payment	1,207,975.00	It is verified that the amount could not be recovered.	No
Wuhan Jiang Han District Pharmaceutical Co., Ltd. Kang Xin Pharmaceutical Sales Department	Payment	1,313,862.84	It is verified that the amount could not be recovered.	No
Hong Kong Hua Jia	Payment	1,093,328.57	It is verified that the amount could not be recovered.	No
Managing Department of supplier	Payment	894,507.27	It is verified that the amount could not be recovered.	No
Sichuan Ziyang Medicine Co., Ltd.	Payment	887,173.28	It is verified that the amount could not be recovered.	No
Hong Kong Hui Da	Payment	623,790.53	It is verified that the amount could not be recovered.	No
Tangshan Pharmaceutical Co., Ltd.	Payment	525,960.15	It is verified that the amount could not be recovered.	No
Others	Payment	22,709,044.67	It is verified that the amount could not be recovered.	No
Total		<u>46,809,232.55</u>		

(j) As at 31 December 2013, accounts receivable from shareholders who hold more than 5% (including 5%) of the voting rights of the Company is account receivable of RMB11 thousand from GPLH (as at 31 December 2012: account receivable of RMB5 thousand from GPLH).

(k) As at 31 December 2013, the top five of accounts receivable are analysed as follows:

	Relationship with the Group	Amount	Aging	% of total balance
Customer 1	Third Party	104,776,117.54	Within 1 year	10.45%
Customer 2	Third Party	43,381,140.18	Within 1 year	4.32%
Customer 3	Third Party	40,702,800.00	Within 1 year	4.06%
Customer 4	Third Party	35,274,039.92	Within 1 year	3.52%
Customer 5	Third Party	22,043,640.00	Within 1 year	2.20%
		<u>246,177,737.64</u>		<u>24.55%</u>

(l) As at 31 December 2013, accounts receivable from related parties accounted for 3.64% of total accounts receivable balance (as at 31 December 2012: 4.61%), refer to Note 6 for details.

(m) There are no accounts receivable derecognised due to transfer of financial assets during the current period.

(n) As at 31 December 2013, there are no securitizations that targeted at accounts receivable.

(o) Accounts receivable denominated in foreign currencies are summarised as follows:

	31 December 2013			31 December 2012		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
USD	2,258,215.76	6.0969	13,768,115.67	3,292,105.21	6.2855	20,692,441.88
HKD	7,003,374.71	0.7862	5,506,263.30	4,079,670.98	0.8109	3,308,001.22
EUR	-	Not applicable	-	13,842.70	8.3132	115,077.68
JPY	-	Not applicable	-	94,162,500.00	0.0731	6,879,284.85
			<u>19,274,378.97</u>			<u>30,994,805.63</u>

(6) Other receivables

	31 December 2013	31 December 2012
Petty cash	5,590,842.15	7,575,235.72
Deposits	29,838,619.79	18,264,564.35
Staff advances	28,921,124.81	22,924,389.79
Receivables due from external parties	80,899,440.84	53,977,036.93
Receivables due from related parties (Note 6(5))	22,753,002.38	6,121,139.00
Tax refund for exports	21,117,734.81	25,430,444.37
Taxes pending for customs registration	4,623,940.24	6,382,157.92
Others	5,265,491.20	10,414,648.03
	<u>199,010,196.22</u>	<u>151,089,616.11</u>
Less: Provision for bad debts	<u>17,864,477.96</u>	<u>30,397,527.06</u>
	<u><u>181,145,718.26</u></u>	<u><u>120,692,089.05</u></u>

(a) Other receivables by aging are analysed as follows:

	31 December 2013			31 December 2012		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	144,239,141.72	72.48%	135,681.15	104,557,138.29	69.20%	350,438.56
1 to 2 years	7,931,234.15	3.99%	333,846.86	5,795,688.71	3.84%	128,507.72
2 to 3 years	5,348,410.41	2.69%	614,277.81	5,758,323.82	3.81%	2,600,900.39
3 to 4 years	5,023,200.99	2.52%	2,269,357.12	3,905,291.89	2.58%	309,873.67
4 to 5 years	1,878,996.56	0.94%	382,438.20	1,386,083.29	0.92%	676,317.27
Over 5 years	34,589,212.39	17.38%	14,128,876.82	29,687,090.11	19.65%	26,331,489.45
	<u>199,010,196.22</u>	100.00%	<u>17,864,477.96</u>	<u>151,089,616.11</u>	100.00%	<u>30,397,527.06</u>

(b) Other receivables by categories are analysed as follows:

31 December 2013				
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	10,870,395.15	5.46%	10,870,395.15	100.00%
Subject to provision by groups:				
Group 1	19,208,172.17	9.65%	2,211,869.09	11.52%
Group 2	77,145,826.05	38.76%	–	0.00%
Group 3	22,753,002.38	11.43%	100,000.00	0.44%
Group 4	64,350,586.75	32.35%	–	0.00%
Individually insignificant but subject to separate provision	4,682,213.72	2.35%	4,682,213.72	100.00%
	<u>199,010,196.22</u>	100.00%	<u>17,864,477.96</u>	8.98%
31 December 2012				
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	10,970,395.15	7.26%	10,970,395.15	100.00%
Subject to provision by groups:				
Group 1	12,852,138.28	8.51%	2,099,027.22	16.33%
Group 2	55,149,369.93	36.49%	–	–
Group 3	6,121,139.00	4.05%	100,000.00	1.63%
Group 4	48,764,189.86	32.28%	–	–
Individually insignificant but subject to separate provision	17,232,383.89	11.41%	17,228,104.69	99.98%
	<u>151,089,616.11</u>	100.00%	<u>30,397,527.06</u>	20.12%

- (c) Other receivables that are individually significant and subject to separate provision are analysed as follows:

	Ending balance	Provision for bad debts	Ratio	Reason
Other receivables 1	2,868,759.75	2,868,759.75	100.00%	As this company was ceased, it is expected that the amount could not be recovered
Other receivables 2	1,800,957.60	1,800,957.60	100.00%	As this company was ceased, it is expected that the amount could not be recovered
Other receivables 3	1,520,000.00	1,520,000.00	100.00%	As this company went bankrupt, it is expected that the amount would not be recoverable
Other receivables 4	1,025,878.50	1,025,878.50	100.00%	As this company went bankrupt, it is expected that the amount would not be recoverable
Other receivables 5	502,043.54	502,043.54	100.00%	As this company is on bankruptcy liquidation procedures, it is expected that the amount could not be recovered
Others	3,152,755.76	3,152,755.76	100.00%	It is expected that the amount could not be recovered
	<u>10,870,395.15</u>	<u>10,870,395.15</u>	100.00%	

- (d) The groups of other receivables in which provisions are made using aging analysis method are analysed as follows:

	31 December 2013			31 December 2012		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	13,568,115.20	70.64%	135,681.15	9,095,857.00	70.77%	90,958.57
1 to 2 years	3,338,468.60	17.38%	333,846.86	820,813.83	6.39%	82,081.38
2 to 3 years	566,288.40	2.95%	169,886.52	883,583.80	6.87%	265,075.14
3 to 4 years	264,869.63	1.38%	132,434.82	558,747.33	4.35%	279,373.67
4 to 5 years	152,053.00	0.79%	121,642.40	557,989.33	4.34%	446,391.47
Over 5 years	1,318,377.34	6.86%	1,318,377.34	935,146.99	7.28%	935,146.99
	<u>19,208,172.17</u>	100.00%	<u>2,211,869.09</u>	<u>12,852,138.28</u>	100.00%	<u>2,099,027.22</u>

- (e) Other receivables that are individually insignificant but subject to separate provision are analysed as follows:

	Ending balance	Provision for bad debts	Ratio	Reason
Other receivables 1	85,500.00	85,500.00	100.00%	It is expected that the amount could not be recovered
Other receivables 2	71,739.00	71,739.00	100.00%	It is expected that the amount could not be recovered
Other receivables 3	65,846.20	65,846.20	100.00%	It is expected that the amount could not be recovered
Other receivables 4	60,080.00	60,080.00	100.00%	It is expected that the amount could not be recovered
Other receivables 5	59,200.00	59,200.00	100.00%	It is expected that the amount could not be recovered
Others	4,339,848.52	4,339,848.52	100.00%	It is expected that the amount could not be recovered
	<u>4,682,213.72</u>	<u>4,682,213.72</u>	100.00%	

- (f) Other receivables that are subject to full provision or in large proportionate but have been reversed or collected in the current period are analysed as follows:

Other receivables	Reason	Basis	Amount of provision for bad debts before reverse or collect	Amount	Amount of provision for bad debts
South Securities Company	Received settlement of accounts	The company went bankruptcy	255,055.04	255,055.04	-

- (g) There are no other receivables that have been collected by restructuring or other manners in the current period.

- (h) Other receivables (RMB11,606 thousand) that have been written off in the current period are analysed as follows:

	Nature	Amount	Reason	Arisen from related transactions or not
HongKong Hong Xing	Current account	5,240,280.90	It is verified that the amount could not be recoverable	No
Guangzhou Baiyunshan Group Foreign Trading Department	Current account	1,659,044.09	It is verified that the amount could not be recoverable	Yes
Baiyun District Tax Bureau	Tax in advance	940,000.00	It is verified that the amount could not be recoverable	No
Baiyun Company	Current account	850,165.00	It is verified that the amount could not be recoverable	No
Withholding Tax	Tax withholding	742,729.77	It is verified that the amount could not be recoverable	No
Chengdu CPM Technology Development	Current account	647,703.90	It is verified that the amount could not be recoverable	No
Others	Current account	1,526,486.01	It is verified that the amount could not be recoverable	No
Total		<u>11,606,409.67</u>		

- (i) As at 31 December 2013, other receivable from shareholders who hold more than 5% (including 5%) of the voting rights of the Company is RMB842 thousand from GPHL. (As at 31 December 2012: RMB897 thousand).
- (j) As at 31 December 2013, The top five of the debt form the balance of other receivables is analysed as follows:

	Relationship with the company	Amount	Aging	% of total balance
Other receivables 1	Third party	21,117,734.81	Within 1 year	10.61%
Other receivables 2	Related party	19,258,298.81	Within 1 year	9.68%
Other receivables 3	Third party	12,370,000.00	Within 1 year	6.22%
Other receivables 4	Third party	10,000,000.00	Within 1 year	5.02%
Other receivables 5	Third party	7,000,001.25	Within 1 year	3.52%
		<u>69,746,034.87</u>		<u>35.05%</u>

- (k) As at 31 December 2013, accounts receivable from related parties accounted for 11.43% of total other accounts receivable balance (as at 31 December 2012: 4.05%): refer to Note 6 for details.
- (l) There are no other receivables derecognised due to transfer of financial assets during the current period.
- (m) As at 31 December 2013, there are no securitizations that targeted at other receivables.

- (n) As at 31 December 2013, the other receivables denominated in foreign currencies are summarised as follows:

	31 December 2013			31 December 2012		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
HKD	674,748.02	0.7862	530,507.14	783,924.04	0.8108	635,644.81
			<u>530,507.14</u>			<u>635,644.81</u>

(7) Advances to suppliers

- (a) The aging of advances to suppliers is analysed as follows:

	31 December 2013		31 December 2012	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	564,108,967.87	91.89%	439,593,021.58	98.41%
1 to 2 years	45,971,995.32	7.49%	3,071,649.81	0.69%
2 to 3 years	899,375.16	0.15%	90,086.72	0.02%
Over 3 years	2,901,983.43	0.47%	3,912,777.27	0.88%
	<u>613,882,321.78</u>	100.00%	<u>446,667,535.38</u>	100.00%

- (b) The top five of advances to suppliers are analysed as follows:

	Relationship with the Group	Amount	Aging	Reason of unsettlement
Supplier 1	Third party	95,582,753.94	Within 1 year	Normal purchases
Supplier 2	Third party	43,732,480.68	Within 1 year	Normal purchases
Supplier 3	Third party	39,638,084.95	Within 1 year	Normal purchases
Supplier 4	Third party	35,289,416.00	Within 1 year	Normal purchases
Supplier 5	Third party	28,910,399.96	Within 1 year	Normal purchases
		<u>243,153,135.53</u>		

- (c) As at 31 December 2013 and 31 December 2012, there are no advances to shareholders who hold more than 5% (including 5%) of the voting rights of the Company.
- (d) As at 31 December 2013, the advances to related parties accounted for 1.42% of the total balance of advances to suppliers (as at 31 December 2012: 0.71%); refer to Note 6 for details.

(e) The advances to suppliers denominated in foreign currencies are summarised as follows:

	31 December 2013			31 December 2012		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
USD	1,676,642.10	6.1346	10,286,671.47	81,144.00	6.2982	511,057.10
HKD	30,976,632.30	0.8077	25,019,855.88	54,694,649.30	0.8115	44,383,646.99
EUR	-	Not applicable	-	2,206,255.60	8.2211	18,137,855.73
			<u>35,306,527.35</u>			<u>63,032,559.82</u>

(f) As at 31 December 2013 and 31 December 2012, There is no significant advances to suppliers with aging over one year.

(8) Inventories

(a) Classification of inventories

	31 December 2013			31 December 2012		
	Ending balance	Provision for declines in value of inventories	Carrying amount	Ending balance	Provision for declines in value of inventories	Carrying amount
Goods in transit	6,259,476.04	-	6,259,476.04	4,633,011.92	-	4,633,011.92
Raw materials	596,252,876.34	1,163,784.28	595,089,092.06	570,735,254.37	3,101,901.17	567,633,353.20
Work in progress	156,376,261.67	-	156,376,261.67	180,150,442.91	-	180,150,442.91
Semi-finished goods	190,609,695.88	981,315.46	189,628,380.42	150,787,462.46	981,315.46	149,806,147.00
Finished goods	683,304,886.83	12,214,273.40	671,090,613.43	693,610,834.47	9,465,771.70	684,145,062.77
Low-value						
consumables	3,951,500.73	-	3,951,500.73	4,124,577.02	131,357.96	3,993,219.06
Packaging materials	104,359,501.34	-	104,359,501.34	93,238,068.23	22,220.70	93,215,847.53
Goods In processing						
contract	15,464,794.08	-	15,464,794.08	8,476,288.80	-	8,476,288.80
Commodity Stocks	503,727,260.88	558,931.62	503,168,329.26	375,160,220.61	1,383,440.37	373,776,780.24
Others	441,799.02	-	441,799.02	67,980.76	-	67,980.76
	<u>2,260,748,052.81</u>	<u>14,918,304.76</u>	<u>2,245,829,748.05</u>	<u>2,080,984,141.55</u>	<u>15,086,007.36</u>	<u>2,065,898,134.19</u>

(b) Provisions for declines in the value of inventories

Item	31 December 2012	Current period additions	Current period reductions			31 December 2013
			Reversal	Write-off	Other reductions	
Raw materials	3,101,901.17	985,421.00	131,706.70	2,748,925.60	42,905.59	1,163,784.28
Work in progress	981,315.46	–	–	–	–	981,315.46
Finished goods	9,465,771.70	7,668,359.99	2,250,825.47	2,669,032.82	–	12,214,273.40
Low-value consumables	131,357.96	–	–	–	131,357.96	–
Packaging materials	22,220.70	–	–	–	22,220.70	–
Commodity stocks	1,383,440.37	674,583.81	76,085.85	1,118,991.44	304,015.27	558,931.62
	<u>15,086,007.36</u>	<u>9,328,364.80</u>	<u>2,458,618.02</u>	<u>6,536,949.86</u>	<u>500,499.52</u>	<u>14,918,304.76</u>

(c) Provisions for declines in the value of inventories are analysed as follows

Item	Basis for provision	Reason for reversal	% of amount of reversal to the relevant. inventory balance
Raw materials	The difference when net realisable value is less than carrying amount of raw material	Increase in net realisable value	0.02%
Finished goods	Carrying amount over net realisable value	Increase in market price	0.33%
Commodity stocks	Carrying amount over net realisable value	Increase in market price	0.02%

(9) Other current assets

	31 December 2013	31 December 2012
Deductible Input VAT	19,142,497.23	1,525,807.40
Provisional Income Tax paid	205,083.92	72,813.03
	<u>19,347,581.15</u>	<u>1,598,620.43</u>

The Group pays the enterprise income tax, VAT and other taxes in accordance with taxation laws, and presents them on the balance sheet based on their nature in accordance with the provisions of “Accounting Standards for Business Enterprises No.30 – Presentation of Financial Statements”. For balance of deductible VAT, it is required to be presented as “Other current assets” or “Other non-current assets” in the balance sheet based on its liquidity.

(10) Available-for-sale financial assets

(a) Details are as follows:

	31 December 2013	31 December 2012
Available-for-sale shares	<u>17,608,107.28</u>	<u>20,401,660.98</u>

The available-for-sale financial assets comprise the A-share of China Everbright Bank Company Limited and A-share of Bank of Communications held by the Group, and the fair value of which is determined at the closing price quoted in the Shanghai Stock Exchange on the last trading day of the reporting period.

(b) As at 31 December 2013, amount of available-for-sale financial assets (amortized cost), fair value, accumulated movement of fair value charged as other comprehensive income and impairment are summarized as follows:

Item	Available-for-sale equity instrument
Cost of available-for-sale stock	11,249,958.40
Fair value	17,608,107.28
Accumulated movement of fair value charged as other comprehensive income	5,379,267.59
Accumulated movement of fair value charged as deferred tax liabilities	978,881.29
Impairment	–

(11) Investment in jointly controlled entities and associates

Entity	Enterprise type	Registered address	Legal Representative	Principal activities	Registered capital (RMB'0000)	Share holding	Voting right	Total assets at end of period (RMB'0000)	Total liabilities at end of period (RMB'0000)	Net assets at end of period (RMB'0000)	Sales for the period (RMB'0000)	Net profit for the period (RMB'0000)
1. Jointly controlled entities												
GP Corp.	Sino-foreign equity joint venture	Guangzhou	Li Bingrong	Trading of western pharmaceutical products and medical apparatus	70,000	50.00%	50.00%	979,412	767,747	211,664	2,285,138	19,081
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. ("Wang Lao Ji")	Sino-foreign equity joint venture	Guangzhou	Wang Jianyi	Production processing, sales of CPM beverage and candies	20,476	48.05%	48.05%	152,453	58,604	93,849	251,229	6,646
Guangzhou Promise Biological Products Co., Ltd. (Nuo Cheng) (Note 1)	Stock corporation	Guangzhou	Zhou Lijian	Production of Freeze-dried rabies vaccine for human use; import of goods, import & export of technology	8,400	49.24%	50.00%	33,563	9,330	24,233	22,197	6,973
HWBYS	Sino-foreign equity joint venture	Guangzhou	Du Zhiqiang	Manufacture, construction engineering, research & development and sales of medicine, health product, food & Chinese medicinal herbs	20,000	50.00%	50.00%	120,929	57,753	63,176	157,710	10,326
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. (Baxter Qiao Guang)	Sino-foreign equity joint venture	Guangzhou	Chen Mao	Manufacture of high-capacity injection and imports, wholesale of medicine.	17,750	50.00%	50.00%	20,338	15,728	4,610	29,793	932
2. Associates												
Hanzhou Zheda Han Fang Chinese Medical Info. Engineering Co., Ltd.	Limited Liability Company	Hangzhou	Qu Haibin	Technology service and development	100	44.00%	44.00%	6	4	2	-	-
Golden Eagle Fund Management Co., Ltd	Limited Liability Company	Zhuhai	Liu Dong	Fund management	25,000	20.00%	20.00%	17,206	3,326	13,880	12,002	(3,866)
Guangzhou Jinshen Medical Co., Ltd.	Limited Liability Company	Guangzhou	Gao Qi	Research and development: natural health product, Chinese medicine and food	200	38.25%	38.25%	6	3	3	-	-
Wei Yi Co., Ltd. (Note 2)	Limited Liability Company	Guangzhou	Qiao Yong	Medical investment management	2,000	50.50%	41.00%	-	-	-	-	-

Note 1: The reason of difference between ratio of equity interest held and ratio of voting rights held of this company is that the Company holds the shares of this company indirectly through subsidiaries which are not wholly-owned by the Company, making the ratio of equity interest held lower than ratio of voting rights held.

Note 2: The reason of difference between ratio of equity interest held and ratio of voting rights held of this company is that as at 8 November 2012, the Company and Guangdong Wen Ming Investment Management Co., Ltd. and Ka Shi Region Weiwuer Hospital jointly established Wei Yi Co., Ltd. Pursuant to the Articles of Association, the registered capital of this company is RMB20,000 thousand, the Company, Guangdong Wen Ming Investment Management Co., Ltd. and Ka Shi Region Weiwuer Hospital contributed RMB8,200 thousand, RMB7,800 thousand and RMB4,000 thousand respectively. The first phase contribution from the Company and Guangdong Wen Ming Investment Management Co., Ltd. is RMB2,020 thousand and RMB1,980 thousand respectively. As at 31 December 2013, the paid-in capital of Guangdong Wen Ming Investment Management Co., Ltd. is RMB4,000 thousand.

None of the jointly controlled entities and associates of the Group are listed companies.

(12) Long-term equity investments

(a) Details of long-term equity investments

Entity	Investment cost	31 December 2012	Current period movement	31 December 2013	% Equity interest held	% Voting rights held	Impairment provision	Impairment provided in the current period	Cash dividend in current period
Equity method:									
GP Corp.	396,589,139.78	865,089,213.72	82,865,153.62	947,954,367.34	50.00%	50.00%	-	-	-
Wang Lao Ji	102,035,124.44	418,658,001.69	31,848,288.13	450,506,289.82	48.05%	48.05%	-	-	-
Nuo Cheng	42,000,000.00	85,015,307.46	36,147,354.36	121,162,661.82	49.24%	50.00%	-	-	-
HWBYS	100,000,000.00	271,656,205.28	25,816,300.13	297,472,505.41	50.00%	50.00%	-	-	20,000,000.00
Baxter Qiao Guang	37,000,000.00	18,391,904.41	4,659,933.12	23,051,837.53	50.00%	50.00%	-	-	-
Guangzhou Jinshen Medical Co., Ltd.	765,000.00	-	-	-	38.25%	38.25%	-	-	-
Hangzhou Zheda Han Fang Chinese Medical Infor. Engineering Co., Ltd.	440,000.00	-	-	-	44.00%	44.00%	-	-	-
Golden Eagle Fund Management Co., Ltd	50,000,000.00	36,297,916.34	(7,732,458.87)	28,565,457.47	20.00%	20.00%	-	-	-
Wei Yi Co., Ltd.	2,020,000.00	2,020,000.00	-	2,020,000.00	50.50%	41.00%	-	-	-
Subtotal	730,849,264.22	1,697,128,548.90	173,604,570.49	1,870,733,119.39	-	-	-	-	20,000,000.00

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

Entity	Investment cost	31 December 2012	Current period movement	31 December 2013	% Equity interest held	% Voting rights held	Impairment provision	Impairment provided in the current period	Cash dividend in current period
Cost method:									
Shanghai Jiuh Tang Chinese Medicine Co., Ltd. (Note 1)	515,000.00	547,193.71	-	547,193.71	9.53%	10.00%	-	-	-
Beijing Imperial Court Cultural Development Company Ltd.	200,000.00	200,000.00	-	200,000.00	10.00%	10.00%	-	-	-
Qi Xing Ma Zhong Pharmaceutical Co., Ltd (Note 2)	362,826.38	362,826.38	-	362,826.38	40.00%	40.00%	-	-	-
San You Development Co., Ltd of Indonesia (Note 2)	1,078,551.23	1,078,551.23	-	1,078,551.23	50.00%	50.00%	1,078,551.23	-	-
Sales Store of Peking Road of Guangzhou Medicine Co., Ltd (Note 2)	218,399.05	218,399.05	-	218,399.05	20.00%	20.00%	-	-	-
South China Innovative Pharmaceutical Co., Ltd of Guangdong	10,000,000.00	10,000,000.00	-	10,000,000.00	11.12%	11.12%	-	-	-
Shenzhen Zhong Lian Guang Shen Pharmaceutical Group Co., Ltd.	312,077.00	312,077.00	-	312,077.00	-	-	-	-	12,344.32
Guangzhou Zhong Ying Cambridge Technology Co., Ltd.	300,000.00	300,000.00	-	300,000.00	9.97%	9.97%	300,000.00	-	-
Dongbei Pharmaceutical Factory	750,000.00	750,000.00	-	750,000.00	-	-	750,000.00	-	-
Wuhan Pharmaceutical Co., Ltd. Securities of Enterprises Activities Center	2,000,000.00	2,000,000.00	-	2,000,000.00	2.80%	2.80%	2,000,000.00	-	-
Guangzhou Dong Ning Pharmaceutical Co., Ltd.	50,000.00	50,000.00	-	50,000.00	-	-	50,000.00	-	-
Guangzhou Nan Xin Pharmaceutical Co., Ltd.	7,677,876.51	7,677,876.51	-	7,677,876.51	13.00%	13.00%	-	-	4,410,900.00
Guangzhou Yu Fa Medical Instrument Co., Ltd.	100,000.00	100,000.00	-	100,000.00	10.00%	10.00%	100,000.00	-	-
Baxter Healthcare (Note 3)	82,338,800.00	-	82,338,800.00	82,338,800.00	12.50%	12.50%	-	-	4,500,000.00
Guangzhou Bank of Commerce	100,000.00	100,000.00	-	100,000.00	-	-	-	-	18,106.82
Subtotal	106,278,530.17	23,971,923.88	82,338,800.00	106,310,723.88	-	-	4,553,551.23	-	8,941,351.14
Total	837,127,794.39	1,721,100,472.78	255,943,370.49	1,977,043,843.27	-	-	4,553,551.23	-	28,941,351.14

Note:

- 1) The reason of difference between ratio of equity interest held and ratio of voting rights held of this company is that the Company holds the shares of this company indirectly through subsidiaries which are not wholly-owned by the Company, making the ratio of equity interest held lower than ratio of voting rights held.
- 2) The Group have not participated in the operation of Mazhong Medicine of Qi Xing and Sales Store of Peking Road of Guangzhou Medicine Co., Ltd., nor exercised significant influence on them, in which the investments were measured using the cost method.
- 3) As in June, 2013 the Company completed the acquiring of 12.5% equity of Baxter Healthcare held by GPLH by issuing an addition of 6,804,860 shares to GPLH. The issued price is based on the A shares' average price of the 20 transaction days before the announcement date of the board resolution regarding the first discussion of the related matters of the assets reorganisation. The price is RMB12.10 per share confirmed after ex right and ex interest. Pursuant to the "Report of asset appraisal on the equity of Baxter Healthcare acquired by the Company." (Zhong Tian Heng Ping Bao Zi [2012] No. 028) issued by China Valuer International Co., Ltd. the appraisal value on 31 December 2011 of Baxter Healthcare is RMB82,338.8 thousand, which increases 6,804,860 A share of the Company.

(b) There are no limitation on fund transfer between the Group and its invested.

(13) Investment properties

(a) Investment properties – cost method:

	31 December 2012	Current period addition	Current period disposal	31 December 2013
Cost	266,574,616.45	119,353,715.00	1,891,507.01	384,036,824.44
Buildings	248,229,715.76	119,353,715.00	1,891,507.01	365,691,923.75
Land use rights	18,344,900.69	–	–	18,344,900.69
Accumulated depreciation and amortisation	130,380,179.00	9,056,232.08	1,708,832.01	137,727,579.07
Buildings	123,055,459.42	8,769,990.01	1,708,823.01	130,116,617.42
Land use rights	7,324,719.58	286,242.07	–	7,610,961.65
Net book value	136,194,437.45			246,309,245.37
Buildings	125,174,256.34			235,575,306.33
Land use rights	11,020,181.11			10,733,939.04
Provision for impairment	–	–	–	–
Buildings	–	–	–	–
Land use rights	–	–	–	–
Carrying amount	136,194,437.45			246,309,245.37
Buildings	125,174,256.34			235,575,306.33
Land use rights	11,020,181.11			10,733,939.04

- (i) Depreciation charges for the year ended 2013 amounted to RMB8,770 thousand. (for the year ended 2012: RMB7,568 thousand); Amortisation charges for the year ended 2013 amounted to RMB286 thousand (for the year ended 2012: RMB226 thousand).
- (ii) As for the year ended 2013, The decrease of original cost and accumulated depreciation of the investment properties arising from the fluctuations in exchange is RMB199 thousand and RMB67 thousand respectively. (As for the year ended 2012: RMB1 thousand and RMB0 thousand respectively.)
- (iii) The land use right among the investment properties is located in Mainland China, and the useful life is 10-50 years.
- (iv) The increase of investment properties in current period is mainly due to the purchase of the buildings owned by GPLH by the issue of 19,069,338 new A shares to GPLH. This issued price is based on the A shares' average price of 20 transaction days before the announcement date of the board resolution regarding the first discussion of the related matters of the assets reorganization. The price is RMB12.10 per share confirmed after ex right and ex interest. Pursuant to the "Report of asset appraisal on the equity of real estate and trademark purchased by the Company" (Zhong Tian Heng Ping Bao Zi [2012] No. 026) issued by China Valuer International Co., Ltd. the appraisal value on 31 December 2011 of the above-mentioned buildings is RMB230,740 thousand, When the above-mentioned properties are transferred to and registered under the name of the Company, the area is 137.74 square meters less than that agreed in the appraisal report, GPLH made up the difference with cash RMB1,342,300 Pursuant to the different usage of the above-mentioned buildings, RMB117,040 thousand is recorded as investment properties, RMB113,700 thousand is recorded as fixed assets.

(14) Fixed assets and Accumulated depreciation

(a) Fixed assets

	31 December 2012	Current increase	Current decrease	31 December 2013
Cost	3,412,942,476.09	324,379,543.34	90,502,484.95	3,646,819,534.48
Buildings	1,665,966,056.24	188,642,315.18	13,797,137.60	1,840,811,233.82
Machinery and equipment	1,369,055,227.85	101,193,208.68	50,075,762.37	1,420,172,674.16
Motor vehicles	96,621,115.02	5,806,747.31	7,526,185.05	94,901,677.28
Electronic equipments	130,148,838.75	8,464,627.49	8,447,267.78	130,166,198.46
Office equipment	97,747,414.62	12,525,333.24	10,656,132.15	99,616,615.71
Decoration and fixtures	53,403,823.61	7,747,311.44	-	61,151,135.05
Accumulated depreciation	1,800,884,864.47	165,676,161.31	72,065,284.10	1,894,495,741.68
Buildings	631,690,904.98	57,405,970.87	3,777,000.98	685,319,874.87
Machinery and equipment	899,376,682.29	85,231,609.19	48,858,011.22	935,750,280.26
Motor vehicles	70,164,361.40	4,570,736.98	6,994,081.19	67,741,017.19
Electronic equipments	88,031,607.21	7,902,328.08	7,788,681.91	88,145,253.38
Office equipment	62,281,091.54	7,920,652.51	4,647,508.80	65,554,235.25
Decoration and fixtures	49,340,217.05	2,644,863.68	-	51,985,080.73
Provision for impairment	20,061,484.89	612,824.67	232,462.61	20,441,846.95
Buildings	9,818,341.35	-	-	9,818,341.35
Machinery and equipment	8,386,959.95	605,464.18	172,772.61	8,819,651.52
Motor vehicles	217,914.47	-	59,690.00	158,224.47
Electronic equipments	1,635,422.74	7,360.49	-	1,642,783.23
Office equipment	2,846.38	-	-	2,846.38
Decoration and fixtures	-	-	-	-
Carrying amount	1,591,996,126.73			1,731,881,945.85
Buildings	1,024,456,809.91			1,145,673,017.60
Machinery and equipment	461,291,585.61			475,602,742.38
Motor vehicles	26,238,839.15			27,002,435.62
Electronic equipments	40,481,808.80			40,378,161.85
Office equipment	35,463,476.70			34,059,534.08
Decoration and fixtures	4,063,606.56			9,166,054.32

- (i) For the year ended 2013, the fixed assets transferred from construction in progress amounted to RMB162,688 thousand (for year ended 2012: RMB58,408 thousand).
- (ii) As for the year ended 2013, the decrease of original cost and accumulated depreciation of fixed assets is due to fluctuations in exchange amount are RMB262 thousand and RMB90 thousand respectively. (As for the year ended 2012: RMB2 thousand and RMB0 thousand respectively)
- (iii) Depreciation expenses for the year ended 2013 amounted to RMB165,676 thousand in total (for the the year ended 2012: RMB166,885 thousand), of which RMB114,280 thousand, RMB2,447 thousand and RMB48,949 thousand were charged to cost of sales, selling and distribution expenses and general and administrative expenses, respectively (for the year ended 2012: RMB116,372 thousand, RMB2,647 thousand and RMB47,866 thousand respectively).

- (b) As at 31 December 2013, the buildings and the machinery and equipment are temporarily idle, which are analysed as follows:

	Cost	Accumulated depreciation	Provision for impairment loss	Carrying amount
Buildings	6,478,874.98	1,604,872.01	4,618,987.46	255,015.51
Machinery	15,029,241.63	7,270,254.23	7,758,987.40	–
Electrical equipment	147,897.48	69,184.00	78,713.48	–

- (c) As at 31 December 2013, fixed assets which were lack of ownership certificate are summarised as follows:

	Carrying amount	Reason	Estimated date of obtaining the ownership certificate
Buildings	39,619,593.92	Procedures are not complete, so the certificates are not handled.	Uncertain
Motor vehicles	147,187.50	Procedures are not complete, so the ownership cannot be transferred	Uncertain
	<u>39,766,781.42</u>		

- (d) Fixed assets held under operating leases are summarised as follows:

	31 December 2013 Carrying Amount	31 December 2012 Carrying Amount
Buildings	<u>8,200,580.22</u>	<u>11,533,263.06</u>

- (e) The increase amounted to RMB113,700 thousand at current period of fixed assets is due to the purchase of the buildings owned by GPLH by issuing an addition of 19,069,388 shares to GPLH in June 2013, (refer to Note 5(13)(a)).
- (f) As at 31 December 2013, Guangyao Baiyunshan (Hong Kong) Limited, a subsidiary of the Company, acquired the comprehensive credit loan amounted to HKD300 thousand, letter of credit and the total amount of trust letter amounted to HKD100,000 thousand from Bank of China (Hong Kong) Co., Ltd., by the original value amounted to HKD8,893 thousand, the net value HKD6,616 thousand of the buildings of fixed assets and the original value amounted to HKD6,843 thousand, the net value amounted to HKD4,225 thousand of investment properties, and the issued undue L/C amounted to USD155 thousand.

(15) Construction in progress

	31 December 2013			31 December 2012		
	Ending balance	Provision for impairment	Carrying amount	Ending balance	Provision for impairment	Carrying amount
Construction in progress	336,543,747.06	1,121,052.88	335,422,694.18	141,198,742.20	1,121,052.88	140,077,689.32

(a) Movement of construction in progress

	Budget	31 December 2012	Current period additions	Current period reductions		31 December 2013	Source of funds	% contribution in budget
				Transferred to Fixed assets	Other decrease			
Sewage Disposal Line of Zhongyi	1,076,307.00	479,176.40	257,910.69	432,329.53	–	304,757.56	Self-funding	68.48%
EMS System	1,940,000.00	725,000.00	435,000.00	–	1,160,000.00	–	Self-funding	59.79%
Yunpu New Equipment Project	8,500,000.00	2,010,767.87	3,410,233.00	2,132,061.81	1,406,257.90	1,882,681.16	Self-funding	112.96%
Holeless casting machine and site improvement	9,500,000.00	–	3,812,639.40	3,812,639.40	–	–	Self-funding	93.16%
Showroom construction of Zhongyi	1,875,267.05	935,000.00	940,267.05	1,875,267.05	–	–	Self-funding	100.00%
Bag-packaging Line of Second Manufacturing Department	1,280,000.00	–	1,094,017.09	1,094,017.09	–	–	Self-funding	85.47%
GMP improvement project	10,586,473.86	–	7,351,430.66	7,351,430.66	–	–	Self-funding	69.44%
Pill Line	5,000,000.00	1,534,400.00	–	–	309,400.00	1,225,000.00	Self-funding	24.50%
Olein Production Line	14,300,000.00	627,634.00	106,640.00	147,440.00	586,834.00	–	Self-funding	5.13%
Improvement Project for Sewage Disposal Line	1,500,000.00	1,041,218.92	661,682.63	1,673,060.55	29,841.00	–	Self-funding	113.53%
Solvent tank farm project	1,300,000.00	425,178.29	–	–	425,178.29	–	Self-funding	32.71%
Road works dormitory surrounding	1,630,000.00	456,505.08	–	54,505.24	–	401,999.84	Self-funding	28.01%
Near-infrared line detection								
Tendril-leaved Fritillary Bulb Dose	5,500,000.00	5,232,967.54	192,406.70	–	–	5,425,374.24	Self-funding	98.64%
Tonic Auto-packaging Line	330,000.00	329,247.86	–	329,247.86	–	–	Self-funding	99.77%
Chuanbeilu auto-packaging Line	2,088,974.40	1,067,100.00	1,021,874.40	2,057,589.78	31,384.62	–	Self-funding	98.50%
Office Building	8,713,000.00	233,776.58	6,383,964.60	–	–	6,617,741.18	Self-funding	75.95%
Research of Bio Vaccine & Industrialisation Platform	25,600,000.00	104,528.00	3,674,450.46	–	–	3,778,978.46	Self-funding	14.76%
Office computer	2,375,000.00	–	2,377,087.94	2,377,087.94	–	–	Self-funding	100.09%
Wanglaoji herbal tea museum decoration	5,500,000.00	–	2,849,550.73	–	–	2,849,550.73	Self-funding	51.81%
Wanglaoji Yaan manufacturing project	298,000,000.00	–	1,092,423.00	–	–	1,092,423.00	Offering funds, others	0.37%
Office Equipment & Motor Vehicle	6,110,000.00	–	4,831,140.00	4,159,753.00	209,183.00	462,204.00	Self-funding	79.07%
Pill Preparation Line Technological Transformation Project	8,000,000.00	2,260,189.40	1,703,982.99	1,282,320.68	201,167.94	2,480,683.77	Self-funding	47.04%
GMP Site Improvement	6,920,000.00	32,000.00	4,592,426.40	972,181.71	893,069.75	2,759,174.94	Self-funding	53.92%
General Factory New Freezer Installation	10,334,999.40	580,499.46	24,995.29	605,494.75	–	–	Self-funding	100.00%
General Factory Powder Inj. Equipment Project	69,700,000.00	17,086,499.47	51,181,425.23	42,153,736.25	–	26,114,188.45	Self-funding, allocation	97.95%
General Factory Oral Cephalosporins Improvement	7,850,000.00	1,220,912.42	–	–	–	1,220,912.42	Self-funding	100.00%
General Factory Solid Preparation GMP Improvement	1,300,000.00	1,215,879.66	–	1,215,879.66	–	–	Self-funding	93.53%
Chemical Factory Sterile APIs No.204 Workshop Technology Improvement	3,260,000.00	806,092.36	–	–	–	806,092.36	Self-funding	24.73%
Chemical Factory Cephalosporins Sterile APIs Line Improvement	48,381,100.00	1,634,570.12	19,713,281.10	–	–	21,347,851.22	Self-funding, loan	44.12%

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

	Budget	31 December 2012	Current period additions	Current period reductions		31 December 2013	Source of funds	% contribution in budget
				Transferred to Fixed assets	Other decrease			
Chemical Factory Oral API GMP Improvement	11,695,100.00	302,226.52	4,180,009.27	-	-	4,482,235.79	Self-funding	38.33%
Adhesive Plaster Workshop Improvement	1,660,000.00	-	1,222,013.30	1,162,013.30	-	60,000.00	Self-funding	73.62%
AB0807098-1 land parcel of Zhongluotan Wulonggang	120,000,000.00	-	24,223,095.00	-	22,867,295.00	1,355,800.00	Self-funding	20.19%
Eye drops workshop improvement	4,230,000.00	-	64,000.00	-	-	64,000.00	Self-funding	1.51%
Tonghe cream improvement	6,920,000.00	-	1,069,404.71	-	-	1,069,404.71	Self-funding	15.45%
Liwan No.24 building GMP improvement (2013)	3,320,000.00	-	194,400.00	-	-	194,400.00	Self-funding	5.86%
Liwan No.21 building GMP improvement (2013)	5,421,000.00	-	125,200.00	-	-	125,200.00	Self-funding	2.31%
Tian Xin Powder Inj. Project	7,000,000.00	1,418,491.76	3,840,360.96	1,282,817.95	-	3,976,034.77	Self-funding	75.13%
Tian Xin Chemical Institute Project	25,500,000.00	18,662,592.40	6,832,206.46	6,176,413.63	-	19,318,385.23	Self-funding	99.98%
Tian Xin Wei D 2 Tartaric Acid Inj.	15,000,000.00	200,000.00	-	-	-	200,000.00	Self-funding	1.33%
Tian Xin Asepsis Water Inj Workshop	20,000,000.00	9,135,611.46	2,471,498.96	4,108,874.69	-	7,498,235.73	Self-funding	58.04%
Tian Xin Waste Water Recycling	1,200,000.00	178,629.00	151,216.00	-	-	329,845.00	Self-funding	27.49%
Tian Xin Powder Injector & Screw Arbor Line	19,800,000.00	1,757,128.42	-	-	-	1,757,128.42	Self-funding	8.87%
Tian Xin Cephalosporins Workshop Improvement	12,000,000.00	8,293,373.98	2,912,325.70	3,352,432.62	-	7,853,267.06	Self-funding	93.38%
Tian Xin Water Inj Workshop	15,900,000.00	11,770,268.08	4,052,776.28	5,530,299.66	-	10,292,744.70	Self-funding	99.52%
Tian Xin Penicillin GMP Improvement	12,900,000.00	-	8,211,350.94	-	-	8,211,350.94	Self-funding	63.65%
Tian Xin GMP Improvement	18,460,000.00	-	18,009,453.19	-	-	18,009,453.19	Self-funding, loan	97.56%
Purchasing import lamp inspection machine project	12,000,000.00	-	4,927,518.80	-	-	4,927,518.80	Self-funding	41.06%
Preparation workshop GMP improvement	2,500,000.00	-	1,150,000.00	-	-	1,150,000.00	Self-funding	46.00%
Ming Xing Equipment Improvement	67,430,000.00	14,548,708.07	25,359,250.79	20,840,776.51	32,192.28	19,034,990.07	Self-funding	59.18%
Ming Xing Cong Hua Xing Zhou Workshop	9,710,000.00	8,272,855.00	974,791.52	7,060,687.20	-	2,186,959.32	Self-funding	95.24%
Ming Xing Workshop Improvement	16,100,000.00	4,983,395.90	5,786,312.44	7,182,641.79	-	3,587,066.55	Self-funding	66.89%
Ming Xing Decoration	17,200,000.00	1,511,650.00	10,729,906.12	1,530,062.55	-	10,711,493.57	Self-funding	71.17%
Ming Xing relocation improvement	340,000,000.00	-	79,407,091.41	-	-	79,407,091.41	Self-funding	23.36%
Lyophilized powder	30,000,000.00	-	838,497.02	-	-	838,497.02	Self-funding	2.79%
Weiling new factory	45,760,000.00	927,221.73	32,105,982.77	-	-	33,033,204.50	Self-funding	72.19%
Others	64,634,106.03	19,197,446.45	33,645,117.36	30,735,215.42	4,007,521.44	18,099,826.95	Self-funding	
		<u>141,198,742.20</u>	<u>390,192,608.36</u>	<u>162,688,278.28</u>	<u>32,159,325.22</u>	<u>336,543,747.06</u>		

- (b) For the year ended 2013, borrowing costs eligible for capitalization are summarized as follows:

Item	31 December 2012	Current increase	Transfer to fixed assets	Other reduction	31 December 2013
Chemical Factory Cephalosporins Sterile APIs Line Improvement	–	213,325.59	–	–	213,325.59
Powder-needle & water inj. GMP improvement	–	503,407.76	–	–	503,407.76
Total	–	716,733.35	–	–	716,733.35

- (c) Impairment of construction in progress

Item	31 December 2012	Current increase	Current decrease	31 December 2013	Reason
General factory veterinary drugs workshop GMP improvement	869,318.50	–	–	869,318.50	Project stopped
Guanghua sewage expansion project	251,734.38	–	–	251,734.38	Project stopped
Total	1,121,052.88	–	–	1,121,052.88	

- (d) The construction progress of significant constructions in progress are analysed as follows:

	Progress
General Factory Powder Inj. Equipment Project	Construction phase
Chemical Factory Cephalosporins Sterile APIs Line Improvement	Construction phase
Tian Xin Chemical Institute Project	Construction completed, pending for acceptance and settlement
Tian Xin Water Inj Workshop	Construction phase
Powder-needle & water inj. GMP improvement	Construction phase
Ming Xing Equipment Improvement	Construction phase
Ming Xing decoration	Construction phase
Relocation improvement	Preparation phase
Weiling new factory	Preparation phase

(16) Intangible assets

(a) Details of intangible assets

	31 December 2012	Current increase	Current decrease	31 December 2013
Original cost	438,704,044.13	89,031,150.27	20,158,246.90	507,576,947.50
Land use rights	296,508,122.08	31,896,315.00	20,037,730.66	308,366,706.42
Industrial patents and technologies	14,782,555.11	737,536.17	–	15,520,091.28
Non-patent technologies	9,932,451.20	2,186,750.00	–	12,119,201.20
Trademarks	107,922,764.54	51,437,773.20	–	159,360,537.74
Others	9,558,151.20	2,772,775.90	120,516.24	12,210,410.86
Accumulated amortisation	131,699,650.28	6,882,895.45	1,379,909.14	137,202,636.59
Land use rights	80,070,824.41	2,922,142.88	1,288,452.73	81,704,514.56
Industrial patents and technologies	6,544,035.50	597,086.71	–	7,141,122.21
Non-patent technologies	7,054,763.05	1,292,458.95	–	8,347,222.00
Trademarks	32,659,590.72	19,077.20	–	32,678,667.92
Others	5,370,436.60	2,052,129.71	91,456.41	7,331,109.90
Impairment	1,403,611.28	114,005.00	–	1,517,616.28
Land use rights	480,700.24	–	–	480,700.24
Industrial patents and technologies	453,343.04	–	–	453,343.04
Non-patent technologies	–	–	–	–
Trademarks	469,568.00	114,005.00	–	583,573.00
Others	–	–	–	–
Carrying amount	305,600,782.57			368,856,694.63
Land use rights	215,956,597.43			226,181,491.62
Industrial patents and technologies	7,785,176.57			7,925,626.03
Non-patent technologies	2,877,688.15			3,771,979.20
Trademarks	74,793,605.82			126,098,296.82
Others	4,187,714.60			4,879,300.96

The increase at current period of the intangible assets is mainly due to the purchase of the trademark owned by GPLH by issuing an addition of 4,226,579 shares to GPLH in June 2013. The issued price is based on the A share's average price of the 20 transaction days before the announcement date of the board resolution regarding the first discussion of the related matters of the asset reorganisation. The price is RMB12.10 per share confirmed after ex right and ex interest. Pursuant to the "Report of asset appraisal on the equity of real estate and trademark acquired by the Company." (Zhong Tian Heng Ping Bao Zi [2012] No. 026) issued by China Valuer International Co., Ltd. the appraisal value on 31 December 2011 of the above-mentioned trademarks is RMB51,142 thousand.

For the year ended 2013, the amortisation of intangible assets amounted to RMB6,883 thousand (for the year ended 2012: RMB9,649 thousand), which were recognized in profit or loss for the current period. The land use right of the intangible assets is located in Mainland China, and the useful life is 10-50 years.

(17) Development costs

	31 December 2012	Current increase	Current period transferred out		31 December 2013
			Recognized in profit or loss in current period	Recognized as intangible assets	
Capitalised expenditures	4,112,051.69	4,465.99	–	400,000.00	3,716,517.68
Expensed expenditures	–	282,190,575.40	282,190,575.40	–	–
	<u>4,112,051.69</u>	<u>282,195,041.39</u>	<u>282,190,575.40</u>	<u>400,000.00</u>	<u>3,716,517.68</u>

(18) Long-term prepaid expenses

	31 December 2012	Current increase	Current period amortisation	Other decrease	31 December 2013
Building decoration and fixtures	3,512,483.37	991,429.80	1,483,997.51	–	3,019,915.66
Basketball field construction	302,052.89	–	144,985.38	–	157,067.51
ERP system fee	2,445.64	–	2,445.64	–	–
Installation of the product identification code for the packing production line	450,189.96	–	284,330.50	–	165,859.46
GMP improvement fee	69,807.28	409,474.16	69,807.27	–	409,474.17
Rain sewage diversion improvement	539,641.41	–	161,892.48	–	377,748.93
Zhongxin warehouse iron canopy improvement	458,909.61	–	123,755.46	–	335,154.15
GSP authentication network construction	785,780.39	–	449,017.44	–	336,762.95
Others	1,801,353.55	1,682,624.69	1,186,905.14	–	2,297,073.10
	<u>7,922,664.10</u>	<u>3,083,528.65</u>	<u>3,907,136.82</u>	<u>–</u>	<u>7,099,055.93</u>

(19) Deferred tax assets and deferred tax liabilities

(a) Recognised deferred tax assets

	31 December 2013	31 December 2012
Impairment provision of construction in progress	168,157.94	168,157.94
Impairment provision of long-term equity investment	587,551.22	587,551.22
Provision for declines in values of inventories	1,074,416.55	1,463,417.21
Provision for bad debts	6,983,793.01	6,472,906.53
Impairment provision of fixed assets	2,481,650.45	2,759,072.90
Difference arising from accounting and tax depreciations of fixed assets	1,967,385.60	1,364,267.38
Long-term prepaid expenses	–	79,941.40
Changes in fair value of financial assets held for trading	322,306.22	658,863.83
Employee benefits payable	28,506,513.64	29,889,994.83
Provisions	75,028.68	125,047.80
Other payables	200,575,405.13	44,119,637.18
Other non-current liabilities	12,261,335.96	12,144,522.52
Deductible tax losses	2,358,525.18	5,395,982.41
Provision for impairment of intangible assets	120,175.06	404,927.53
Difference arising from accounting and tax amortizations of intangible assets	316,758.07	85,124.98
Elimination of unrealized profits arising from the inter-company transaction	9,151,314.21	13,926,312.20
Others	–	44,108.99
	<u>266,950,316.92</u>	<u>119,689,836.85</u>

(b) Recognised deferred tax liabilities

	31 December 2013	31 December 2012
Other receivables – rental income	799,455.95	1,733,304.25
Changes in fair value of available-for-sale financial assets	978,881.29	2,130,188.97
Depreciation balance of fixed assets revaluation	337,501.80	351,644.40
Amortisation balance of intangible assets revaluation	1,359,488.40	1,394,347.20
	<u>3,475,327.44</u>	<u>5,609,484.82</u>

- (c) Deductible temporary differences and deductible losses that are not recognised as deferred tax assets are analysed as follows:

	31 December 2013	31 December 2012
Deductible temporary differences	65,854,798.29	58,698,183.03
Deductible tax losses	81,775,442.10	74,828,065.19
	<u>147,630,240.39</u>	<u>133,526,248.22</u>

- (d) The tax losses that are not recognized as deferred tax assets will expire in the following years:

	31 December 2013	31 December 2012
2013	–	17,539,311.81
2014	20,651,753.02	21,659,097.66
2015	6,723,985.46	13,246,797.36
2016	10,573,746.33	10,978,815.15
2017	12,361,462.33	11,404,043.21
2018	31,464,494.96	–
	<u>81,775,442.10</u>	<u>74,828,065.19</u>

- (e) The temporary differences on which deferred tax assets are recognized are summarised as follows

	31 December 2013	31 December 2012
Impairment provision of construction in progress	1,121,052.88	1,121,052.88
Impairment provision of long-term equity investment	3,610,204.88	3,610,204.88
Provision for declines in values of inventories	6,924,281.04	9,540,880.31
Provision for bad debts	34,576,196.17	31,734,749.19
Impairment provision of fixed assets	16,544,336.31	16,085,021.22
Difference arising from accounting and tax depreciations of fixed assets	13,115,904.02	9,095,115.89
Changes in fair value of financial assets held for trading	2,148,708.10	2,635,455.32
Employee benefits payable	160,508,115.50	162,179,950.91
Other payables	890,213,675.30	223,047,278.78
Other non-current liabilities	81,608,906.39	80,786,260.13
Deductible tax losses	15,723,501.22	35,973,216.05
Elimination of unrealized profits arising from the inter-company transaction	58,447,970.75	70,607,032.22
Provision for impairment of intangible assets	480,700.24	2,448,806.43
Difference arising from accounting and tax amortizations of intangible assets	2,111,720.43	567,499.85
Long term prepaid expenses	–	319,765.59
Provisions	500,191.19	500,191.19
Others	–	2,723,239.55
	<u>1,287,635,464.42</u>	<u>652,975,720.39</u>

- (f) The temporary differences on which deferred tax liabilities were recognized are summarised as follows

	31 December 2013	31 December 2012
Other receivables-rental income	5,329,706.31	7,741,993.71
Changes in fair value of available-for-sale financial assets	6,398,173.42	8,868,480.43
Depreciation balance of fixed assets revaluation	2,250,012.00	2,344,296.00
Amortisation balance of intangible assets revaluation	9,063,256.00	9,295,648.00
	<u>23,041,147.73</u>	<u>28,250,418.14</u>

(20) Provision for asset impairment

	31 December 2012	Current Increase	Current period reductions			31 December 2013
			Reversal	Write-off	Other decrease	
Provision for bad debts	104,466,232.23	5,949,798.92	632,310.44	58,415,642.22	3,597,411.22	47,770,667.27
Provision for declines in value of inventories	15,086,007.36	9,328,364.80	2,458,618.02	6,536,949.86	500,499.52	14,918,304.76
Impairment provision of long-term equity investments	4,553,551.23	-	-	-	-	4,553,551.23
Impairment provision of fixed assets	20,061,484.89	612,824.67	-	232,462.61	-	20,441,846.95
Impairment provision of construction in progress	1,121,052.88	-	-	-	-	1,121,052.88
Impairment provision of intangible assets	1,403,611.28	114,005.00	-	-	-	1,517,616.28
Impairment provision of goodwill	475,756.92	-	-	-	-	475,756.92
	<u>147,167,696.79</u>	<u>16,004,993.39</u>	<u>3,090,928.46</u>	<u>65,185,054.69</u>	<u>4,097,910.74</u>	<u>90,798,796.29</u>

(21) Short-term borrowings

	31 December 2013	31 December 2012
Credit borrowings	429,751,500.77	510,217,807.78
Pledge borrowings	9,900,000.00	–
Guaranteed bank borrowings	70,000,000.00	171,000,000.00
	<u>509,651,500.77</u>	<u>681,217,807.78</u>

- (a) As at 31 December 2013 and 31 December 2012, there are no overdue short-term borrowings.
- (b) As at 31 December 2013 and 31 December 2012, there are no borrowings under mortgaged.
- (c) As at 31 December 2013, the pledged bank borrowings amounted to RMB9,900 thousand, which of accounts receivables amounted to RMB11,000 thousand (as at 31 December 2012: nil).
- (d) As at 31 December 2013, the weighted average interest rate of short-term borrowings is 6.0456% per annum (as at 31 December 2012: 6.1691% per annum).
- (e) As at 31 December 2013, the short-term borrowings including balance of foreign currency are summarized as follows:

	31 December 2013			31 December 2012		
	Foreign currency	Exchange rate	RMB	Foreign currency	Exchange rate	RMB
USD	<u>1,290,000.00</u>	<u>6.1325</u>	<u>7,910,925.00</u>	<u>790,360.00</u>	<u>6.2855</u>	<u>4,967,807.78</u>

(22) Notes payable

	31 December 2013	31 December 2012
Bank acceptance notes	93,173,655.25	75,970,070.30
Commercial acceptance notes	37,600,000.00	–
	<u>130,773,655.25</u>	<u>75,970,070.30</u>

As at 31 December 2013, notes payable amounting to RMB130,774 thousand were expected to be due within 1 year (as at 31 December 2012: RMB75,970 thousand).

(23) Accounts payable

(a) Details of accounts payable:

	31 December 2013		31 December 2012	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	1,440,862,487.84	97.99%	1,055,453,503.56	97.67%
Over 1 year	29,498,049.77	2.01%	25,144,030.97	2.33%
	<u>1,470,360,537.61</u>	100.00%	<u>1,080,597,534.53</u>	100.00%

(b) As at 31 December 2013 and 31 December 2012, there are no accounts payable to shareholders who hold more than 5% (including 5%) of the voting rights of the Company.

(c) As at 31 December 2013, the amount of accounts payable to related parties accounted for 0.89% of the total balance (as at 31 December 2012: 1.26%); refer to Note 6 for details.

(d) As at 31 December 2013 and 31 December 2012, there are no accounts payable that are individually significant whose aging are over 1 year.

(e) Accounts payable denominated in foreign currencies are summarised as follows:

	31 December 2013			31 December 2012		
	Amount	Exchange rate	RMB	Amount	Exchange rate	RMB
USD	873,224.05	6.0969	5,323,959.71	2,124,843.11	6.2855	13,355,672.72
HKD	10,826.68	0.7862	8,512.25	3,442,121.10	0.8108	2,791,043.89
EUR	-	Not applicable	-	13,460.00	8.3132	111,896.21
			<u>5,332,471.96</u>			<u>16,258,612.82</u>

(24) Advances from customers

(a) Details of advances from customers

	31 December 2013		31 December 2012	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	852,478,967.90	97.36%	600,613,501.37	98.66%
Over 1 year	23,100,579.42	2.64%	8,168,206.35	1.34%
	<u>875,579,547.32</u>	100.00%	<u>608,781,707.72</u>	100.00%

(b) As at 31 December 2013 and 31 December 2012, there are no advances from shareholders who hold more than 5% (including 5%) of the voting rights of the Company

(c) As at 31 December 2013, advances from related parties accounted for 2.23% of the total balance (as at 31 December 2012: 4.81%); refer to Note 6 for details.

(d) As at 31 December 2013 and 31 December 2012, there are no advances from customers that are individually significant whose aging are over 1 year.

(e) Advances from customers denominated in foreign currencies are summarised as follows:

	31 December 2013			31 December 2012		
	Amount	Exchange rate	RMB	Amount	Exchange rate	RMB
USD	170,548.62	6.1705	1,052,365.24	847,336.02	6.3174	5,352,984.07
HKD	21,019.20	0.7923	16,653.51	28,022,259.73	0.8109	22,722,514.31
EUR	-	Not applicable	-	295,982.00	8.3132	2,460,569.29
			<u>1,069,018.75</u>			<u>30,536,067.67</u>

(25) Employee benefits payable

	31 December 2012	Current increase	Current decrease	31 December 2013
Wages and salaries, bonuses, allowances and subsidies	161,523,525.56	2,013,415,667.71	1,866,815,957.75	308,123,235.52
Staff welfare	385,730.60	96,139,614.52	96,005,303.07	520,042.05
Social insurances	517,520.10	275,843,949.40	276,165,291.84	196,177.66
Including: Medical insurance	(7,341.30)	66,120,652.19	66,118,145.79	(4,834.90)
Basic pension insurance	350,005.62	142,756,935.89	143,102,107.06	4,834.45
Annuity	179,667.77	42,369,985.77	42,350,377.73	199,275.81
Unemployment insurance	2,569.89	10,547,639.61	10,547,262.09	2,947.41
Work injury insurance	-	5,994,743.17	5,994,450.76	292.41
Maternity insurance	(7,381.88)	5,674,101.69	5,674,101.69	(7,381.88)
Other insurances	-	2,379,891.08	2,378,846.72	1,044.36
Housing funds	216,941.41	105,606,651.29	105,816,839.00	6,753.70
Labor union funds and employee education funds	4,274,288.66	29,927,052.04	29,260,075.75	4,941,264.95
Non-monetary welfare	-	2,587,381.76	2,587,381.76	-
Compensation for lay-off	-	1,504,544.18	1,504,544.18	-
Housing allowance	19,503,820.29	17,391,252.10	18,016,609.59	18,878,462.80
Staff and workers' bonus and welfare fund	4,909,965.67	3,404.94	4,481,465.67	431,904.94
Others	1,135,148.00	13,745,156.46	13,550,218.25	1,330,086.21
	<u>192,466,940.29</u>	<u>2,556,164,674.40</u>	<u>2,414,203,686.86</u>	<u>334,427,927.83</u>

As at 31 December 2013, employee benefits payable mainly include the wages, bonus and service fee of December 2013 which were accrued but have not been paid. No defaulted payables are included in the employee benefits and the balance is estimated to be used up in the year of 2014.

(26) Taxes payable

	31 December 2013	31 December 2012
VAT	127,220,262.33	45,037,064.85
Business tax	1,185,744.57	1,219,665.04
City maintenance and construction tax	10,083,347.34	4,187,031.94
Education surcharge	4,335,021.46	1,862,207.15
Local education surcharge	2,922,209.28	1,170,452.64
Enterprise income tax	240,323,868.00	86,016,944.13
Individual income tax	9,234,519.98	8,229,720.63
Land appreciation tax	–	15,236.00
Real-estate tax	1,033,448.20	1,010,788.36
Urban area embankment maintenance fee	6,381,581.35	5,320,581.51
Stamp duty	651,616.40	460,737.39
Others	12,069.47	1,617.33
	<u>403,383,688.38</u>	<u>154,532,046.97</u>

(27) Interest payable

Item	31 December 2013	31 December 2012
Interest payable of short-term borrowings	<u>675,414.98</u>	<u>1,069,051.16</u>

(28) Dividends payable

Investor	31 December 2013	31 December 2012
Public shares	77,540,811.00	778.11
Baiyunshan Group	45.01	45.01
Minority shareholders	<u>35,972,445.12</u>	<u>25,442,830.79</u>
	<u>113,513,301.13</u>	<u>25,443,653.91</u>

(29) Other payables**(a)** The aging of other payables is analysed as follows:

	31 December 2013	31 December 2012
Within 1 year	1,075,363,506.40	575,791,829.78
Over 1 year	136,349,000.64	78,479,985.85
	<u>1,211,712,507.04</u>	<u>654,271,815.63</u>

(b) Other payables are analysed by categories as follows:

	31 December 2013	31 December 2012
Deposits	84,113,878.93	70,859,551.72
Technology development expenses	1,032,360.91	523,747.85
Rental expenses	785,699.69	824,335.92
Payables to third parties	101,140,187.61	75,149,025.34
Amount due to employees	8,180,604.37	9,522,314.75
Payables to related parties (<i>Note 6(5)</i>)	32,381,184.74	19,325,960.05
Accruals for purchase of fixed assets	7,530,558.54	7,220,848.99
Sales rebate	313,958,358.03	164,716,926.03
Accrued expenses	636,423,766.90	289,101,764.45
Others	26,165,907.32	17,027,340.53
	<u>1,211,712,507.04</u>	<u>654,271,815.63</u>

(c) Details of accrued expenses:

	31 December 2013	31 December 2012
Rental expenses	4,788,163.36	4,615,372.88
Agent fees	5,239,164.72	14,065,872.20
Advertising expenses	434,784,769.45	183,959,826.29
Utilities	2,931,629.82	4,020,583.74
Transportation expenses	116,858,313.12	46,439,123.26
Conference expenses	7,009,258.62	4,005,350.93
Research and development expenses	7,708,976.20	3,608,789.40
Marketing expenses	6,396,288.30	9,828,754.99
Travelling expenses	3,495,518.50	3,117,490.40
Consulting expenses	10,730,986.80	6,977,935.69
Trademark expenses	3,000,000.00	3,000,000.00
Others	33,480,698.01	5,462,664.67
	<u>636,423,766.90</u>	<u>289,101,764.45</u>

- (d) As at 31 December 2013, other payables to shareholders who hold more than 5% (including 5%) of the voting rights of the Company are other payables of RMB30,835 thousand to GPLH (as at 31 December 2012: RMB16,551 thousand to GPLH).
- (e) As at 31 December 2013, other payables to related parties accounted for 2.67% of the total balance (as at 31 December 2012: 2.95%); refer to Note 6 for details.
- (f) As at 31 December 2013 and 31 December 2012, significant other payables whose aging are over 1 year mainly include unsettled balance for purchase of fixed assets and intangible assets, and purchase deposit.
- (g) As at 31 December 2013, all other payables are denominated in foreign currencies as follows:

	31 December 2013			31 December 2012		
	Foreign currency	Exchange rate	RMB	Foreign currency	Exchange rate	RMB
HKD	2,626,071.75	0.7862	2,064,696.40	3,168,039.16	0.8109	2,568,804.55
			<u>2,064,696.40</u>			<u>2,568,804.55</u>

(30) Long-term borrowings

(a) Classification of long-term borrowings:

Category of borrowings	31 December 2013	31 December 2012
Credit borrowings	8,627,419.10	—

(b) Top five of the long-term borrowings:

Company	Beginning	Ending	Currency	Ratio (%)	31 December 2013	31 December 2012
Industrial Bank Co., Ltd Guangzhou Branch	2013-7-15	2016-2-25	RMB	6.40	2,473,319.50	—
Industrial Bank Co., Ltd Guangzhou Branch	2013-8-29	2016-2-25	RMB	6.40	1,733,516.70	—
Industrial Bank Co., Ltd Guangzhou Branch	2013-6-27	2016-2-25	RMB	6.40	1,156,758.00	—
Industrial Bank Co., Ltd Guangzhou Branch	2013-9-22	2016-2-25	RMB	6.40	1,204,062.00	—
Industrial Bank Co., Ltd Guangzhou Branch	2013-10-14	2016-2-25	RMB	6.40	751,640.70	—

(31) Long-term payables

	31 December 2013	31 December 2012
State fund	18,864,953.57	21,014,110.79
Department of Finance of Guangxi Zhuang Autonomous Region	2,264,426.47	2,264,426.47
State Pharmaceutical Administration	305,000.00	305,000.00
Others	781,372.36	829,932.36
	<u>22,215,752.40</u>	<u>24,413,469.62</u>

(32) Special payables

	31 December 2013	31 December 2012
Compensation of relocation	<u>19,058,160.00</u>	<u>–</u>

(33) Predicted liabilities

	31 December 2013	31 December 2012
Predicted loss of rejection on goods	<u>500,191.19</u>	<u>500,191.19</u>

(34) Other non-current liabilities

Item	Opening balance	Current increase of subsidy	Current revenue form non-operation	For cooperation	Other decrease	Ending balance
Government grants related to assets:						
Including:						
Technology funds granted by government	40,264,856.27	7,596,000.00	5,620,322.73	-	-	42,240,533.54
Relocation compensation	3,261,367.57	-	365,644.44	-	-	2,895,723.13
Financial discount	2,024,553.03	-	71,866.92	-	-	1,952,686.11
Special fund of environmental protection	5,685,277.72	704,296.24	789,764.82	-	-	5,599,809.14
Innovating platform construction	7,855,927.73	700,000.00	4,333,332.13	-	-	4,222,595.60
Others	3,419,562.08	1,212,000.00	1,195,261.12	-	-	3,436,300.96
Government grants related to income:						
Including:						
Technology funds granted by government	61,795,720.51	23,198,408.37	25,711,833.71	3,610,525.00	-	55,671,770.17
Special fund of technology exports	817,232.06	-	485,433.33	-	-	331,798.73
Medical industrial research project	3,101,199.39	19,905.00	797,678.25	-	-	2,323,426.14
Special fund of energy-saving improvement	726,000.00	174,000.00	166,050.00	-	-	733,950.00
Special fund of innovative firms	1,173,848.23	-	750,470.02	-	-	423,378.21
Others	2,943,207.80	10,584,263.76	1,091,155.46	9,630,300.00	-	2,806,016.10
Appropriation to Long-term services fund	301,971.08	8,150.06	-	-	16,582.96	293,538.18
Total	<u>133,370,723.47</u>	<u>44,197,023.43</u>	<u>41,378,812.93</u>	<u>13,240,825.00</u>	<u>16,582.96</u>	<u>122,931,526.01</u>

(35) Share capital

	31 December 2012		Current increase (+) decrease (-)					31 December 2013	
	Amount	% of the total balance	Issued shares	Shares dividends	Transfer from reserves	Others	Subtotal	Amount	% of the total balance
Shares with restriction of trading –									
State-owned shares	-	-	-	-	-	-	-	-	-
State-owned legal person shares	-	-	34,839,645.00	-	-	-	34,839,645.00	34,839,645.00	2.70
Other domestic shares	-	-	-	-	-	-	-	-	-
Including:									
Domestic non-state-owned legal person shares	-	-	-	-	-	-	-	-	-
Domestic natural person shares	-	-	-	-	-	-	-	-	-
Foreign shares	-	-	-	-	-	-	-	-	-
Including:									
Foreign legal person shares	-	-	-	-	-	-	-	-	-
Foreign natural person shares	-	-	-	-	-	-	-	-	-
Shares with restriction of trading-subtotal	-	-	34,839,645.00	-	-	-	34,839,645.00	34,839,645.00	2.70
Shares without restriction of trading:									
RMB ordinary shares	591,000,000.00	72.88	445,601,005.00	-	-	-	445,601,005.00	1,036,601,005.00	80.27
Foreign shares listed in the PRC	-	-	-	-	-	-	-	-	-
Foreign shares listed out of the PRC	219,900,000.00	27.12	-	-	-	-	-	219,900,000.00	17.03
Others	-	-	-	-	-	-	-	-	-
Shares without restriction of trading-subtotal	810,900,000.00	100.00	445,601,005.00	-	-	-	445,601,005.00	1,256,501,005.00	97.30
Total share capital	810,900,000.00	100.00	480,440,650.00	-	-	-	480,440,650.00	1,291,340,650.00	100.00

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

	31 December 2011		Current increase (+) decrease (-)					31 December 2012	
	Amount	% of the total balance	Issued shares	Shares dividends	Transfer from reserves	Others	Subtotal	Amount	% of the total balance
Shares with restriction of trading -									
State-owned shares	-	-	-	-	-	-	-	-	-
State-owned legal person shares	-	-	-	-	-	-	-	-	-
Other domestic shares	-	-	-	-	-	-	-	-	-
Including:									
Domestic non-state-owned legal person shares	-	-	-	-	-	-	-	-	-
Domestic natural person shares	-	-	-	-	-	-	-	-	-
Foreign shares	-	-	-	-	-	-	-	-	-
Including:									
Foreign legal person shares	-	-	-	-	-	-	-	-	-
Foreign natural person shares	-	-	-	-	-	-	-	-	-
Shares with restriction of trading-subtotal	-	-	-	-	-	-	-	-	-
Shares without restriction of trading:									
RMB ordinary shares	591,000,000.00	72.88	-	-	-	-	-	591,000,000.00	72.88
Foreign shares listed in the PRC	-	-	-	-	-	-	-	-	-
Foreign shares listed out of the PRC	219,900,000.00	27.12	-	-	-	-	-	219,900,000.00	27.12
Others	-	-	-	-	-	-	-	-	-
Shares without restriction of trading-subtotal	810,900,000.00	100.00	-	-	-	-	-	810,900,000.00	100.00
Total share capital	810,900,000.00	100.00	-	-	-	-	-	810,900,000.00	100.00

Note: The Company executed and completed the material assets reorganization transaction, which is including: (1) The Company issued an addition of 445,601,005 A shares by way of share swap to absorb and merger Baiyunshan, a subsidiary of GPHL, in May 2013. (2) The Company issued an addition of 34,839,645 A shares to GPHL as consideration payment, to acquire the buildings and trademarks which are owned by GPHL or GPHL has the right to dispose, and 100% equities of Guangyao Baiyunshan (Hong Kong) Limited, a subsidiary of GPHL, and 12.5% equities of Baxter Healthcare held by GPHL. The Company completed the registration of share on 5 July 2013. After the above-mentioned assets reorganization was completed, the Company's total share capital was 1,291,340,650. The addition A shares issued by way of share swap to absorb and merger Baiyunshan in May 2013, and the addition A shares issued to acquire the relevant assets held by GPHL in June 2013, have been verified by Capital Verification Report issued by BDO CHINA SHU LUN PAN CPAs LLP with reference is Xin Hui Shi Bao Zi [2013] No.410242 and Xin Hui Shi Bao Zi [2013] No.410253 respectively.

(36) Capital surplus

	31 December 2012	Current increase	Current decrease	31 December 2013
Share premium	914,006,770.47	795,936,263.43	–	1,709,943,033.90
Other capital surplus	788,767,102.30	4,767,828.90	9,689,886.41	783,845,044.79
Including: Transfer of capital surplus recognized under the previous accounting system	<u>24,955,836.66</u>	<u>–</u>	<u>–</u>	<u>24,955,836.66</u>
	<u><u>1,702,773,872.77</u></u>	<u><u>800,704,092.33</u></u>	<u><u>9,689,886.41</u></u>	<u><u>2,493,788,078.69</u></u>
	31 December 2011	Current increase	Current decrease	31 December 2012
Share premium	914,006,770.47	–	–	914,006,770.47
Other capital surplus	788,532,547.33	234,554.97	–	788,767,102.30
Including: Transfer of capital surplus recognized under the previous accounting system	<u>24,955,836.66</u>	<u>–</u>	<u>–</u>	<u>24,955,836.66</u>
	<u><u>1,702,539,317.80</u></u>	<u><u>234,554.97</u></u>	<u><u>–</u></u>	<u><u>1,702,773,872.77</u></u>

The fluctuation of the capital surplus in current period was due to:

(a) Details of movement of share premium:

- (i) As in May, 2013 the Company merger Baiyunshan under common control and transfer the surplus reserve amounted to RMB118,559 thousand and undistributed profits amounted to RMB793,598 thousand into the capital surplus of the Company amounted to RMB912,157 thousand on 31 May 2013.
- (ii) The Company issued 30,101 thousand shares to acquire the relevant assets of GPHL at current period, the fair value of the acquired assets exceed the issued shares for RMB334,119 thousand, the Company increase capital surplus RMB334,119 thousand accordingly.
- (iii) The Company issued 445,601 thousand shares by way of share swap to absorb and merger Baiyunshan, Upon the completion of acquiring Guangyao Baiyunshan (Hong Kong) Limited by issuing 4,739 thousand shares to GPHL, the Company will transfer the capital surplus arising from common control when preparing the 2012 financial statements and decrease RMB450,340 thousand of capital surplus.

(b) Details of other movement for capital surplus:

Details of increment are mainly for:

- (i) The capital surplus amounted to RMB1,261 thousand of Nuocheng, a joint venture of Baidi (a subsidiary of the Company), is recognized by the shares proportion held by Baidi.
- (ii) Chenliji Medical Factory, a subsidiary of the Company, transfer the long-term payables to capital surplus amounted to RMB2,149 thousand in current period.
- (iii) QiXing Pharmaceutical, a subsidiary of the Company, scrap the fixed assets from investment in capital and transfer the assessed appreciation as an addition to capital surplus amounted to RMB1,358 thousand.

Details of reduction are mainly for:

- (i) The decrease of capital surplus amounted to RMB1,635 thousand is due to the net changes in fair value of available-for-sale financial assets held by the Group, which include the decrease of RMB1,233 thousand due to the decline in the price of the A-share of China Everbright Bank Company Limited held by the Group and the decrease of RMB402 thousand due to the increase in the price of the A-share of Bank of Communications held by the Group.
- (ii) The recognized investment losses of Pan Gao Shou arising from the purchasing of 10% minority shareholding of Guangzhou Pan Gao Shou Health Products Co., Ltd. and the net assets difference is allocated against capital surplus. The portion calculated at the increased shareholding ratio of the Group is RMB3,348 thousand.
- (iii) As the capital surplus of GP Corp., a jointly controlled entity, decreased in the current period, the Group recognized the decrease in capital surplus amounted to RMB64 thousand based on its share of interest in GP Corp..
- (iv) As the sales of Bozhou Baiyunshan, a subsidiary of the Company, in the current period, the Group recognized the decrease in capital surplus amounted to RMB4,644 thousand based on its share of interest.

(37) Surplus reserve

	31 December 2012	Current increase	Current decrease	31 December 2013
Statutory surplus reserve	668,805,957.33	55,083,461.99	118,995,283.05	604,894,136.27
Free surplus reserve	118,925,617.49	—	—	118,925,617.49
	<u>787,731,574.82</u>	<u>55,083,461.99</u>	<u>118,995,283.05</u>	<u>723,819,753.76</u>
	31 December 2011	Current increase	Current decrease	31 December 2012
Statutory surplus reserve	609,922,085.52	58,883,871.81	—	668,805,957.33
Free surplus reserve	118,925,617.49	—	—	118,925,617.49
	<u>728,847,703.01</u>	<u>58,883,871.81</u>	<u>—</u>	<u>787,731,574.82</u>

The fluctuation of the surplus reserve in current period was due to:

- (a) As the sales of Bozhou Baiyunshan, a subsidiary of the Company, in the current period, the Group recognized the decrease in surplus reserve amounted to RMB437 thousand based on its share of interest.
- (b) As in May 2013, the Company absorbed and merged Baiyunshan under common control and transfer the surplus reserve amounted to RMB118,559 thousand into the capital surplus of the Company on 31 May 2013.

In accordance with the Company Law and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated up to 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the share capital after approval from the relevant authorities.

The appropriation of discretionary surplus reserve should be proposed by the Board of Directors and approved by the General Meeting of Shareholders. The discretionary surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities.

(38) Undistributed profits

	The year ended 2013	The year ended 2012
Undistributed profits at the beginning of the year (before adjustments)	2,271,551,430.93	1,708,283,539.83
Adjustments of undistributed profits at the beginning of the year (Add: positive; Less: negative)	–	–
Undistributed profits at the beginning of the year (after adjustments)	2,271,551,430.93	1,708,283,539.83
Add: Net profit for the current period	980,045,077.10	729,039,715.80
Less: Appropriation for statutory surplus reserve	55,083,461.99	58,883,871.81
Less: distributed dividends	77,480,439.00	106,887,952.89
Less: Others	788,518,023.69	–
Undistributed profits at the end of the period	<u>2,330,514,583.35</u>	<u>2,271,551,430.93</u>

- (a) As at 31 December 2013, surplus reserves of the Company's subsidiaries amounted to RMB260,413 thousand is included in undistributed profits (as at 31 December 2012: RMB163,832 thousand).
- (b) As the sales of Bozhou Baiyunshan, a subsidiary of the Company, Capital surplus and surplus reserve which amounted to RMB5,080 thousand at the beginning of period shall transfer to the undistributed profits at the end of period.
- (c) As in May 2013, the Company absorbed and merged Baiyunshan under common control and transfer the undistributed profits amounted to RMB793,598 thousand into the capital surplus of the Company on 31 May 2013.
- (d) Pursuant to the special resolution of board of shareholders on 30 December 2013, the Group distributed cash dividends amounted to RMB77,480 thousand which was calculated by issued shares amounted to 1,291,340,650 to all shareholders, total distributed cash dividends was RMB0.06 per share.

(39) Minority interest

Investee	Investment relationship with the Company	31 December 2013	31 December 2012
Xing Qun	Direct subsidiary	17,420,476.04	14,706,616.89
Guangzhou Han Fan	Direct subsidiary	739,958.16	687,926.00
Jing Xiu Tang	Direct subsidiary	15,798,683.13	18,094,021.67
Pan Gao Shou	Direct subsidiary	26,188,640.36	26,671,196.07
Guangzhou Bai Di.	Direct subsidiary	1,353,303.90	1,100,972.57
Xizang Lin Zhi Guangyao Development Co., Ltd.	Indirect subsidiary	504,211.67	647,392.22
Guangxi Ying Kang	Direct subsidiary	12,835,636.05	16,678,285.66
Qi Xing	Indirect subsidiary	40,464,535.07	40,462,248.66
Jingyuxian Guangyao Dong E Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	2,121,374.24	1,200,000.00
Jing Xiu Tang 1790	Indirect subsidiary	1,702,636.79	1,428,624.84
Guangzhou Yi Gan	Direct subsidiary	1,810,821.14	2,868,856.19
Pan Gao Shou Natural Healthcare	Indirect subsidiary	–	829,359.13
Chongqing Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	600,000.00	–
Tian Xin	Direct subsidiary	29,386,276.81	27,285,374.39
Guang Hua	Direct subsidiary	16,875,197.94	15,784,594.46
Baiyunshan Pharmaceutical Technology	Direct subsidiary	19,530,387.47	19,410,362.18
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	154,518.27	200,000.00
Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	566,886.28	600,000.00
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	1,218,351.63	955,398.17
Heilongjiang Sengong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	1,196,908.11	–
		<u>190,468,803.06</u>	<u>189,611,229.10</u>

(40) Revenue and cost of operation

	The year ended 2013		
	Main operation	Other operation	Subtotal
Revenue	17,463,015,713.01	145,177,599.30	17,608,193,312.31
Cost of operation	11,768,412,156.47	37,882,643.91	11,806,294,800.38
Gross profit	5,694,603,556.54	107,294,955.39	5,801,898,511.93

	The year ended 2012		
	Main operation	Other operation	Subtotal
Revenue	11,914,510,625.16	148,131,163.23	12,062,641,788.39
Cost of operation	8,191,130,028.99	40,807,777.18	8,231,937,806.17
Gross profit	3,723,380,596.17	107,323,386.05	3,830,703,982.22

(a) Revenue cost of main operation by natures are summarised by business as follows:

	Revenue of main operation		Cost of main operation	
	The year ended 2013	The year ended 2012	The year ended 2013	The year ended 2012
Manufacturing	13,789,907,026.39	8,723,604,975.63	8,361,610,824.71	5,249,755,096.49
Trading	3,673,108,686.62	3,190,905,649.53	3,406,801,331.76	2,941,374,932.50
	<u>17,463,015,713.01</u>	<u>11,914,510,625.16</u>	<u>11,768,412,156.47</u>	<u>8,191,130,028.99</u>

(b) Revenue and cost of main operation by regions are summarised as follows:

	Revenue of main operation		Cost of main operation	
	The year ended 2013	The year ended 2012	The year ended 2013	The year ended 2012
Southern China	9,457,012,039.74	7,145,057,584.70	6,630,255,995.44	5,029,012,560.97
Eastern China	3,159,357,942.65	1,851,718,461.85	1,913,095,124.64	1,211,068,513.91
Northern China	1,927,840,504.04	1,044,288,492.18	1,199,122,029.68	634,781,260.71
Northeastern China	336,459,913.14	296,004,722.31	205,408,892.35	173,474,360.83
Southwestern China	1,628,815,574.61	917,798,325.11	1,079,839,055.90	626,249,045.99
Northwestern China	512,189,652.06	313,898,646.24	312,632,160.60	181,119,632.65
Other countries	441,340,086.77	345,744,392.77	428,058,897.86	335,424,653.93
	<u>17,463,015,713.01</u>	<u>11,914,510,625.16</u>	<u>11,768,412,156.47</u>	<u>8,191,130,028.99</u>

- (c) Top five of the revenue of the Group amounted to RMB1,469,063 thousand in total (for the year ended 2012: RMB1,418,971 thousand), which accounts for 8.41% of the total revenue of the Group (for the year ended 2012: 11.91%).

	Revenue of the main operation	Percentage of the total revenue of the main operation of the group
Customer 1	438,298,879.63	2.51%
Customer 2	302,544,437.42	1.73%
Customer 3	265,561,249.15	1.52%
Customer 4	252,511,154.27	1.45%
Customer 5	210,147,496.30	1.20%
	<u>1,469,063,216.77</u>	<u>8.41%</u>

- (d) Revenue from other operation

	The year ended 2013	The year ended 2012
Leases of assets	88,129,864.34	91,518,314.37
Sales of materials	4,663,787.33	7,853,778.59
License fee income	21,164,337.97	14,081,290.91
Consulting fee income	970,951.70	563,352.02
Medicine slotting fee income	302,232.15	433,049.41
Technology services income	1,016,135.40	8,279,901.58
Utilities expense collected on behalf	13,366,355.81	13,060,937.68
Management fee	5,646,937.13	3,709,752.82
Labour income	655,652.24	827,849.94
Others	9,261,345.23	7,802,935.91
	<u>145,177,599.30</u>	<u>148,131,163.23</u>

- (e) Expenditure from other operation

	The year ended 2013	The year ended 2012
Depreciation of assets leased out	17,663,009.61	15,458,132.84
Cost of materials sold	3,710,491.31	4,193,786.36
Utilities expense collected on behalf	11,795,978.89	13,125,558.84
Labour fee	778,505.48	951,100.37
Management fee	67,773.24	115,852.73
Others	3,866,885.38	6,963,346.04
	<u>37,882,643.91</u>	<u>40,807,777.18</u>

(41) Taxes and surcharges

	The year ended 2013	The year ended 2012
Business tax	9,931,569.82	9,064,842.63
City maintenance and construction tax	75,096,142.59	52,886,137.03
Education surcharge	32,810,123.51	22,824,549.70
Local education surcharge	21,856,585.49	15,212,435.28
Housing Real-estate tax	8,550,803.37	8,184,106.78
Others	5,413.70	20,226.16
	<u>148,250,638.48</u>	<u>108,192,297.58</u>

Basis of calculation: refer to Note 3.

(42) Selling and distribution expenses

	The year ended 2013	The year ended 2012
Employee benefit expenses	1,333,219,475.91	768,675,889.25
Sales service fees	88,272,489.34	70,849,900.08
Travelling expenses	106,542,606.69	77,955,751.76
Office expenses	19,998,172.72	13,587,113.20
Transportation expenses	451,344,682.66	170,701,823.32
Rental expenses	20,486,904.28	12,971,920.14
Conference expenses	62,482,286.85	65,265,947.73
Advertising and promotion fees	1,312,860,328.27	719,518,429.76
Consulting fees	26,710,774.86	25,224,748.77
Depreciation charges	2,446,934.53	2,646,967.06
Others	60,946,701.41	44,499,468.45
	<u>3,485,311,357.52</u>	<u>1,971,897,959.52</u>

(43) General and administrative expenses

	The year ended 2013	The year ended 2012
Employee benefit expenses	517,337,413.95	458,344,148.55
Insurance premium	2,170,316.26	1,854,961.98
Depreciation charges	48,948,904.59	47,866,089.44
Utilities	10,285,473.59	9,254,334.30
Administrative expenses	20,943,710.14	22,119,412.87
Travelling expenses	13,135,830.87	11,658,247.41
Transportation expenses	13,865,206.44	11,746,545.78
Repairing expenses	23,217,321.30	19,609,171.59
Rental expenses	17,208,980.88	15,965,302.60
Conference expenses	9,739,650.58	5,775,050.57
Research and development expenses	282,190,575.40	244,293,409.95
Taxation charges	54,083,490.25	38,930,488.71
Amortisation	15,710,985.57	22,066,711.76
Professional service fees	17,346,439.97	28,477,042.76
Audit fees	2,284,000.00	4,104,000.00
Consulting fees	5,133,903.81	4,631,011.56
Trademark License fees	81,172,064.58	32,891,760.47
Others	94,765,084.57	111,443,932.21
	<u>1,227,255,352.75</u>	<u>1,086,927,622.51</u>

(44) Financial expenses

	The year ended 2013	The year ended 2012
Interest expenses	34,980,537.04	57,842,483.64
Discount interest expenses of notes	9,523,235.32	3,179,765.70
Interest income	(17,729,478.85)	(12,289,866.70)
Exchange (gains)/losses	289,808.89	(1,263,969.14)
Bank charges	2,528,073.58	2,826,550.77
Cash discounts	(1,286,879.05)	(791,317.32)
	<u>28,305,296.93</u>	<u>49,503,646.95</u>

For the year ended 2013 and the year ended 2012, all interest expenses belong to borrowings which loan repayment dates are within 5 years.

(45) Asset impairment losses

	The year ended 2013	The year ended 2012
Provision for bad debts	5,317,488.48	3,607,835.59
Declines in values of inventories	6,869,746.78	4,509,811.08
Fixed asset impairment losses	612,824.67	–
Intangible asset impairment losses	114,005.00	35,388.00
	<u>12,914,064.93</u>	<u>8,153,034.67</u>

(46) Profit arising from changes in fair value

	The year ended 2013	The year ended 2012
Gain or loss arising from changes in fair value of listed shares of Hafei Aviation Industry Co., Ltd held by the Group	501,212.70	80,934.00
Loss arising from changes in fair value of listed shares of Harbin Pharmaceutical Group Co., Ltd. held by the Group	(14,465.50)	(332,706.50)
	<u>486,747.20</u>	<u>(251,772.50)</u>

(47) Investment income**(a)** Details of investment income:

	The year ended 2013	The year ended 2012
Investment income from financial assets:		
Income from financial assets held for disposal trading	–	6,034.70
Income from financial assets held for trading	9,249.61	–
Income from available-for-sale financial assets Income from disposal available-for-sale financial assets	441,796.16	21,478.03
Gain or loss of entrusted loans	–	845,976.48
	<u>(974,002.84)</u>	<u>(755,524.96)</u>
	<u>(522,957.07)</u>	<u>117,964.25</u>
Income from long-term equity investment:		
Income from long-term equity investments recognised by equity method	207,391,786.49	249,407,725.45
Income from long-term equity investments recognised by cost method	8,941,351.14	12,344.32
Investment income from disposal of long-term equity investment	3,914,884.21	–
	<u>220,248,021.84</u>	<u>249,420,069.77</u>
	<u>219,725,064.77</u>	<u>249,538,034.02</u>

(b) Details of investment income from long-term equity investments under equity method are as follows:

	The year ended 2013	The year ended 2012
GP Corp.	88,265,143.04	83,968,696.09
Wang Lao Ji	32,303,458.09	70,819,136.24
Nuo Cheng	34,867,354.36	41,981,705.68
Golden Eagle Fund Management Co., Ltd	(7,732,458.87)	(1,112,178.33)
HWBYS	55,028,356.75	50,105,208.26
Baxter Qiao Guang	4,659,933.12	3,645,157.51
	<u>207,391,786.49</u>	<u>249,407,725.45</u>

(48) Non-operating income

	The year ended 2013	The year ended 2012
Gain on disposal of non-current assets	115,668.82	201,820.56
Including: gain on disposal of fixed assets	115,668.82	201,820.56
Government grants	111,537,005.00	36,562,748.58
Penalty income	461,035.18	366,251.26
Sales of scraps	4,716,466.39	1,244,033.47
Waived liabilities	1,036,276.01	1,055,449.80
Compensation for relocation	1,414,785.87	576,000.00
Others	6,565,823.18	5,792,204.13
	<u>125,847,060.45</u>	<u>45,798,507.80</u>

Details of government grants:

Item	The year ended 2013	The year ended 2012
Government grants related to assets:		
Including:		
Technology funds granted from government	5,620,322.73	4,219,254.56
Compensation for relocation	365,644.44	2,184,081.81
Financial discount	71,866.92	–
Specific funds of environmental protection	789,764.82	387,681.50
Innovating platform construction	4,333,332.13	581,633.70
Others	1,195,261.12	1,483,101.22
	<u>12,376,192.16</u>	<u>8,855,752.79</u>

Government grants related to assets:

Including:		
Technology funds granted from government	25,711,833.71	20,724,682.11
Special funds of technology export	485,433.33	516,000.00
Industrialization	797,678.25	143,478.26
Energy conservation improvement funds	166,050.00	–
Special funds of innovate firms	750,470.02	–
Reward of enterprise development	2,193,815.00	–
Prior development funds	66,900,000.00	–
Compensation for difficult enterprises	–	3,000,000.00
Development funds of commercial and trade distribution industry	–	2,000,000.00
Others	2,155,532.53	1,322,835.42
	<u>99,160,812.85</u>	<u>27,706,995.79</u>

Total	<u>111,537,005.00</u>	<u>36,562,748.58</u>
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(49) Non-operating expenses

	The year ended 2013	The year ended 2012
Loss on disposal of non-current assets	3,776,158.49	1,370,583.51
Including: Loss on disposal of fixed assts	3,776,158.49	1,370,583.51
Public welfare donations	9,636,792.96	16,907,768.28
Penalty and overdue fines	1,036,859.64	257,379.96
Others	2,280,423.40	1,515,890.34
	<u>16,730,234.49</u>	<u>20,051,622.09</u>

(50) Income tax expenses

	The year ended 2013	The year ended 2012
Current income tax	370,486,762.09	164,135,794.10
Deferred income tax	<u>(148,243,329.78)</u>	<u>(49,770,439.79)</u>
	<u>222,243,432.31</u>	<u>114,365,354.31</u>

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	The year ended 2013	The year ended 2012
Total profit	<u>1,229,190,439.25</u>	<u>881,062,568.20</u>
Income tax expenses calculated at statutory tax rates	<u>307,297,609.81</u>	<u>220,265,642.05</u>
Tax effect of different rates applicable to subsidiaries	(55,216,213.81)	(60,480,583.77)
Adjust effect for income tax of previous period	(4,052,228.32)	(2,317,109.37)
Gain of loss belong to cooperative enterprise & joint venture	(47,567,066.87)	(56,879,906.06)
Non-taxable revenue	(4,475,492.33)	–
Expenses not deductible for tax purposes	22,921,203.39	15,306,844.10
Tax effect of opening balance on deferred income tax due to changes in tax rate	1,197,689.98	–
Tax effect of deductible temporary differences & deductible loss which are not recognised	<u>2,137,930.46</u>	<u>(1,529,532.64)</u>
Income tax expenses	<u>222,243,432.31</u>	<u>114,365,354.31</u>

(51) Earnings per share**(a) Basic earnings per share***(i) Weighted average basic earnings per share*

Weighted average basic earnings per share is calculated by dividing consolidated net profit for the current year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding:

	The year ended 2013	The year ended 2012
Consolidated net profit attributable to ordinary shareholders of the Company	980,045,077.10	729,039,715.80
Weighted average number of ordinary shares outstanding:	<u>1,276,290,237.50</u>	<u>1,261,239,823.00</u>
Weighted average basic earnings per share of weighted average:	<u>0.768</u>	<u>0.578</u>

(ii) Overall diluted basic earnings per share

Overall diluted basic earnings per share is calculated by dividing consolidated net profit for the current year attributable to ordinary shareholders of the Company by the number of ordinary shares outstanding:

	The year ended 2013	The year ended 2012
Consolidated net profit attributable to ordinary shareholders of the Company	980,045,077.10	729,039,715.80
Weighted average number of ordinary shares outstanding:	<u>1,291,340,650.00</u>	<u>1,261,239,823.00</u>
Weighted average basic earnings per share of weighted average:	<u>0.759</u>	<u>0.578</u>

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusted net profit for the current year attributable to ordinary shareholders by the adjusted weighted average number of ordinary shares outstanding. For the year ended 2013, there were no potential ordinary shares (for the year ended 2012: nil), diluted earnings per share is equal to basic earnings per share.

(52) Other comprehensive income

	The year ended 2013	The year ended 2012
Items will be classified into profit or loss when satisfied with certain conditions at following accounting period:		
Losses arising from available-for-sale financial assets	(2,793,553.70)	1,215,815.80
Less: Income tax effect arising from available-for-sale financial assets	<u>(1,151,307.68)</u>	<u>282,336.93</u>
	<u>(1,642,246.02)</u>	<u>933,478.87</u>
Recognition of share of other comprehensive income of the investee based on equity method	(44,687.03)	6,215.56
Difference on translation of foreign currency financial statements	(1,090,621.46)	(6,358.30)
Others	<u>–</u>	<u>(542,400.00)</u>
Subtotal	<u>(2,777,554.51)</u>	<u>403,652.73</u>
Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period:		
Recognition of share of other comprehensive income of the investee based on equity method	<u>1,260,544.00</u>	<u>–</u>
Total	<u><u>(1,517,010.51)</u></u>	<u><u>403,652.73</u></u>

(53) Notes to the consolidated cash flow statement

(a) Cash received relating to other operating activities

	The year ended 2013	The year ended 2012
Non-operating income	13,158,110.62	4,886,596.35
Other operation income	140,976,599.88	134,195,239.63
Government grants	114,347,065.44	50,610,906.43
Interest income	17,729,478.85	12,289,866.70
Security deposit received and others	13,254,327.21	59,576,246.07
Others	–	140,000.00
	<u>299,465,582.00</u>	<u>261,698,855.18</u>

(b) Cash paid relating to other operating activities

	The year ended 2013	The year ended 2012
Cash payments of selling and distribution expenses	1,554,016,262.18	827,741,479.06
Cash payments of general and administrative expenses	459,353,056.38	350,970,065.82
Financial expenses – bank charges	12,051,308.90	5,059,171.68
Others	49,292,616.97	70,000,186.52
	<u>2,074,713,244.43</u>	<u>1,253,770,903.08</u>

(c) Cash received relating to other investing activities

	The year ended 2013	The year ended 2012
Cash received from repayment of deposits for short-term loan	–	31,058,849.42
Cash received from bankruptcy liquidation of South Securities Company	255,055.04	212,545.86
Interest received from securities accounts	2,861.70	240.69
	<u>257,916.74</u>	<u>31,271,635.97</u>

(d) Cash paid relating to other investing activities

	The year ended 2013	The year ended 2012
Tax expenses arising from the interest income of entrusted loans	2,809,291.91	2,620,450.25
Subsidiaries sold	131,066.64	–
Deposits for short-term loan	–	3,220,000.00
	<u>2,940,358.55</u>	<u>5,840,450.25</u>

(54) Supplementary information of cash flow statements

(a) Supplementary information of cash flow statements

(i) Reconciliation of net profit to cash flow operating activities

	The year ended 2013	The year ended 2012
Net profit	1,006,947,006.94	766,697,213.91
Add: Provision for assets impairment	12,914,064.93	8,153,034.67
Depreciation of fixed assets, and depreciation and amortisation of Investment properties	174,446,151.32	172,217,576.66
Amortisation of intangible assets	7,169,137.52	9,648,557.10
Amortisation of long-term prepaid expenses	3,907,136.82	5,202,598.17
Loss (less: gain) on disposal of fixed assets, intangible assets and other long-term assets	2,092,207.44	(123,073.04)
Loss on scrapping of fixed assets	1,568,282.23	1,291,835.99
Loss (less: gain) on changes in fair value	(486,747.20)	251,772.50
Financial expenses	32,839,436.85	55,927,565.83
Investment gain	(219,725,064.77)	(249,538,034.02)
Decrease in deferred tax assets	(147,260,480.07)	(49,254,874.79)
Increase/(less: decrease) in deferred tax liabilities	(982,849.70)	(515,565.01)
Decrease in inventories	(186,300,861.12)	(506,899,687.25)
Decrease of operating receivables	(975,084,800.52)	(283,158,926.56)
Increase of operating payables	1,627,097,518.15	1,071,533,448.15
Others	–	(2,203,017.71)
	<u>1,339,140,138.82</u>	<u>999,230,424.60</u>
Net cash flows from operating activities	<u>1,339,140,138.82</u>	<u>999,230,424.60</u>

(ii) Investing and financing activities that do not involve cash receipts and payments

	The year ended 2013	The year ended 2012
Conversion of debt into capital	–	–
Convertible company bonds due within one year	–	–
	<u>–</u>	<u>–</u>
Fixed assets held under finance leases	<u>–</u>	<u>–</u>

(iii) Net movement in cash and cash equivalents

	The year ended 2013	The year ended 2012
Cash at the end of period	1,918,952,286.86	1,114,346,524.75
Less: cash at the beginning of year	1,114,346,524.75	626,289,432.69
Add: cash equivalents at end of the period	–	–
Less: cash equivalents at beginning of the year	–	–
	<hr/>	<hr/>
Net movement in cash and cash equivalents	<u>804,605,762.11</u>	<u>488,057,092.06</u>

The cash and cash equivalents do not include housing fund of RMB575 thousand, construction security deposit of RMB101 thousand and security deposit for bank payable notes of RMB16,053 thousand.

(b) Details of cash and cash equivalents

	The year ended 2013	The year ended 2012
Cash	1,918,952,286.86	1,114,346,524.75
Including: Cash on hand	757,750.42	2,235,877.56
Bank deposits that are readily available for payment	1,887,888,931.77	1,101,540,247.88
Other cash that are readily available for payment	30,305,604.67	10,570,399.31
Cash equivalents	<hr/> –	<hr/> –
Total cash and cash equivalents	<u>1,918,952,286.86</u>	<u>1,114,346,524.75</u>

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) General information of the parent company:

Name of the Parent company	Relationship	Business Type	Registration place	Legal Representative	Nature of business	Registered Capital (RMB '0000)	% equity interest	% voting rights	Ultimate holding company	Organization code
GPHL	Parent Company	Limited liability company (wholly state-owned)	No. 45, North Street, Shamian, Guangzhou	Li Chuyuan	Manufacturing and trading	125,281	45.24%	45.24%	Guangzhou State-owned Assets Supervision and Administration Commission	23124735-0

Registered capital and changes in registered capital of the parent company:

31 December 2013
(RMB '0000)

GPHL	<u>125,281</u>
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The percentage of equity interests and voting rights held by the parent company in the Company:

31 December 2013

	% equity interest held	% voting rights held
GPHL	<u>45.24%</u>	<u>45.24%</u>

(2) Information of subsidiaries

For the general information and related information of the subsidiaries, please refer to Note 4.

(3) Information of Jointly controlled entities and Associates

Name of related party	Business Type	Registration address	Legal Representative	Nature of business	Registered Capital (RMB '0000)	% equity interest	% voting rights	Code of Organization
1. Jointly controlled entities								
GP Corp.	Sino-foreign joint venture	Guangzhou	Li Bingrong	Trading of medicine and medical apparatus	70,000	50.00%	50.00%	73296653-X
Wang Lao Ji	Sino-foreign joint venture	Guangzhou	Wang Jianyi	Production and sales of Chinese Medicine, beverage and candies.	20,476	48.05%	48.05%	19047976-0
Nuo Cheng	Stock Corporation	Guangzhou	Zhou Lijian	Production of Freeze-dried rabies vaccine for human use; import of goods, import & export of technology	8,400	49.24%	50.00%	78608627-1
HWBYS	Sino-foreign joint venture	Guangzhou	Du Zhiqiang	Manufacture, construction engineering, research & development and sales of medicine, health product, food & Chinese medicinal herbs	20,000	50.00%	50.00%	773303038
Baxter Qiao Guang	Sino-foreign joint venture	Guangzhou	Chen Mao	Manufacturing of high-capacity inj. and imports, wholesale of medicine.	17,750	50.00%	50.00%	661806271
2. Associates								
Hangzhou Zheda Han Fang Chinese Medical Info. Engineering Co., Ltd.	Limited Liability Company	Hangzhou	Qu Haibin	Technological development service	100	44.00%	44.00%	73843530-X
Golden Eagle Fund Management Co., Ltd	Limited Liability Company	Zhuhai	Liu Dong	Fund management	25,000	20.00%	20.00%	74448348-X
Guangzhou Jinshen Medical Co., Ltd.	Limited Liability Company	Guangzhou	Gao Qi	Research and development: natural health products, Chinese medicine and food	200	38.25%	38.25%	751974324
Wei Yi Co., Ltd.	Limited Liability Company	Guangzhou	Qiao Yong	Medical investment management	2,000	50.50%	41.00%	058918922

(4) Information of other related parties that do not control or are controlled by the Group

Name of entity	Relationship with the Group	Organization code
Guangzhou Pharmaceutical Industrial Research Institute	Controlled by the same parent company	455347297
HongKong Xin Min Pharmaceutical Company	Controlled by the same parent company	Not applicable
Baiyun Trading Department	Controlled by the same parent company	Not applicable
Guangzhou Yu Fa Medical Apparatus Co., Ltd.	Controlled by the same parent company	618407881
Foreign trading department of Guangzhou Baiyun Corporation	Controlled by the same parent company	Not applicable
Guangzhou South China Medical Apparatus Co., Ltd.	Controlled by the same parent company	23123789-X

(5) Related party transactions

(a) For the subsidiaries which are controlled by the Company and consolidated into the consolidated financial statements, the transactions amongst them and that between the Company and them have been eliminated.

(b) Purchases of goods from related parties

Name of related party	Type of transaction	Nature of transaction	Pricing Policies and procedures for decision-making	The year ended 2013		The year ended 2012	
				Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
HWBYS	Purchase of goods	Chinese raw medicine or medicine	Market price	71,528,549.27	0.82	13,989,624.52	0.17
GP Corp.	Purchase of goods	Chinese raw medicine or medicine	Market price	134,866,729.29	1.55	141,749,987.30	1.73
Wang Lao Ji	Purchase of goods	Chinese raw medicine or medicine	Market price	11,152,134.58	0.13	19,499,049.45	0.24
				<u>217,547,413.14</u>	<u>2.50</u>	<u>175,238,661.27</u>	<u>2.14</u>

(c) Sales of goods to related parties

Name of related party	Type of transaction	Nature of transaction	Pricing Policies and procedures for decision-making	The year ended 2013		The year ended 2012	
				Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
GPHL	Sales of goods	Chinese raw medicine or medicine	Market price	119,363.01	–	241,595.91	–
Guangzhou Pharmaceutical Industrial Research Institute	Sales of goods	Chinese raw medicine or medicine	Market price	2,670,688.84	0.02	633,323.93	0.01
HWBYS	Sales of goods	Chinese raw medicine or medicine	Market price	171,533,914.60	0.98	109,930,203.02	0.92
GP Corp.	Sales of goods	Chinese raw medicine or medicine	Market price	438,298,879.63	2.51	435,662,445.23	3.67
Wang Lao Ji	Sales of goods	Chinese raw medicine or medicine	Market price	167,405,644.19	0.96	112,848,071.96	0.95
Nuo Cheng	Sales of goods	Chinese raw medicine or medicine	Market price	242,529.93	–	47,179.49	–
Baxter Qiao Guang	Sales of goods	Chinese raw medicine or medicine	Market price	595,546.89	–	85,602.39	–
				<u>780,866,567.09</u>	<u>4.47</u>	<u>659,448,421.93</u>	<u>5.55</u>

(d) Other related party transactions*(i) Guaranteed by related parties and guarantees for related parties:*

1) The company renders guarantee for subsidiaries as follows:

Name of the guaranteed company	Nature of guarantee	Maximum guarantee	Actual amount as at 31	
			December 2013	Duration
Cai Zhi Lin	loans for working capital	30,000,000.00	10,000,000.00	1 year
Cai Zhi Lin	loans for working capital		10,000,000.00	1 year
Cai Zhi Lin	loans for working capital		10,000,000.00	1 year
Cai Zhi Lin	loans for working capital	30,000,000.00	10,000,000.00	1 year
Cai Zhi Lin	loans for working capital	30,000,000.00	30,000,000.00	1 year
Cai Zhi Lin	Bank acceptance notes	30,000,000.00	24,720,000.00	1 year
Guangzhou Han Fan	Bank acceptance notes	10,000,000.00	1,920,000.00	1 year
Pharmaceutical Import & Export	Bank acceptance notes	50,000,000.00	46,110,000.00	1 year
			142,750,000.00	

2) The company renders guarantee for associates as follows:

Name of the guaranteed company	Nature of guarantee	Maximum guarantee	Actual amount as at 31	
			December 2013	Duration
Nuo Cheng	loans for working capital	60,000,000.00	32,000,000.00	one year

Another associate of Nuo Cheng renders the guarantee of joint liability for the above loans.

(ii) Leases

1) Tenancy Agreements

Pursuant to a tenancy agreement entered into by the Company and GPHL, GPHL has granted to the Group the right to use certain premises such as warehouses and offices for a fixed annual rental. The agreement expired on 31 December 2010. The tenancy agreement was renewed by the Company and GPHL on 27 August 2010 with expiry date on 31 December 2013. The 6 subsidiaries of the Group, including Cai Zhi Lin and Qi Xing should pay GPHL RMB679 thousand of the above-mentioned for the current period (for the year ended 2012: RMB1,136 thousand).

2) Office Tenancy Agreement-Second Floor in front stalls and back stalls of GPHL located at No. 45 North Shamian Street

Pursuant to the Office Tenancy Agreement entered into by the Company and GPHL on 1 November 2007, the Company rents the second floor in front stalls of GPHL located at No. 45 North Street Shamian at a fixed annual rent (which is subject to the adjustment of standard rent as prescribed by Guangzhou Real Estate Administration Bureau). The Office Tenancy Agreement expired on 31 August 2010. The Office Tenancy Agreement was renewed by the Company and GPHL on 27 August 2010 with expiry date on 31 August 2013. The lease term is from 1 September 2010 to 31 August 2013.

Pursuant to the Tenancy Agreement entered into by the Company and GPHL on 28 August 1998, GPHL agreed to build a new office building and has granted to the Group the right to use certain premises as the office building (back stalls of GPHL located at No.45 North Shamian Street). The lease payment is at 38% discount of the standard rent as prescribed by Guangzhou Real Estate Administration Bureau on the date when the Official Tenancy Agreement is signed. Since GPHL needed capital to enlarge the new office building, the Company agreed to pay RMB6,000 thousand within 180 days after the Tenancy Agreement was signed. GPHL promised to use the advances only for enlargement of the new office buildings as well as agreed to offset the rental with the advances.

Pursuant to the Office Tenancy Agreement entered into by the Company and GPHL on 6 February 2004, the Company rented the back stalls of GPHL located at No.45 North Shamian Street, the lease term is up to the date when the advances for rentals is completely offset. As at 31 December 2013, balance of the advances for rentals is RMB204 thousand (as at 31 December 2012, ending balance of rental is RMB480 thousand).

The Company should pay GPHL RMB546 thousand regarding the two office tenancy contracts as mentioned above for the current period (for the year ended 2012: RMB1,093 thousand).

As in June 2013, the Company purchased buildings for pharmaceutical manufacturing which is owned by GPHL or GPHL has the right to dispose of, 388 trademarks, 100% equity interest of Guangyao Baiyunshan (Hong Kong) Limited and 12.50% equity interest of Baxter Healthcare by issuing shares to the GPHL as the consideration. The buildings and offices which are rented to Cai Zhi Lin and Second Floor in front stalls and back stalls of GPHL are located at No. 45 North Shamian Street of the above-mentioned tenancy agreement object to the formed part of the assets purchased in exchange for the consideration shares.

Upon the completion of the above-mentioned assets from GPHL, the Company has rented the Fifth Floor in No.45 North Shamian Street of the purchased buildings of to GPHL for office use, with a lease term of 3 years and the rental for this year amounted of RMB255 thousand (as for the year ended 2012: nil).

3) Warehouse and Office Building Tenancy Agreement

Pursuant to the Tenancy Agreement entered into by the Company and GPLH, the Company rents certain buildings to GP Corp. at a fixed annual rental at fixed amount per annum with a lease term from 1 July 2013 to 31 December 2013 and the rental amounted to RMB1,532 thousand (for the year ended 2012: nil).

Pursuant to the Tenancy Agreement entered into by the Company and Baxter Qiao Guang, the Company rents the building located in No.25, Fangcun Avenue to Baxter Qiao Guang at a fixed annual rental at fixed amount per annum with a lease term from 10 May 2007 to the relocated date and the rental amounted to RMB4,800 thousand (for the year ended 2012: RMB4,800 thousand).

Pursuant to the Tenancy Agreement entered into by the Company and GP Corp., the Company rents the building located in No.74, Duobao Road to GP Corp. at a fixed annual return at fixed amount per annum with a lease term from 1 January 2013 to 31 December 2013 and the rental amounted to RMB45 thousand (for the year ended 2012: RMB43 thousand).

Pursuant to the Tenancy Agreement entered into by Guangzhou Baiyunshan Biological Co., Ltd. (“Baidi”) and Nuocheng Biological, Guangzhou Baiyunshan Baidi Biological Co., Ltd. rents the building located in No.1, Wanbao Street North, Panyu District, Guangzhou to Nuocheng Biology at a fixed amount per annum with a lease term from 15 March 2011 to 14 March 2016 and the rental amounted to RMB1,836 thousand (for the year ended 2012: RMB1,750 thousand).

(iii) License Agreement

Pursuant to the Trademark License Agreement entered into by the Group and GPLH on 1 September 1997, GPLH has granted the Group an exclusive right to use 38 trademarks owned by GPLH for a term of 10 years since the License Agreement was signed. The Group agreed to pay a license fee for the use of the trademarks at 0.1% of the aggregate net sales of the Group (not including WLJ Great Health), the Trademark License Agreement will be automatically renewed for a term of 10 years after expiration of the original agreement and will expired on 1 September 2017.

As in June 2013, the Company completed the purchase of the buildings for pharmaceuticals manufacturing which is owned by GPLH or GPLH has the right to dispose, 388 trademarks, 100% equity interest of Guangyao Baiyunshan (Hong Kong) Limited and 12.50% equity of Baxter Healthcare by the consideration of issuing shares to GPLH. The above trademarks formed part of the assets purchased in exchange for the consideration shares. The Group should pay GPLH RMB4,004 thousand of trademarks license fee for the current period (for the year ended 2012: RMB7,057 thousand).

Pursuant to the arrangement of the Confirmation for Delivery of Assets entered into by the Company and GPLH: (1) From the date of the Confirmation for Delivery of Assets was signed, the Company shall have and undertake the total profit or loss of the underlying assets, and the Company shall have and undertake any of the present or prospective right, equity, risk, loss, obligation, responsibility and liability no matter the transfer and/or registration of the underlying assets is completed or not, the Company shall undertake the relevant contingent liabilities and count of law suit; (2) GPLH committed to endeavour the procurement of the transfer of the trademarks, and granted the right for the unconditional use of the trademarks during the transfer; (3) GPLH committed to compensate the Company for cash within 10 working days for the trademarks for which the transfer was rejected by the State Trademark Bureau based on the assessed value (The assessed value of the “assessed value of the assessed real estate and trademarks purchased by the Company”).

(Zhong Tian Heng Ping Ping Zi [2012] No. 026) issued by China Valuer International Co., Ltd. shall prevail.) of those trademarks. As at the reporting date, 7 of 334 associated or defensive registered trademarks failed to transfer, GPLH has compensated the Group for assessed value amounted to RMB9,385.03 of these 7 trademarks. The actual quantity of transferred trademarks is 381. There are 325 domestic trademarks have completed transformation which include 54 major trademarks and 271 associated or defensive trademarks, for the 56 overseas trademarks, GPLH has applied for the transformation in November 2013, and the 56 trademarks have not completed transformation.

Pursuant to the Trademark License Agreement entered into by WLJ Great Health and GPLH on 25 May 2012 and 26 April 2013, GPLH authorised the use of 5 trademarks by WLJ Great Health; WLJ Great Health agreed to pay license fees to GPLH at 2.1% of its aggregate net sales, GPLH and the Company are to entitled by 53% and 47% of the license fee respectively.

Pursuant to the Trademark License Supplementary Agreement entered into by the Company, Wang Lao Ji and GPLH on 28 July 2005, Wang Lao Ji agreed to pay license fees to GPLH for the use of the trademarks at 2.1% of its aggregate net sales since Wang Lao Ji become to be a foreign-invested company limited. GPLH and the Company are to entitled by 53% and 47% of the license fee respectively.

The Company should receive license fee amounted to RMB84,440 thousand for the current period (for the year ended 2012: RMB37,833 thousand) and should pay GPLH RMB95,248 thousand (for the year ended 2012: RMB42,663 thousand)

The arrangement of the Trademark Trusteeship Agreement and Trademark Trusteeship Supplementary Agreement entered into by GPLH and the Company (GPLH is consignor and the Company is consignee): (1) During the period of validity of Trusteeship Agreement, consignor shall authorizes all the use rights of “Wang Lao Ji” trademark to consignee; (2) During the period of validity of Trusteeship Agreement, consignee shall pay the expenses arising from trusteeship. (but consignor shall pay the expenses arising from dispute to the authority and the expenses arising from the dispute to the previous Trademark Trusteeship Agreement and Trademark Trusteeship Supplementary Agreement); (3) Consignee shall directly receive the trademark license fee which is arranged in the Trademark License Agreement signed during the trusteeship (including the supplementary agreement or new agreement which is signed by consignor or consignee). (4) During the period of validity of Trusteeship Agreement, consignor should pay the company RMB 1,000 thousand for the basic trusteeship fee before the end of every March; (5) On the premise of non-violation to the Trademark License Agreement or supplementary which is entered into by consignor and third party before this Agreement become effective, for the Trademark License Agreement which is signed during the period of validity of Trusteeship Agreement, (including the supplementary agreement or new agreement which is signed during the expiry date of Trusteeship), consignee should pay consignor 80% of the trademark license fee of the previous year before the end of every March (or the lower proportion which is negotiated by consignor and consignee, the proportion could not higher than 80% in any case, it could be 80% if both parties failed to reach an agreement for that) as the authorized income for consignor (the basic trusteeship fee of previous year of consignor shall directly deducted from this expenses by consignee) As the confirmed trademark “Wang Lao Ji”, The proportion to be shared of consignor and consignee shall be confirmed in accordance with the previous arrangement before this agreement was signed, and shall not be limited to the trademark trusteeship agreement. This agreement became effective on 5 July 2013, and will expire on the date of trademark transformation or the date of termination from both parties’ negotiation.

Meanwhile, when the legal dispute is settled, GPLH committed to legally transfer the trademark “Wang Lao Ji” and other 4 trademarks authorized to Wang Lao Ji exclusively to the company within 2 years since the above-mentioned trademarks can be transferred in accordance with the effective laws and regulations.

In July 2012, Hong To conducted prosecution to China International Economic and Trade Arbitration Commission with “X20120416 Dispute case of Trademark License Agreement”, the arbitrations are as follows: 1. Judge GPLH to continue to execute Trademark License Agreement. 2. Judge GPLH to stop nonperformance. GPLH shall stop manufacturing and selling the tinned and bottled “Wang Lao Ji Herbal Tea” and must not authorize other person with the above-mentioned act. 3. Judge GPLH to pay the arbitration fees. As at the reporting date, this arbitration is on the docket.

GPLH started to authorize the Group and its joint-control entity to use the registered trademark “GPC” without compensation in June, 2000.

(iv) *Employee residence service fee*

	Name of entity	The year ended 2013 (RMB'000)	The year ended 2012 (RMB'000)
Employee residence service fee	GPLH	353	353

Pursuant to the employee residence service contract entered into by GPLH and the Group on 1 September 1997, as well as the supplementary notice issued on 31 December 1997, GPLH agreed to continue to provide residence for employees. The residence service fee is charged at 6% of carrying amount of the employee residence. The employee residence service contract was renewed on 27 August 2010 and the renewed residence service contract will be expired on 31 December 2013.

(v) *Transformation of research and development project*

	Company	For the year ended 2013 (RMB'000)	For the year ended 2012 (RMB'000)
Service fee for technology	Guangzhou Pharmaceutical General Institute	566	610

(vi) *Employee benefits of key management personnel*

Employee benefits of the Group’s key management personnel amounted to RMB4,097 thousand for the year then ended 2013 (for the year ended 2012: RMB2,879 thousand). The Group’s key management personnel include directors, supervisors, general manager, vice general manager, financial controller and secretary to the Board of Director (“BOD”). The key management include 15 persons for the year ended 2013 (for the year ended 2012: 15 persons), among which 11 persons received their salaries from the Group (for the year ended 2012: 11 persons).

1) Remuneration of directors and supervisors

Details for remuneration of directors and supervisors as at 31 December 2013:

Name	Remuneration	Salary & allowance	Pension	Bonus	Signing bonus	Service pay	Others	Total
Director								
Yang Rongming (note 1)	-	-	-	-	-	-	-	-
Li Chuyuan	-	-	-	-	-	-	-	-
Cheng Ning	-	-	-	-	-	-	-	-
Wu Changhai	-	653,342.00	-	433,358.00	-	-	280.00	1,086,980.00
Liu Jinxiang	80,000.00	-	-	-	-	-	-	80,000.00
Li Shanmin	80,000.00	-	-	-	-	-	-	80,000.00
Zhang Yonghua	80,000.00	-	-	-	-	-	-	80,000.00
Huang Longde	80,000.00	-	-	-	-	-	-	80,000.00
Qiu Hongzhong	80,000.00	-	-	-	-	-	-	80,000.00
Supervisor								
Yang Xiuwei	-	-	-	-	-	-	-	-
Wu Quan	-	516,336.00	-	192,622.00	-	-	-	708,958.00
Zhong Yugang	30,000.00	-	-	-	-	-	-	30,000.00

Details for remuneration of directors and supervisors as at 31 December 2012:

Name	Remuneration	Salary & allowance	Pension	Bonus	Signing bonus	Service pay	Others	Total
Director								
Yang Rongming	-	-	-	-	-	-	-	-
Cheng Ning (note 2)	-	-	-	-	-	-	-	-
Shi Shaobin (note 3)	-	-	-	12,175.00	-	-	-	12,175.00
Wu Changhai	-	507,492.00	-	154,228.00	-	-	280.00	662,000.00
Liu Jinxiang	80,000.00	-	-	-	-	-	-	80,000.00
Li Shanmin	80,000.00	-	-	-	-	-	-	80,000.00
Zhang Yonghua	80,000.00	-	-	-	-	-	-	80,000.00
Huang Longde	80,000.00	-	-	-	-	-	-	80,000.00
Qiu Hongzhong	80,000.00	-	-	-	-	-	-	80,000.00
Supervisor								
Yang Xiuwei	-	-	-	-	-	-	-	-
Wu Quan	-	-	-	231,583.00	-	-	-	231,583.00
Zhong Yugang	30,000.00	-	-	-	-	-	-	30,000.00

Note 1: Resigned from executive director and director on 8 August 2013.*Note 2:* Appointed as director on 19 September 2012.*Note 3:* Resigned from director on 18 June 2012.

In addition, Yang Rongming, Li Chuyuan, Cheng Ning and Yang Xiuwei received remuneration (including special awards from government) from subsidiaries of the Company, which amounted to RMB1,180,855, RMB1,719,063, RMB1,370,352 and RMB319,729 respectively. (As at 31 December 2012: Yang Rongming, Li Chuyuan, Cheng Ning, Shi Shaobin and Yang Xiuwei received remuneration from subsidiaries of the Company, which amounted to RMB1,014,374, RMB1,141,561, RMB658,357 and RMB607,253 and RMB800,323 respectively). Part of above remuneration was for salary. The board of directors considered this remuneration is hard to allocate to service rendered by the Group, subsidiaries of the Company and common controlled subject, therefore, this remuneration was not allocated.

As at 31 December 2013, no director rejected or agreed to reject any arrangement for above remuneration (for the year ended 2012: nil).

2) The top five of remuneration

The top five of remuneration for the year ended 2013 including 1 director, (for the year ended 2012: nil). Details of the remuneration for the other 4 directors (for the year ended 2012: 5) are summarized as follow:

	The year ended 2013	The year ended 2012
Salary, bonus housing and other allowance	<u>2,975,028.00</u>	<u>3,837,260.00</u>
	Number of person	
	The year ended 2013	The year ended 2012
Range:		
0 – 1,000,000	<u>4</u>	<u>5</u>

(e) Receivables from and payables to related parties

(i) Receivables from related parties

		31 December 2013		31 December 2012	
		Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Notes					
receivable:	GP Corp.	55,200,715.35	–	9,400,000.00	–
	HWBYS	6,250,000.00	–	–	–
		<u>61,450,715.35</u>	<u>–</u>	<u>9,400,000.00</u>	<u>–</u>
Accounts					
receivable:	GPHL	10,943.58	109.44	4,763.40	47.63
	Guangzhou Pharmaceutical Industrial Research Institute	2,259,600.00	22,596.00	–	–
	HWBYS	19,069,217.89	190,692.18	10,052,548.03	113,608.68
	GP Corp.	10,461,373.56	104,613.74	2,147,125.60	20,642.75
	Wang Lao Ji	4,527,584.00	45,275.84	8,859,080.68	88,590.81
	Nuo Cheng	45,000.00	450.00	7,600.00	76.00
	Baxter Qiao Guang	95,400.00	954.00	64,574.80	645.75
	HongKong Xin Min Pharmaceutical Company.	–	–	7,965,400.00	7,965,400.00
	Baiyun Trading Department	–	–	8,146,600.00	8,146,600.00
		<u>36,469,119.03</u>	<u>364,691.20</u>	<u>37,247,692.51</u>	<u>16,335,611.62</u>
Other					
receivables:	GPHL	842,087.85	–	896,960.10	–
	Guangzhou South China Medical Apparatus Co., Ltd.	100,000.00	100,000.00	100,000.00	100,000.00
	HWBYS (Note 1)	19,258,298.81	–	1,484,499.42	–
	GP Corp.	205,486.60	–	7,600.00	–
	Wang Lao Ji	2,285,283.77	–	1,915,199.20	–
	Baxter Qiao Guang	61,845.35	–	57,880.28	–
	Foreign trade department of Guangzhou Baiyun Corporation	–	–	1,659,000.00	1,659,000.00
		<u>22,753,002.38</u>	<u>100,000.00</u>	<u>6,121,139.00</u>	<u>1,759,000.00</u>
Advances to					
suppliers:	HWBYS	6,183,497.21	–	2,115,330.13	–
	GP Corp.	2,523,411.25	–	–	–
	Wang Lao Ji	–	–	838,130.40	–
	Guangzhou Yu Fa Medical Apparatus Co., Ltd.	–	–	210,278.62	–
		<u>8,706,908.46</u>	<u>–</u>	<u>3,163,739.15</u>	<u>–</u>

Note 1: The other receivables of HWBYS include the other receivables amounted to RMB18,694 thousand of Bozhou Baiyunshan, a subsidiary of HWBYS. Bozhou Baiyunshan was the subsidiary of Baiyunshan with 80% shareholding, Baiyunshan has transferred the 80% shares to HWBYS in May 2013. The above-mentioned other receivables are the borrowings and interests of Bozhou Baiyunshan to Baiyunshan, which is arisen before the equity transfer.

(ii) *Payables to related parties*

	Related Parties	31 December 2013	31 December 2012
Notes Payable:	GP Corp.	3,814,560.00	8,654,300.00
	HWBYS	4,872,280.00	—
		<u>8,686,840.00</u>	<u>8,654,300.00</u>
Accounts Payable:	HWBYS	1,087,454.09	2,738,973.63
	GP Corp.	11,604,351.96	10,833,697.92
	Wang Lao Ji	321,351.19	—
		<u>13,013,157.24</u>	<u>13,572,671.55</u>
Other Payables	GPHL	30,835,415.51	16,550,960.05
	Guangzhou Pharmaceutical Industrial Research Institute	500,000.00	—
	HWBYS	20,000.00	2,750,000.00
	GP Corp.	1,025,769.23	25,000.00
		<u>32,381,184.74</u>	<u>19,325,960.05</u>
Advances from customers:	HWBYS	3,893,014.43	65,236.00
	GP Corp.	2,630,257.22	4,918,408.67
	Wang Lao Ji	12,968,599.69	24,294,003.19
		<u>19,491,871.34</u>	<u>29,277,647.86</u>

7 CONTINGENCIES

- (1) In year 2012, WLJ Great Health, the wholly-owned subsidiary was sued with its unauthorised use of the specific name, package and decoration of the famous products by Guangdong Jia Duo Bao Beverage & Food Co., Ltd. (JDB).

As at the reporting date, this case has been under the jurisdiction of the Guangdong Higher People's Court as specified by the Supreme People's Court. The Company considers that it is not probable that WLJ Great Health will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

- (2) In year 2012, WLJ Great Health, the wholly-owned subsidiary was sued with its unauthorized use of the slogan "怕上火，喝王老吉" by JDB.

Chongqing First intermediate people's court rejected the appeal of illicit competition for slogan "怕上火，喝王老吉" accrued from Guangdong Jiaduobao Co., Ltd. on 24 December 2013. Meanwhile, the appeal of destroying, no longer using advertisement "怕上火，喝王老吉" and promotion, declaration of apology and compensation amounted to RMB10,000 thousand was rejected.

- (3) Pursuant to the Cooperative Development Contract entered into by Tian Xin, a subsidiary of the Company, Guangdong Guangyuan Engineering Co., Ltd. (Guangyuan, an entity registered in China) and Bank of China Guangdong Branch (BOC) on 10 October 1994, the contracting parties agreed to develop a parcel of land owned by Tian Xin which is located in the East Jianglingxia Street, Guigang Ave. (the parcel) for a real estate project. Pursuant to the contract, Tian Xin shall render the parcel and complete relevant formalities, BOC shall provide funds for construction and Guangyuan shall be responsible for the construction work, Tian Xin shall receive RMB30,000 thousand for relocation, when the construction is completed, these three contracting parties shall be distributed corresponding floor areas of flat units and carpark units of the project. Tian Xin has received RMB30,000 thousand for relocation in October 1994. But this project could not be normally procured due to disputes during the process. BOC took legal proceedings to Guangzhou Intermediate People's court in August 2004 and requested for declaration of the Cooperative Development Contract to be invalid and Tian Xin should return the RMB30,000 thousand relocation fee.

Tian Xin made a counter claim in November 2004. Pursuant to the judgement ((2004) Sui Zhong Fa Min Si Chu Zi No.118) from Guangzhou Intermediate People's court on 22 September 2009, the Cooperative Development Contract entered into by Tian Xin, Guangyuan and BOC is deemed to be invalid, Guangyuan shall return the investment fund amounted to RMB37,500 thousand to BOC, Tian Xin does not need to fulfill the obligation of repayment. Afterwards, BOC and Tian Xin lodged an appeal, Guangdong Higher People's Court handed down its judgement ((2009) Yue Gao Fa Min Yi Zhong Zi No.210) on 25 May 2011 which declared that the Cooperative Development Contract entered into by Tian Xin, Guangyuan and BOC is valid and the contract was terminated on 5 April 2004, Guangyuan shall return the investment fund of RMB37,500 thousand to BOC and shall pay Tian Xin damages of RMB11,650 thousand. Guangyuan and BOC shall pay the acceptance fees, legal costs and the fees incurred for the counter claim. Tian Xin applied execution to Guangzhou Intermediate People's Court (Intermediate court), and this execution was terminated due to Intermediate court found that Guangyuan had no properties to complete the execution. It is expected the amount could not be recovered, accordingly, management did not recognized it.

- (4) Chemical Pharmaceutical Factory acquired the acceptance note numbering 4010005120001382 from the another subsidiary of the Company, Baiyunshan General Factory by purchasing and sales of goods, the acceptance note amounted to RMB1,500 thousand and the drawer was Ningbo Tianyuan Machinery Co., Ltd., the payee was Xiangshan Botai Machinery Co., Ltd., the payer was Xiangshan Lvyue City Credit Co., Ltd. Pursuant to the Civil Judgement ((2011) Yong Xiang Cui Zi No.18) issued by Zhejiang Xiangshan People's Court (Xiangshan Court) on 12 November 2011, Zhejiang Runtai Trade Co., Ltd. (Runtai) shall apply for the procedure of public summons as lost this acceptance note. Runtai has the right to apply for payment to payer as no one apply for rights during the procedure of public summons and completion of the procedure. Thus, Chemical Pharmaceutical Factory unable to accept this note, conducted prosecution to Xiangshan Court, the applications are as follows: A. The above-mention Civil Judgement should be repealed; B. Runtai shall pay RMB1,500 thousand and interest; C. Xiangshan Lvyue City Credit Co., Ltd. shall undertake joint and several liability; Pursuant to the Civil Judgement ((2012) Yong Xiang Shang Chu Zi No.561) issued by Xiangshan Court on 3 March 2013, Chemical Pharmaceutical Factory has the right of acceptance note numbering 4010005120001382, Runtai should pay Chemical Pharmaceutical Factory RMB1,500 thousand, compensate the loss of interest and reject other prosecutions of Chemical Pharmaceutical Factory within 30 days from the judgement is effective. Chemical Pharmaceutical Factory lodged an appeal to Ningbo Intermediate People's Court, Bank of Ningbo Donghai (Xiangshan Lvyue City Credit Co., Ltd.) shall undertake joint and several liability of the RMB1,500 thousand and and interest. Pursuant to the Civil Judgement ((2013) Zhe Yong Shang Zhong Zi No.553) issued by Zhejiang Ningbo Intermediate People's Court on 31 July 2013, the appeal was rejected and original judgement was affirmed. It is expected the amount could not be recovered, accordingly, it has changed as 100% provision for bad debts.

8 COMMITMENTS

(1) Capital expenditures commitments

(a) Capital expenditures contracted for but are not yet necessary to be recognised on the balance sheet

The Group's capital expenditures contracted for but are not yet necessary to be recognised on the balance sheet are as follows:

	31 December 2013	31 December 2012
Investment	64,860,000.00	–
Building, machinery and equipment	53,592,966.09	124,632,743.31
	<u>118,452,966.09</u>	<u>124,632,743.31</u>

The Group's share of the jointly controlled entities' capital commitments are as follows:

	31 December 2013	31 December 2012
Building, machinery and equipment	48,665,593.98	8,368,312.12
	<u>48,665,593.98</u>	<u>8,368,312.12</u>

(b) Capital commitments authorised by the management but are not yet contracted for

	31 December 2013	31 December 2012
Investment	–	4,500,000.00
Building, machinery and equipment	1,044,959,643.81	155,008,755.45
	<u>1,044,959,643.81</u>	<u>159,508,755.45</u>

(2) Operating lease commitments

The Group's rental assets from operating lease are mainly buildings, the minimum lease payments of significant rental under operating lease are summarised as follows:

Remaining leasing term	Minimum lease payables	
	31 December 2013	31 December 2012
Within 1 year	32,771,523.03	10,109,468.94
1 to 2 years	12,158,549.65	11,098,324.91
2 to 3 years	5,969,310.75	7,027,961.16
Over 3 years	32,652,546.68	32,116,627.60
	<u>83,551,930.11</u>	<u>60,352,382.61</u>

The rental expenses under operating lease amounted to RMB40,634 thousand are recognised in the profit or loss for the year ended 2013 (for the year ended 2012: RMB27,032 thousand).

(3) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 31 December 2012.

9 EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to the second resolution of the sixth session board of directors on 17 March 2014, the Group distributed cash dividends amounted to RMB2.30 each 10 shares base on the general capital for the year 2013 amounted to 1,291,340,650 shares, total distributed cash dividends was RMB297,008,349.50.

Pursuant to the resolution of the fifth session 23th board of directors, the Company and Guangzhou Xingzhou Pharmaceutical Co., Ltd. ("Xingzhou Pharmaceutical") established Guangzhou Guangyao Xingzhou Pharmaceutical Co., Ltd., which registered capital amounted to RMB86,480 thousand, including 75% shares held by the Company amounted to RMB64,860 thousand of cash and 25% shares held by Xingzhou Pharmaceutical amounted to RMB17,254 thousand of equipments. The above events has completed in February 2014.

10 OTHER SIGNIFICANT EVENTS

There are no significant debt restructurings and non-monetary transactions incurred in the current period.

11 SEGMENT INFORMATION

As the chief operating decision-maker, the BOD assesses performance of the operating segments and allocates resources by reviewing the Group's internal reporting. Management has determined the operating segments based on these reports.

The BOD considered the nature of the Group's business and determined that the Group has two reportable operating segments as follows:

- Manufacturing: manufacture and sale of western pharmaceutical products, CPM and health products produced by the Group's manufacturing subsidiaries;
- Trading: wholesale and retail of western pharmaceutical products, medical apparatus, CPM and Chinese raw medicine; wholesale of goods other than pharmaceutical products.
- Sales between segments are carried out on terms equivalent to those that prevail in arm's length transactions.

Assets and liabilities are allocated based on the segment operations, expenses attributable indirectly to each segment are allocated among segments based on the proportion of revenue.

(1) The segment information for the year ended 2013 and as of 31 December 2013 are as follows:

	Manufacturing	Trading	Unallocated	Elimination	Total
Revenue	13,888,167,949.22	3,686,349,660.19	33,675,702.90	–	17,608,193,312.31
Inter-segment revenue	32,764,367.88	3,858,216,859.27	101,166,409.71	(3,992,147,636.86)	–
Interest income	21,468,171.97	1,090,116.25	1,895,909.08	(6,724,718.45)	17,729,478.85
Interest expenses	31,074,715.72	35,504,531.50	36,128,021.28	(59,490,375.19)	43,216,893.31
Share of profit or loss of associates and jointly controlled entities	34,867,354.36	–	161,843,924.47	11,471,537.21	208,182,816.04
Asset impairment losses	10,209,732.52	1,639,207.57	87,492.29	977,632.55	12,914,064.93
Depreciation and amortisation	171,132,372.00	5,152,946.81	9,345,185.60	571,882.53	186,202,386.94
Total profit	968,319,473.42	32,376,602.44	447,952,045.38	(219,457,681.99)	1,229,190,439.25
Income tax expenses	119,148,213.30	8,548,827.66	83,243,594.32	11,302,797.03	222,243,432.31
Net profit (Including: minority interest)	849,171,260.12	23,827,774.78	364,708,451.06	(230,760,479.02)	1,006,947,006.94
Total assets	8,177,645,896.25	2,166,054,216.66	6,918,419,046.40	(5,012,996,007.92)	12,249,123,151.39
Total liabilities	5,222,107,061.12	1,986,384,749.68	1,103,419,355.88	(3,085,024,710.23)	5,226,886,456.45
Long-term equity investments in associates and jointly controlled entities	121,162,661.82	–	1,749,570,457.57	–	1,870,733,119.39
Additions of non-current assets other than long-term equity investments	421,774,612.38	4,726,393.21	304,296,402.52	–	730,797,408.11

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

(2) The segment information for the year ended 2012 and as of 31 December 2012 are as follows:

	Manufacturing	Trading	Unallocated	Elimination	Total
Revenue	8,677,118,418.42	3,351,340,531.00	34,182,838.97	–	12,062,641,788.39
Inter-segment revenue	150,963,755.99	2,491,602,441.32	40,237,410.57	(2,682,803,607.88)	–
Interest income	9,569,395.74	800,647.39	1,919,823.57	–	12,289,866.70
Interest expenses	19,839,364.37	36,410,850.09	46,012,332.65	(42,031,615.09)	60,230,932.02
Share of profit or loss of associates and jointly controlled entities	41,786,015.72	–	206,022,069.16	1,599,640.57	249,407,725.45
Asset impairment losses	7,292,105.86	1,255,289.85	(219,739.81)	(174,621.23)	8,153,034.67
Depreciation and amortisation	172,462,429.63	5,560,683.13	9,685,324.00	–	187,708,436.76
Total profit	698,969,526.66	48,465,079.16	363,867,809.66	(230,239,847.26)	881,062,568.20
Income tax expenses	58,521,976.15	13,416,418.97	45,948,172.98	(3,521,213.79)	114,365,354.31
Net profit (Including: minority interest)	640,447,550.51	35,048,660.19	317,919,636.68	(226,718,633.49)	766,697,213.89
Total assets	6,483,706,428.27	1,519,008,150.69	6,189,522,725.19	(4,798,029,251.60)	9,394,208,052.55
Total liabilities	3,833,980,620.23	1,376,955,396.75	1,095,994,888.74	(2,668,686,408.33)	3,638,244,497.39
Long-term equity investments in associates and jointly controlled entities	85,315,307.46	–	1,612,470,197.15	(656,955.71)	1,697,128,548.90
Additions of non-current assets other than long-term equity investments	159,540,358.08	2,692,852.58	8,472,034.12	–	170,705,244.78

The Group's revenue from external customers in the PRC and other countries/area, and the total non-current assets other than financial assets and deferred tax assets located in the PRC and other countries/area are summarised as follows:

Revenue from external customers	The year ended 2013	The year ended 2012
PRC	17,166,853,225.54	11,716,897,395.62
Other countries/area	441,340,086.77	345,744,392.77
	<u>17,608,193,312.31</u>	<u>12,062,641,788.39</u>
Total non-current assets	As at 31 December 2013	As at 31 December 2012
PRC	4,645,092,792.07	3,880,339,896.02
Other countries/area	20,683,653.62	22,110,777.39
	<u>4,665,776,445.69</u>	<u>3,902,450,673.41</u>

12 FINANCIAL INSTRUMENT AND RISK

The Group's activities expose it to a variety of financial risks: market risk (mainly currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(1) Market risk

(a) Foreign exchange risk

The Group's major operating activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. Nevertheless, the Group is exposed to foreign exchange risk arising from the recognized assets and liabilities and future transactions denominated in foreign currencies (mainly USD and HKD). The Group's finance department (Group Finance) is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies, in order to minimize the foreign exchange risk. The Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk.

As at 31 December 2013 and 31 December 2012, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarised as follows:

	31 December 2013					Total
	USD	HKD	EUR	JPY	GBP	
Financial assets denominated in foreign currency –						
Cash at bank and on hand	19,217,261.74	1,973,995.50	4,512,156.10	577,710.12	1.11	26,281,124.57
Accounts receivable	13,768,115.67	5,506,263.30	–	–	–	19,274,378.97
Other receivables	–	530,507.14	–	–	–	530,507.14
	<u>32,985,377.41</u>	<u>8,010,765.94</u>	<u>4,512,156.10</u>	<u>577,710.12</u>	<u>1.11</u>	<u>46,086,010.68</u>
Financial liabilities denominated in foreign currency –						
Short-term borrowings	7,910,925.00	–	–	–	–	7,910,925.00
Accounts payable	5,323,959.71	8,512.25	–	–	–	5,332,471.96
Other payables	–	2,064,696.40	–	–	–	2,064,694.40
	<u>13,234,884.71</u>	<u>2,073,208.65</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>15,308,093.36</u>

	31 December 2012					
	USD	HKD	EUR	JPY	GBP	Total
Financial assets denominated in foreign currency –						
Cash at bank and on hand	923,132.60	4,099,872.69	3,886,193.87	0.15	1.12	8,909,200.43
Accounts receivable	20,692,441.88	3,308,001.22	115,077.68	6,879,284.85	–	30,994,805.63
Other receivables	–	635,644.81	–	–	–	635,644.81
	<u>21,615,574.48</u>	<u>8,043,518.72</u>	<u>4,001,271.55</u>	<u>6,879,285.00</u>	<u>1.12</u>	<u>40,539,650.86</u>
Financial liabilities denominated in foreign currency –						
Short-term borrowings	4,967,807.78	–	–	–	–	4,967,807.78
Accounts payable	13,355,672.72	2,791,043.89	111,896.21	–	–	16,258,612.82
Other payables	–	2,568,804.55	–	–	–	2,568,804.55
	<u>18,323,480.50</u>	<u>5,359,848.44</u>	<u>111,896.21</u>	<u>–</u>	<u>–</u>	<u>23,795,225.16</u>

As at 31 December 2013, if RMB had strengthened/weakened by 10% against the USD, HKD, EUR and JPY with all other variables held constant, the Group's net profit for the period would have been approximately RMB2,312 thousand (As at 31 December 2012: lower/higher RMB1,256 thousand) higher/lower.

(b) Interest rate risk

As at 31 December 2013, there is a small amount of long-term interest bearing borrowings (refer to long-term borrowings), thus, the Group is not exposed to significant interest rate risks.

(2) Credit risk

Credit risk is managed on a group basis. Credit risk mainly arises from cash at bank, accounts receivable, other receivables, notes receivable etc.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on accounts receivable, other receivables and notes receivable. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

(3) Liquidity risk

Cash flow forecast is performed by each subsidiary of the Group and aggregated by Group Finance. Group Finance monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institution so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

31 December 2013						
	Within 1 year	1-2 years	2-5 years	Over 5 years	Without fixed maturity	Total
Financial assets –						
Cash at bank and on hand	1,935,681,740.06	–	–	–	–	1,935,681,740.06
Notes receivable	1,326,353,755.90	–	–	–	–	1,326,353,755.90
Accounts receivable	1,003,090,938.42	–	–	–	–	1,003,090,938.42
Other receivables	196,434,702.48	–	–	–	–	196,434,702.48
	<u>4,461,561,136.86</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>4,461,561,136.86</u>
Financial liabilities –						
Short-term borrowings	522,754,872.57	–	–	–	–	522,754,872.57
Long-term borrowings	552,154.82	552,154.82	8,712,133.27	–	–	9,816,442.91
Notes payable	130,773,655.25	–	–	–	–	130,773,655.25
Accounts payable	1,470,360,537.61	–	–	–	–	1,470,360,537.61
Other payables	1,211,712,507.04	–	–	–	–	1,211,712,507.04
Long-term payables	–	–	–	22,215,752.40	–	22,215,752.40
	<u>3,336,153,727.29</u>	<u>552,154.82</u>	<u>8,712,133.27</u>	<u>22,215,752.40</u>	<u>–</u>	<u>3,367,633,767.78</u>
Provision of guarantees						
Financial assets –	<u>60,000,000.00</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>60,000,000.00</u>

31 December 2012						
	Within 1 year	1-2 years	2-5 years	Over 5 years	Without fixed maturity	Total
Financial assets –						
Cash at bank and on hand	1,135,435,400.94	–	–	–	–	1,135,435,400.94
Notes receivable	844,429,241.87	–	–	–	–	844,429,241.87
Accounts receivable	808,137,644.62	–	–	–	–	808,137,644.62
Other receivables	148,836,927.66	–	–	–	–	148,836,927.66
	<u>2,936,839,215.09</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,936,839,215.09</u>
Financial liabilities –						
Short-term borrowings	701,235,380.26	–	–	–	–	701,235,380.26
Notes payable	–	–	–	–	–	–
Accounts payable	75,970,070.30	–	–	–	–	75,970,070.30
Other payables	1,080,597,534.53	–	–	–	–	1,080,597,534.53
Long-term payables	654,271,815.63	–	–	–	–	654,271,815.63
	–	–	–	24,413,469.62	–	24,413,469.62
	<u>2,512,074,800.72</u>	<u>–</u>	<u>–</u>	<u>24,413,469.62</u>	<u>–</u>	<u>2,536,488,270.34</u>
Provision of guarantees						
Financial assets –	<u>49,000,000.00</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>49,000,000.00</u>

The repayment periods of the bank loans and other loans are analysed as follow:

	31 December 2013		31 December 2012	
	Bank borrowings	Other borrowings	Bank borrowings	Other borrowings
Wholly repayable within five years	<u>532,571,315.48</u>	<u>–</u>	<u>701,235,380.26</u>	<u>–</u>

(4) Fair value

(a) Financial instruments not measured at fair value

Financial assets and liabilities not measured at fair value mainly represent receivables, short-term borrowings, payables and long-term payables.

The carrying amount of financial assets and liabilities not measured at fair value is a reasonable approximation of their fair values.

(b) Financial instruments measured at fair value

Based on the lowest level input that is significant to the fair value measurement in its entirety, the fair value hierarchy has the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that is not based on observable market data (that is, unobservable inputs).

As at 31 December 2013, the financial assets measured at fair value by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets –	–	–	–	–
Financial assets held for trading –	–	–	–	–
Investments in equity instrument held for trading	3,362,667.20	–	–	3,362,667.20
Available-for-sale financial assets –	–	–	–	–
Available-for-sale equity instruments	17,608,107.28	–	–	17,608,107.28
	<u>20,970,774.48</u>	<u>–</u>	<u>–</u>	<u>20,970,774.48</u>

As at 31 December 2012, the financial assets measured at fair value by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets –				
Financial assets held for trading –				
Investments in debenture held for trading	2,875,920.00	–	–	2,875,920.00
Available-for-sale financial assets –	–	–	–	–
Available-for-sale equity instruments	20,401,660.98	–	–	20,401,660.98
Financial assets –	<u>23,277,580.98</u>	<u>–</u>	<u>–</u>	<u>23,277,580.98</u>

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 that is not traded in an active market is determined by using valuation techniques. 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. Inputs to valuation techniques include prepayment rates, rates of estimated credit losses, and interest rates or discount rates.

13 FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

	31 December 2012	Profit or loss arising from changes in fair value during the current period	Accumulated changes in fair value recognised in equity during the current period	Impairment loss recognised during the current period	31 December 2013
Financial assets –					
Financial assets at fair value through profit or loss	2,875,920.00	486,747.20	–	–	3,362,667.20
Available-for-sale financial assets	20,401,660.98	–	(1,642,246.02)	(1,151,307.68)	17,608,107.28
	<u>23,277,580.98</u>	<u>486,747.20</u>	<u>(1,642,246.02)</u>	<u>(1,151,307.68)</u>	<u>20,970,774.48</u>

14 FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

	31 December 2012	Profit or loss arising from changes in fair value during the current period	Accumulated changes in fair value recognised in equity during the current period	Impairment loss recognised during the current period	31 December 2013
Financial assets –					
Cash and bank	8,909,200.42	–	–	–	26,281,124.57
Accounts receivable	30,994,805.63	–	–	–	19,274,378.97
Other receivables	635,644.81	–	–	–	530,507.14
	<u>40,539,650.86</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>46,086,010.68</u>
Financial liabilities –					
Short-term borrowings	4,967,807.78	–	–	–	7,910,925.00
Accounts payable	16,258,612.83	–	–	–	5,332,471.96
Other payables	2,568,804.55	–	–	–	2,064,696.40
	<u>23,795,225.16</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>15,308,093.36</u>

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Accounts receivable

The majority of the Company's sales are transacted at cash.

(a) The aging of accounts receivable is analysed as follows:

	31 December 2013	31 December 2012
Within 1 year	133,951,675.87	–
1 to 2 years	2,480,216.25	–
2 to 3 years	1,656,386.57	–
3 to 4 years	30,193.88	–
4 to 5 years	91,606.42	–
Over 5 years	3,375,248.24	–
	<u>141,585,327.23</u>	<u>–</u>

(b) Accounts receivable by categories are analysed as follows:

	31 December 2013			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provisions	1,500,000.00	1.06%	1,500,000.00	100.00%
Subject to provision by groups:				
Group 1	139,230,700.99	98.34%	4,243,458.42	3.05%
Individually insignificant but subject to separate provisions	<u>854,626.24</u>	0.60%	<u>854,626.24</u>	100.00%
	<u>141,585,327.23</u>	100.00%	<u>6,598,084.66</u>	4.66%
	31 December 2012			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provisions	–	–	–	–
Subject to provision by groups:				
Group 1	–	–	–	–
Individually insignificant but subject to separate provisions	<u>–</u>	–	<u>–</u>	–
	<u>–</u>	–	<u>–</u>	–

Classification of accounts receivable: refer to Note 2 (10).

- (c) As at 31 December 2013, Individually significant and subject to separate provisions are as follow:

	Ending balance	Amount of bad debts	Ratio	Reason
Customer 1	1,500,000.00	1,500,000.00	100.00%	Although the Group has suited this company, it is expected that the amount would not be recoverable.

- (d) The groups of accounts receivable in which provisions are made using aging analysis method are analysed as follows:

	31 December 2013			31 December 2012		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
Within 1 year	133,951,675.87	96.21%	1,339,516.74	-	-	-
1 to 2 years	2,480,216.25	1.78%	248,021.63	-	-	-
2 to 3 years	156,386.57	0.11%	46,915.97	-	-	-
3 to 4 years	30,193.88	0.02%	15,096.94	-	-	-
4 to 5 years	91,606.42	0.07%	73,285.14	-	-	-
Over 5 years	2,520,622.00	1.81%	2,520,622.00	-	-	-
	<u>139,230,700.99</u>	100.00%	<u>4,243,458.42</u>	<u>-</u>	<u>-</u>	<u>-</u>

- (e) As at 31 December 2013, accounts receivable that are individually insignificant but subject to separate provision are as follows:

	Ending balance	Amount of bad debts	Ratio	Reason
Customer 1	470,000.00	470,000.00	100.00%	Its aging is over 5 years, it is expected that the amount would not be recoverable
Customer 2	315,508.74	315,508.74	100.00%	Its aging is over 5 years, it is expected that the amount would not be recoverable
Customer 3	69,117.50	69,117.50	100.00%	Its aging is over 5 years, it is expected that the amount would not be recoverable
	<u>854,626.24</u>	<u>854,626.24</u>	100.00%	

- (f) There are no accounts receivable that are reversed or collected during the current period.
- (g) There are no accounts receivable that are collected by restructuring or other manners during the current period.

- (h) There are no accounts receivable that are written off during the current period.
- (i) As at 31 December 2013, there are no accounts receivable due from shareholders who hold more than 5% (including 5%) of the voting rights of the Company.
- (j) As at 31 December 2013, accounts receivable with significant balance are analysed as follows:

Name of the entity	Relation with the Company	Amount	Aging	% of total balance
Customer 1	Related party	32,149,855.30	Within 1 year	22.71%
Customer 2	Third party	22,018,765.00	Within 1 year	15.55%
Customer 3	Third party	5,795,784.70	Within 1 year	4.09%
Customer 4	Third party	5,671,000.00	Within 1 year	4.01%
Customer 5	Related party	5,486,617.33	Within 1 year	3.88%
		<u>71,122,022.33</u>		<u>50.24%</u>

- (k) Accounts receivable from related parties are analysed as follows:

Name of the entity	Relation with the Company	Amount	Aging	% of total balance
Pharmaceutical Technology	Subsidiary	32,149,855.30	Within 1 year	22.71%
Tian Xin	Wholly-owned subsidiary	1,266,480.50	Within 1 year	0.89%
Pharmaceutical Import & Export	Wholly-owned subsidiary	5,486,617.33	Within 1 year	3.88%
GP Corp.	Jointly controlled entity	87,848.03	Within 1 year	0.06%
HWBYS	Jointly controlled entity	101,623.29	Within 1 year	0.07%
		<u>39,092,424.45</u>		<u>27.61%</u>

- (l) There are no accounts receivables derecognized during the current period.
- (m) As at 31 December 2013, there are no securitizations that targeted at accounts receivable.

(2) Other receivables

	31 December 2013	31 December 2012
Receivables due from related parties	914,081,195.16	800,146,569.54
Including: entrusted loan	323,000,000.00	318,000,000.00
others	591,081,195.16	482,146,569.54
Rentals, deposits and staff advances	9,920,861.37	5,839,903.68
Others	25,001,774.07	536,766.09
	<u>949,003,830.60</u>	<u>806,523,239.31</u>
Less: provision for bad debts	5,486,732.34	502,043.54
	<u>943,517,098.26</u>	<u>806,021,195.77</u>

(a) The aging of other receivables is analysed as follows:

	31 December 2013	31 December 2012
Within 1 year	915,634,204.22	805,541,195.77
1 to 2 years	1,659,638.75	–
2 to 3 years	469,716.94	–
3 to 4 years	314,295.00	–
4 to 5 years	42,873.00	–
Over 5 years	30,883,102.69	982,043.54
	<u>949,003,830.60</u>	<u>806,523,239.31</u>

(b) Other receivables by categories are analysed as follows:

	31 December 2013			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	932,121.11	0.10%	932,121.11	100.00%
Subject to provision by groups:				
Group 1	12,368,675.07	1.30%	1,622,213.71	13.12%
Group 2	8,768,580.37	0.92%	–	0.00%
Group 3	914,081,195.16	96.32%	–	0.00%
Group 4	9,920,861.37	1.05%	–	0.00%
Individually insignificant but subject to separate provision	<u>2,932,397.52</u>	0.31%	<u>2,932,397.52</u>	100.00%
	<u>949,003,830.60</u>	100.00%	<u>5,486,732.34</u>	0.58%

	31 December 2012			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	502,043.54	0.07%	502,043.54	100.00%
Subject to provision by groups:				
Group 1	–	–	–	–
Group 2	5,754,774.58	0.71%	–	–
Group 3	800,146,569.54	99.21%	–	–
Group 4	119,851.65	0.01%	–	–
Individually insignificant but subject to separate provision	–	–	–	–
	<u>806,523,239.31</u>	100.00%	<u>502,043.54</u>	0.07%

- (c) Other receivables that are individually significant and subject to separate provision are analysed as follows:

Name of entity	Ending balance	Provision for bad debts	Ratio	Reason
Other receivables 1	502,043.54	502,043.54	100.00%	It is expected the amount could not be recovered
Other receivables 2	430,077.57	430,077.57	100.00%	It is expected the amount could not be recovered
	<u>932,121.11</u>	<u>932,121.11</u>		

- (d) The groups of other receivables in which provisions are made using aging analysis method are analysed as follows:

	31 December 2013			31 December 2012		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	9,044,507.10	73.13%	90,445.07	–	–	–
1 to 2 years	1,613,891.17	13.05%	161,389.12	–	–	–
2 to 3 years	402,893.11	3.26%	120,867.93	–	–	–
3 to 4 years	110,595.00	0.89%	55,297.50	–	–	–
4 to 5 years	12,873.00	0.10%	10,298.40	–	–	–
Over 5 years	1,183,915.69	9.57%	1,183,915.69	–	–	–
	<u>12,368,675.07</u>	100.00%	<u>1,622,213.71</u>	<u>–</u>	<u>–</u>	<u>–</u>

- (e) Receivables that are subject to fully provision or in large proportionate but are reversed or collected in full amount or in large proportionate in the current period are summarized as follows:

Other receivables	Reason of reverse or collect	Basis of provision for bad debts	Amount of provision for bad debts before reverse or collect	Amount collected	Amount reversed to provision for bad debts
South Securities Company	Received settlement of accounts	The company went bankruptcy	255,055.04	255,055.04	–

- (f) There are no others receivables collected by restructuring or other manners in the current period.
- (g) As at 31 December 2013, other receivables due from shareholders who hold more than 5% of the voting rights of the Company was receivables due from GPLH amounted to RMB331 thousand (31 December 2012: RMB480 thousand due from GPLH).
- (h) As at 31 December 2013, the top five of other receivables are analysed as follows:

Name of entity	Relation of the Company	Amount	Aging	% of total balance
Cai Zhi Lin	Wholly-owned subsidiary	525,626,224.33	Within 1 year	55.39%
Pharmaceutical Import and Export	Wholly-owned subsidiary	135,478,243.86	Within 1 year	14.28%
Guangzhou Bai Di	Subsidiary	76,394,950.92	Within 1 year	8.05%
Xing Qun	Subsidiary	67,415,145.51	Within 1 year	7.10%
Weiling	Wholly-owned subsidiary	52,688,965.27	Within 1 year	5.55%
		<u>857,603,529.89</u>		<u>90.37%</u>

(i) Other receivables due from related parties are analysed as follows:

	Relation with the Company	Amount	% of total balance
GPHL	Parent company	331,440.00	0.03%
HWBYS	Jointly controlled entity	19,258,298.81	2.03%
GP Corp.	Jointly controlled entity	197,886.60	0.02%
Wang Lao Ji	Jointly controlled entity	2,285,283.77	0.24%
Baxter Qiao Guang	Jointly controlled entity	61,845.35	0.01%
Xing Qun	Subsidiary	67,415,145.51	7.10%
Zhong Yi	Wholly-owned subsidiary	512,788.82	0.05%
Chen Li Ji	Wholly-owned subsidiary	134,548.25	0.01%
Guangzhou Han Fan	Subsidiary	8,116,080.37	0.86%
Qi Xing	Indirect subsidiary	2,838,972.15	0.30%
Jingyuxian Guangyao Chinese Raw Medicine Development Co., Ltd	Indirect subsidiary	49,645.24	0.01%
Jing Xiu Tang	Subsidiary	171,802.81	0.02%
Pan Gao Shou	Subsidiary	208,044.53	0.02%
Cai Zhi Lin	Wholly-owned subsidiary	525,626,224.33	55.39%
Pharmaceutical Import and Export	Wholly-owned subsidiary	135,478,243.86	14.28%
Guangzhou Bai Di.	Subsidiary	76,394,950.92	8.05%
WLJ Great Health	Wholly-owned subsidiary	14,525,167.27	1.53%
Guangxi Ying Kang	Subsidiary	6,000,000.00	0.63%
Weiling	Wholly-owned subsidiary	52,688,965.27	5.55%
Baiyunshan Pharmaceutical Technology	Subsidiary	671,700.84	0.07%
Tian Xin	Subsidiary	455,217.10	0.05%
Guang Hua	Subsidiary	298,192.94	0.03%
Ming Xing	Wholly-owned subsidiary	312,674.71	0.03%
Guangyao Baiyunshan (Hong Kong) Limited	Wholly-owned subsidiary	48,075.71	0.01%
		914,081,195.16	96.32%

(k) As at 31 December 2013, there are no other receivables that are derecognised.

(i) As at 31 December 2013, there are no securitizations that targeted at other receivables.

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP
(3) Long-term equity investments
(a) Details of long-term equity investments

Name of entity	Investment cost	31 December 2012	Current period movement	31 December 2013	% Equity interest held	% Voting rights held	Provision for impairment	Impairment losses recognised in current period	Cash dividend in current period
Equity method:									
Jointly-controlled entities:									
GP Corp.	396,589,139.78	865,917,236.29	81,528,958.83	947,446,195.12	50.00%	50.00%	-	-	-
Wang Lao Ji	102,035,124.44	417,555,982.86	32,248,887.13	449,804,869.99	48.05%	48.05%	-	-	-
HWBYS	100,000,000.00	-	296,917,655.20	296,917,655.20	50.00%	50.00%	-	-	20,000,000.00
Baxter Qiao Guang	37,000,000.00	-	23,051,837.53	23,051,837.53	50.00%	50.00%	-	-	-
Associates:									
Guangzhou Jinshen Pharmaceutical Technology Co., Ltd.	765,000.00	-	-	-	38.25%	38.25%	-	-	-
Golden Eagle Asset Management Co., Ltd.	50,000,000.00	36,297,916.34	(7,732,458.87)	28,565,457.47	20.00%	20.00%	-	-	-
Wei Yi Co., Ltd.	2,020,000.00	-	2,020,000.00	2,020,000.00	50.50%	41.00%	-	-	-
Sub-total of equity method	688,409,264.22	1,319,771,135.49	428,034,879.82	1,747,806,015.31	N/A	N/A	-	-	20,000,000.00
Cost method:									
Subsidiaries:									
Xing Qun	125,322,300.00	125,322,300.00	-	125,322,300.00	88.99%	88.99%	-	-	-
Zhong Yi	324,320,391.34	324,320,391.34	-	324,320,391.34	100.00%	100.00%	-	-	42,398,072.66
Chen Li Ji	142,310,800.00	142,310,800.00	-	142,310,800.00	100.00%	100.00%	-	-	24,739,246.79
Guangzhou Han Fan	249,017,109.58	249,017,109.58	-	249,017,109.58	97.97%	97.97%	55,000,000.00	-	-
Guangzhou Qi Xing Factory Co., Ltd	126,775,500.00	126,775,500.00	-	126,775,500.00	100.00%	100.00%	-	-	11,409,023.45
Jing Xiu Tang	101,489,800.00	101,489,800.00	-	101,489,800.00	88.40%	88.40%	-	-	9,602,060.62
Pan Gao Shou	144,298,200.00	144,298,200.00	-	144,298,200.00	87.77%	87.77%	-	-	17,079,709.78
Cai Zhi Lin	89,078,900.00	89,078,900.00	-	89,078,900.00	100.00%	100.00%	69,000,000.00	-	-
Pharmaceutical Import & Export	18,557,303.24	18,557,303.24	-	18,557,303.24	100.00%	100.00%	-	-	4,948,126.54
Guangzhou Bai Di	129,145,812.38	129,145,812.38	-	129,145,812.38	98.48%	98.48%	47,000,000.00	-	-
Guangxi Ying Kang	21,536,540.49	21,536,540.49	-	21,536,540.49	51.00%	51.00%	-	-	-
WLJ Great Health	10,000,000.00	10,000,000.00	-	10,000,000.00	100.00%	100.00%	-	-	24,769,410.51
Guangzhou Yi Gan	12,600,000.00	6,600,000.00	6,000,000.00	12,600,000.00	60.00%	60.00%	-	-	-
Guangyao Baiyunshan									
(Hong Kong) Limited	35,410,006.87	-	35,410,006.87	35,410,006.87	100.00%	100.00%	-	-	-
Tian Xin	96,192,658.47	-	96,192,658.47	96,192,658.47	82.49%	82.49%	-	-	39,589,593.30
Guang Hua	53,659,963.75	-	53,659,963.75	53,659,963.75	84.48%	84.48%	-	-	32,943,628.52
Ming Xing	12,581,294.18	-	12,581,294.18	12,581,294.18	100.00%	100.00%	-	-	39,719,553.23
Weiling	10,444,783.48	-	10,444,783.48	10,444,783.48	100.00%	100.00%	-	-	-
Guangzhou Baiyunshan Pharmacy	1,000,000.00	-	1,000,000.00	1,000,000.00	100.00%	100.00%	-	-	-
Pharmaceutical Technology	1,020,000.00	-	1,020,000.00	1,020,000.00	51.00%	51.00%	-	-	7,395,000.00
Great Health Hotel	500,000.00	-	500,000.00	500,000.00	100.00%	100.00%	-	-	-

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

Name of entity	Investment cost	31 December 2012	Current period movement	31 December 2013	% Equity interest held	% Voting rights held	Provision for impairment	Impairment losses recognised in current period	Cash dividend in current period
Other long-term equity investments:									
Beijing Imperial Court Cultural Development Company Ltd	200,000.00	200,000.00	-	200,000.00	10.00%	10.00%	-	-	-
Guangdong Southern China Advanced Pharmaceutical Co., Ltd.	10,000,000.00	5,000,000.00	5,000,000.00	10,000,000.00	11.12%	11.12%	-	-	-
Shenzhen Zhonglian Guangshen Pharmaceutical Co., Ltd.	312,077.00	-	312,077.00	312,077.00	-	-	-	-	12,344.32
Guangzhou Zhongying Cambridge Technology Co., Ltd.	300,000.00	-	300,000.00	300,000.00	9.97%	9.97%	300,000.00	-	-
Dongbei Pharmaceutical General Factory	750,000.00	-	750,000.00	750,000.00	-	-	750,000.00	-	-
Wuhan Pharmaceutical Co., Ltd.	2,000,000.00	-	2,000,000.00	2,000,000.00	2.80%	2.80%	2,000,000.00	-	-
Baxter Healthcare	82,338,800.00	-	82,338,800.00	82,338,800.00	12.50%	12.50%	-	-	4,500,000.00
Stock of enterprises activities center	50,000.00	-	50,000.00	50,000.00	-	-	50,000.00	-	-
Guangzhou Dongning Pharmaceutical Co., Ltd.	275,000.00	-	275,000.00	275,000.00	5.00%	5.00%	275,000.00	-	-
Guangzhou Nanxin Pharmaceutical Co., Ltd.	7,677,876.51	-	7,677,876.51	7,677,876.51	13.00%	13.00%	-	-	4,410,900.00
Subtotal of cost method	1,809,165,117.29	1,493,652,657.03	315,512,460.26	1,809,165,117.29	N/A	N/A	174,375,000.00	-	263,516,669.72
Total	2,497,574,381.51	2,813,423,792.52	743,547,340.08	3,556,971,132.60	N/A	N/A	174,375,000.00	-	283,516,669.72

(b) There are no limitation on fund transfer between the Group and its investing entities.

(4) Revenue and cost of sales

	The year ended 2013		
	Main operations	Other operations	Subtotal
Revenue	1,440,164,247.82	251,053,282.41	1,691,217,530.23
Cost of operation	913,447,971.88	109,541,952.75	1,022,989,924.63
Gross profit	526,716,275.94	141,511,329.66	668,227,605.60

	The year ended 2012		
	Main operations	Other operations	Subtotal
Revenue	2,840,824.30	67,830,286.70	70,671,111.00
Cost of operation	2,707,077.81	1,342,176.56	4,049,254.37
Gross profit	133,746.49	66,488,110.14	66,621,856.63

(a) Revenue and cost of main operations by natures are summarised as follows:

	Revenue from main operations		Cost of main operations	
	The year then ended 2013	The year then ended 2012	The year then ended 2013	The year then ended 2012
Manufacturing	1,439,173,518.09	–	912,501,809.65	–
Trading	990,729.73	2,840,824.30	946,162.23	2,707,077.81
	<u>1,440,164,247.82</u>	<u>2,840,824.30</u>	<u>913,447,971.88</u>	<u>2,707,077.81</u>

(b) Revenue and cost of main operations by regions are summarised as follows:

	Revenue from main operations		Cost of main operations	
	The year then ended 2013	The year then ended 2012	The year then ended 2013	The year then ended 2012
Southern China	1,131,642,674.30	2,840,824.30	745,018,436.47	2,707,077.81
Eastern China	175,004,930.75	–	83,579,858.12	–
Northern China	27,585,557.16	–	17,787,382.39	–
North east China	11,249,974.86	–	8,680,032.45	–
South west China	90,234,202.18	–	55,751,077.94	–
North west China	4,446,908.57	–	2,631,184.51	–
Other countries	–	–	–	–
	<u>1,440,164,247.82</u>	<u>2,840,824.30</u>	<u>913,447,971.88</u>	<u>2,707,077.81</u>

- (c) The total top five of customer sales is RMB999,376 thousand, which is 69.39% of revenue from main operations this year.

	Revenue from main operations	% of revenue from main operations of the company
Customer 1	864,273,059.56	60.01%
Customer 2	48,316,014.09	3.35%
Customer 3	30,222,222.24	2.10%
Customer 4	28,837,350.45	2.00%
Customer 5	27,727,603.77	1.93%
	<u>999,376,250.11</u>	<u>69.39%</u>

(5) Investment income

(a) Investment income details:

	The year ended 2013	The year ended 2012
Income from financial assets:		
Income from financial assets held for trading	9,249.60	5,781.00
Income from available-for-sale financial assets	350,900.00	804,650.00
Income from entrusted loans	16,113,766.07	11,766,219.15
Income from long-term equity investments under cost method	256,121,669.72	94,912,125.09
Income from long-term equity investments under equity method	140,571,475.14	152,183,110.63
Income from disposal long-term equity investments	270,414.82	—
	<u>413,437,475.35</u>	<u>259,671,885.87</u>

(b) Investment income from long-term equity investments under cost method:

	The year ended 2013	The year ended 2012
Zhong Yi	42,398,072.66	28,443,286.46
Chen Li Ji Factory	24,739,246.79	22,641,772.04
Guangzhou Qi Xing Factory Co., Ltd.	11,409,023.45	13,663,605.17
Jing Xiu Tang	9,602,060.62	13,868,632.12
Pan Gao Shou	17,079,709.78	12,592,687.68
Pharmaceutical Import & Export	4,948,126.54	3,702,141.62
WLJ Great Health	24,769,410.51	—
Shenzhen Zhonglian Guangshen Pharmaceutical Co., Ltd.	12,344.32	—
Tian Xin	39,589,593.30	—
Guang Hua	32,943,628.52	—
Ming Xing	39,719,553.23	—
Guangzhou Nanxin Pharmaceutical Co., Ltd.	4,410,900.00	—
Baxter Healthcare	4,500,000.00	—
	<u>256,121,669.72</u>	<u>94,912,125.09</u>

(c) Investment income from long-term equity investments under equity method:

	The year ended 2013	The year ended 2012
Wang Lao Ji	32,248,887.13	70,819,177.07
GP Corp.	81,593,101.86	82,476,111.89
HWBYS	25,564,870.60	–
Baxter Qiao Guang	8,897,074.42	–
Golden Eagle Fund Management Co., Ltd	(7,732,458.87)	(1,112,178.33)
	<u>140,571,475.14</u>	<u>152,183,110.63</u>

(6) Supplementary information to the Company's cash flow statement

	The year ended 2013	The year ended 2012
(a) Reconciliation from net profit to cash flows from operating activities		
Net profit	550,834,619.89	263,666,455.43
Add: Provisions for asset impairment	506,256.18	(580,072.85)
Depreciation and amortisation of fixed assets and investment property	50,174,981.60	2,343,078.07
Amortisation of intangible assets	3,017,939.31	–
Amortisation of long-term prepaid expenses	272,385.68	–
Gains on disposal of fixed assets, intangible assets and other long-term assets	674,359.62	15,577.32
Losses on scrapping of fixed assets	–	–
Loss (less: gains) on change in fair value	(486,747.20)	251,772.50
Financial expenses	23,115,995.63	6,375,226.18
Investment income	(435,999,828.72)	(283,028,368.01)
Decrease in deferred tax assets	(29,905,236.83)	(3,499,440.01)
Increase (less: decrease) in deferred tax liabilities	1,066,433.14	(30,379.16)
Decrease (less: increase) in inventories	(374,927,044.89)	(262,790.24)
Decrease in operating receivables	(673,317,884.25)	(6,141,003.47)
Increase in operating payables	992,694,126.99	20,372,553.65
Others	–	–
Net cash flows from operating activities	<u>107,720,356.15</u>	<u>(517,390.59)</u>
(b) Investing and financing activities that do not involve cash receipts and payments		
Conversion of debt into capital	–	–
Convertible company bonds due within one year	–	–
Fixed assets held under finance leases	–	–
(c) Net movement in cash and cash equivalents		
Cash at end of period	462,902,261.84	141,232,654.49
Less: cash at beginning of year	141,232,654.49	107,691,016.27
Add: cash equivalents at end of period	–	–
Less: cash equivalents at beginning of year	–	–
Net movement in cash and cash equivalents	<u>321,669,607.35</u>	<u>33,541,638.22</u>

16 NET CURRENT ASSETS

	The Group	
	31 December 2013	31 December 2012
Current assets	7,298,788,281.51	5,351,665,881.31
Less: Current liabilities	<u>5,050,078,080.31</u>	<u>3,474,350,628.29</u>
Net current assets	<u><u>2,248,710,201.20</u></u>	<u><u>1,877,315,253.02</u></u>

	The Company	
	31 December 2013	31 December 2012
Current assets	2,659,050,589.48	1,052,866,788.04
Less: Current liabilities	<u>1,207,339,131.68</u>	<u>234,205,609.99</u>
Net current assets	<u><u>1,451,711,457.80</u></u>	<u><u>818,661,178.05</u></u>

17 TOTAL ASSETS LESS CURRENT LIABILITIES

	The Group	
	31 December 2013	31 December 2012
Current assets	12,249,123,151.39	9,394,208,052.55
Less: Current liabilities	<u>5,050,078,080.31</u>	<u>3,474,350,628.29</u>
Net current assets	<u><u>7,199,045,071.08</u></u>	<u><u>5,919,857,424.26</u></u>

	The Company	
	31 December 2013	31 December 2012
Current assets	7,112,046,675.67	3,769,215,933.39
Less: Current liabilities	<u>1,207,339,131.68</u>	<u>234,205,609.99</u>
Net current assets	<u><u>5,904,707,543.99</u></u>	<u><u>3,535,010,323.40</u></u>

3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY FOR THE SIX MONTHS ENDED 30 JUNE 2014

CONSOLIDATED BALANCE SHEET

As at 30 June 2014

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

ASSETS	Note	30 June 2014 (unaudited)	31 December 2013 (audited)
Current assets:			
Cash at bank and on hand	5(1)	2,845,245,762.68	1,935,681,740.06
Financial assets held for trading	5(2)	3,408,360.50	3,362,667.20
Notes receivable	5(3)	1,518,938,913.88	1,326,353,755.90
Accounts receivable	5(5)	1,147,362,123.58	973,184,749.11
Advances to suppliers	5(7)	640,092,171.45	613,882,321.78
Interest receivable		–	–
Dividends receivable	5(4)	–	–
Other receivables	5(6)	208,811,880.69	181,145,718.26
Inventories	5(8)	2,351,728,661.59	2,245,829,748.05
Current portion of non-current assets		–	–
Other current assets	5(9)	5,729,379.99	19,347,581.15
Total current assets		8,721,317,254.36	7,298,788,281.51
Non-current assets:			
Available-for-sale financial assets	5(10)	16,897,919.96	17,608,107.28
Held-to-maturity investments		–	–
Long-term receivables		–	–
Long-term equity investments	5(12)	2,041,866,136.16	1,972,490,292.04
Investment properties	5(13)	240,919,634.78	246,309,245.37
Fixed assets	5(14)	1,789,624,523.16	1,731,881,945.85
Construction in progress	5(15)	401,284,695.09	335,422,694.18
Construction materials		–	–
Fixed assets pending for disposal		–	–
Intangible assets	5(16)	385,636,681.74	368,856,694.63
Development costs	5(17)	12,501,954.57	3,716,517.68
Goodwill		–	–
Long-term prepaid expenses	5(18)	6,432,061.47	7,099,055.93
Deferred tax assets	5(19)	182,609,302.12	266,950,316.92
Other non-current assets		–	–
Total non-current assets		5,077,772,909.05	4,950,334,869.88
TOTAL ASSETS		13,799,090,163.41	12,249,123,151.39

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

ASSETS	<i>Note</i>	30 June 2014 (unaudited)	31 December 2013 (audited)
Current liabilities:			
Short-term borrowings	5(21)	493,336,504.21	509,651,500.77
Financial liabilities held for trading		–	–
Notes payable	5(22)	132,676,933.56	130,773,655.25
Accounts payable	5(23)	2,432,651,302.33	1,470,360,537.61
Advances from customers	5(24)	613,302,453.83	875,579,547.32
Employee benefits payable	5(25)	314,791,888.56	334,427,927.83
Taxes payable	5(26)	174,501,152.82	403,383,688.38
Interest payable	5(27)	280,000.00	675,414.98
Dividends payable	5(28)	337,030,578.41	113,513,301.13
Other payables	5(29)	1,680,219,993.33	1,211,712,507.04
Current portion of non-current liabilities		–	–
Other current liabilities		–	–
Total current liabilities		<u>6,178,790,807.05</u>	<u>5,050,078,080.31</u>
Non-current liabilities:			
Long-term borrowings	5(30)	8,627,418.40	8,627,419.10
Debentures payable		–	–
Long-term payables	5(31)	22,415,752.40	22,215,752.40
Payables for specific projects	5(32)	19,058,160.00	19,058,160.00
Provisions	5(33)	500,191.19	500,191.19
Deferred tax liabilities	5(19)	3,368,995.67	3,475,327.44
Other non-current liabilities	5(34)	131,305,910.67	122,931,526.01
Total non-current liabilities		<u>185,276,428.33</u>	<u>176,808,376.14</u>
Total liabilities		<u>6,364,067,235.38</u>	<u>5,226,886,456.45</u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

ASSETS	<i>Note</i>	30 June 2014 (unaudited)	31 December 2013 (audited)
Shareholders' equity:			
Share capital	5(35)	1,291,340,650.00	1,291,340,650.00
Capital surplus	5(36)	2,490,821,607.48	2,493,788,078.69
Less: Treasury share		–	–
Surplus reserve	5(37)	723,819,753.76	723,819,753.76
Undistributed profits	5(38)	2,707,165,387.70	2,330,514,583.35
Difference on translation of foreign currency financial statements		<u>(7,343,129.35)</u>	<u>(7,695,173.92)</u>
Total equity attributable to shareholders of the Company		<u>7,205,804,269.59</u>	<u>6,831,767,891.88</u>
Minority interest	5(39)	<u>229,218,658.44</u>	<u>190,468,803.06</u>
Total shareholders' equity		<u><u>7,435,022,928.03</u></u>	<u><u>7,022,236,694.94</u></u>
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		<u><u>13,799,090,163.41</u></u>	<u><u>12,249,123,151.39</u></u>

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2014

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

ITEM	Notes	For the six months ended 30 June 2014 (unaudited)	For the six months ended 30 June 2013 (unaudited)
1. Revenue	5(40)	10,020,290,337.63	9,072,472,793.51
Less: Cost of sales	5(40)	6,453,609,857.96	5,823,243,402.91
Taxes and surcharges	5(41)	89,535,264.35	82,868,165.84
Selling and distribution expenses	5(42)	2,159,617,604.65	1,982,799,577.18
General and administrative expenses	5(43)	616,146,099.74	610,941,855.11
Financial expenses	5(44)	(3,043,187.21)	18,723,262.98
Asset impairment losses	5(45)	6,106,650.01	5,714,131.84
Add: Profit arising from the changes in fair value	5(46)	45,693.30	138,681.60
Investment income	5(47)	141,647,947.34	132,444,637.53
Including: Share of profit of associates and jointly controlled entities		142,114,609.80	129,522,781.96
2. Operating profit		840,011,688.77	680,765,716.78
Add: Non-operating income	5(48)	21,111,186.57	16,056,181.47
Less: Non-operating expenses	5(49)	5,151,263.45	6,762,172.32
Including: Losses on disposal of non-current assets		796,820.20	1,106,880.02
3. Total profit		855,971,611.89	690,059,725.93
Less: Income tax expenses	5(50)	158,318,794.74	83,657,290.28
4. Net profit		697,652,817.15	606,402,435.65
Including: Net profit made by the entities being absorbed before the combination		–	242,018,569.90
– Attributable to shareholders of the Company		673,659,153.85	587,229,435.88
– Minority interest		23,993,663.30	19,172,999.77

ITEM	<i>Notes</i>	For the six months ended 30 June 2014 (unaudited)	For the six months ended 30 June 2013 (unaudited)
5. Earnings per share:			
– Basic earnings per share	5(51)(a)	0.522	0.466
– Diluted earnings per share	5(51)(b)	0.522	0.466
6. Other comprehensive income	5(52)	<u>(2,614,147.96)</u>	<u>(1,664,339.06)</u>
Items will be classified into profit or loss when satisfied with certain conditions at following accounting period		(2,614,147.96)	(1,664,339.06)
Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period		–	–
7. Total comprehensive income		<u><u>695,038,669.19</u></u>	<u><u>604,738,096.59</u></u>
– Attributable to shareholders of the Company		671,044,727.21	585,571,096.97
– Minority interest		23,993,941.98	19,166,999.62

CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June 2014**(All amounts in Renminbi yuan unless otherwise stated)**[English Translation for Reference Only]*

ITEM	<i>Notes</i>	For the six months ended 30 June 2014 (Unaudited)	For the six months ended 30 June 2013 (Unaudited)
1. Cash flows from operating activities:			
Cash received from sales of goods or rendering of services		9,122,928,526.50	8,504,338,863.87
Refund of taxes and surcharges		31,230,367.47	33,108,380.28
Cash received relating to other operating activities	5(53)(a)	145,387,628.34	101,973,406.74
Sub-total of cash inflows		<u>9,299,546,522.31</u>	<u>8,639,420,650.89</u>
Cash paid for goods and services		4,721,355,867.69	4,378,555,368.55
Cash paid to and on behalf of employees		1,397,933,301.81	1,085,757,085.03
Payments of taxes and surcharges		1,009,373,534.13	820,597,519.12
Cash paid relating to other operating activities	5(53)(b)	1,003,878,571.06	987,326,055.57
Sub-total of cash outflows		<u>8,132,541,274.69</u>	<u>7,272,236,028.27</u>
Net cash flows from operating activities	5(54)(a)	<u>1,167,005,247.62</u>	<u>1,367,184,622.62</u>
2. Cash flows from investing activities:			
Cash received from disposal of investments		–	–
Net cash received from disposal of subsidiaries		–	–
Cash received from returns on investments		41,636,442.23	360,149.60
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		249,377.76	2,971,195.16
Cash received relating to other investing activities	5(53)(c)	4,101.50	2,861.70
Sub-total of cash inflows		<u>41,889,921.49</u>	<u>3,334,206.46</u>
Cash paid to acquire fixed assets, intangible assets and other long-term assets		211,209,894.56	238,306,936.41
Cash paid to acquire investments		–	4,500,000.00
Net cash paid to acquire subsidiaries		–	–
Cash paid relating to other investing activities	5(53)(d)	1,161,069.35	1,561,217.09
Sub-total of cash outflows		<u>212,370,963.91</u>	<u>244,368,153.50</u>
Net cash flows from investing activities		<u>(170,481,042.42)</u>	<u>(241,033,947.04)</u>

ITEM	<i>Notes</i>	For the six months ended 30 June 2014 (Unaudited)	For the six months ended 30 June 2013 (Unaudited)
3. Cash flows from financing activities:			
Cash received from capital contributions		4,365,919.00	1,342,300.00
Including: Cash received from capital contributions by minority shareholders of subsidiaries		4,365,919.00	–
Cash received from borrowings		369,119,863.01	357,680,072.00
Cash received relating to other financing activities		–	–
Sub-total of cash inflows		<u>373,485,782.01</u>	<u>359,022,372.00</u>
Cash repayments of borrowings		385,434,859.57	425,067,807.78
Cash payments for interest expenses and distribution of dividends or profits		96,857,761.86	32,133,697.08
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		2,498,602.79	11,058,759.99
Cash payments relating to other financing activities		–	–
Sub-total of cash outflows		<u>482,292,621.43</u>	<u>457,201,504.86</u>
Net cash flows from financing activities		<u>(108,806,839.42)</u>	<u>(98,179,132.86)</u>
4. Effect of foreign exchange rate changes on cash and cash equivalents			
		<u>167,025.70</u>	<u>205,424.86</u>
5. Net increase/(decrease) in cash and cash equivalents			
	5(54)(a)	887,884,391.48	1,028,176,967.58
Add: Cash and cash equivalents at beginning of year	5(54)(b)	<u>1,918,952,286.86</u>	<u>1,114,346,524.75</u>
6. Cash and cash equivalent at end of year	5(54)(b)	<u><u>2,806,836,678.34</u></u>	<u><u>2,142,523,492.33</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

	Attributable to shareholders of the Company							Minority Shareholders' equity	Total shareholders' equity Less: Treasury share
	Share capital	Capital surplus	Less:		General risk provision	Undistributed profits	Others		
			Treasury share	Surplus reserve					
1. Balance at 31 December 2013 (audited)	1,291,340,650.00	2,493,788,078.69	-	723,819,753.76	-	2,330,514,583.35	(7,695,173.92)	190,468,803.06	7,022,236,694.94
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2014	1,291,340,650.00	2,493,788,078.69	-	723,819,753.76	-	2,330,514,583.35	(7,695,173.92)	190,468,803.06	7,022,236,694.94
3. Movements for the six months ended 30 June 2014									
(1) Net profit	-	(2,966,471.21)	-	-	-	376,650,804.35	352,044.57	38,749,855.38	412,786,233.09
(2) Other comprehensive income	-	(2,966,471.21)	-	-	-	-	-	278.68	(2,614,147.96)
Subtotal of items (1) and (2)	-	(2,966,471.21)	-	-	-	673,659,153.85	352,044.57	23,993,941.98	695,038,669.19
(3) Capital contribution and withdrawal by shareholders	-	-	-	-	-	-	-	21,620,000.00	21,620,000.00
Capital contribution by the shareholders	-	-	-	-	-	-	-	21,620,000.00	21,620,000.00
Share-based payment charged to equity	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
(4) Profit distribution	-	-	-	-	-	(297,008,349.50)	-	(6,864,086.60)	(303,872,436.10)
Appropriation to surplus reserves	-	-	-	-	-	-	-	-	-
Appropriation to general risk provision	-	-	-	-	-	-	-	-	-
Profit distribution to shareholders	-	-	-	-	-	(297,008,349.50)	-	(6,864,086.60)	(303,872,436.10)
Others	-	-	-	-	-	-	-	-	-
(5) Transfer within shareholders' equity	-	-	-	-	-	-	-	-	-
Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-
Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-
Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	-	-	-	-	-
4. Balance at 30 June 2014 (unaudited)	1,291,340,650.00	2,490,821,607.48	-	723,819,753.76	-	2,707,165,387.70	(7,343,129.35)	229,218,658.44	7,435,022,928.03

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

	Attributable to shareholders of the Company							Minority Shareholders' equity	Total shareholders' equity Less: Treasury share
	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	General risk provision	Undistributed profits	Others		
1. Balance at 31 December 2012 (restated)	810,900,000.00	1,702,773,872.77	-	787,731,574.82	-	2,271,551,430.93	(6,604,552.46)	189,611,229.10	5,755,963,555.16
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-	-	-	-
Business combination involving entities under common control	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2013	810,900,000.00	1,702,773,872.77	-	787,731,574.82	-	2,271,551,430.93	(6,604,552.46)	189,611,229.10	5,755,963,555.16
3. Movements for the six months ended 30 June 2013	480,440,650.00	786,902,934.20	-	(118,995,283.05)	-	(201,288,587.81)	(616,096.24)	1,313,821.48	947,757,438.58
(1) Net profit	-	-	-	-	-	587,229,435.88	-	19,172,999.77	606,402,435.65
(2) Other comprehensive income	-	(1,042,242.67)	-	-	-	-	(616,096.24)	(6,000.15)	(1,664,339.06)
Subtotal of items (1) and (2)	-	(1,042,242.67)	-	-	-	587,229,435.88	(616,096.24)	19,166,999.62	604,738,096.59
(3) Capital contribution and withdrawal by shareholders	480,440,650.00	795,936,263.43	-	(118,558,621.34)	-	(793,598,292.09)	-	-	364,220,000.00
Capital contribution by the shareholders	480,440,650.00	795,936,263.43	-	(118,558,621.34)	-	(793,598,292.09)	-	-	364,220,000.00
Share-based payment charged to equity	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
(4) Profit distribution	-	-	-	-	-	-	-	(16,700,658.01)	(16,700,658.01)
Appropriation to surplus reserves	-	-	-	-	-	-	-	-	-
Appropriation to general risk provision	-	-	-	-	-	-	-	-	-
Profit distribution to shareholders	-	-	-	-	-	-	-	(16,700,658.01)	(16,700,658.01)
Others	-	-	-	-	-	-	-	-	-
(5) Transfer within shareholders' equity	-	(4,643,606.69)	-	(436,661.71)	-	5,080,268.40	-	-	-
Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-
Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-
Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-
Others	-	(4,643,606.69)	-	(436,661.71)	-	5,080,268.40	-	-	-
(6) Others	-	(3,347,479.87)	-	-	-	-	-	(1,152,520.13)	(4,500,000.00)
4. Balance at 30 June 2013 (unaudited)	<u>1,291,340,650.00</u>	<u>2,489,676,806.97</u>	<u>-</u>	<u>668,736,291.77</u>	<u>-</u>	<u>2,070,262,843.12</u>	<u>(7,220,648.70)</u>	<u>190,925,050.58</u>	<u>6,703,720,993.74</u>

BALANCE SHEET*As at 30 June 2014**(All amounts in Renminbi yuan unless otherwise stated)**[English Translation for Reference Only]*

ASSETS	<i>Note</i>	30 June 2014 (unaudited)	31 December 2013 (audited)
Current assets:			
Cash at bank and on hand		569,213,250.72	462,902,261.84
Financial assets held for trading		3,408,360.50	3,362,667.20
Notes receivable		635,802,940.09	491,846,637.36
Accounts receivable	15(1)	154,124,087.12	134,987,242.57
Advances to suppliers		54,975,245.43	35,096,096.56
Interest receivable		–	–
Dividends receivable		335,354,668.24	213,565,667.45
Other receivables	15(2)	972,922,904.67	943,517,098.26
Inventories		349,954,935.21	372,106,673.49
Current portion of non-current assets		–	–
Other current assets		660,925.15	1,666,244.75
Total current assets		3,076,417,317.13	2,659,050,589.48
Non-current assets:			
Available-for-sale financial assets		15,367,000.00	16,093,000.00
Held-to-maturity investments		–	–
Long-term receivables		–	–
Long-term equity investments	15(3)	3,532,479,230.53	3,382,596,132.60
Investment properties		224,318,132.46	228,088,909.74
Fixed assets		481,370,101.60	458,451,623.08
Construction in progress		47,864,792.70	61,761,556.59
Construction materials		–	–
Fixed assets pending for disposal		–	–
Intangible assets		264,015,571.59	266,747,080.35
Development costs		10,985,436.89	2,200,000.00
Goodwill		–	–
Long-term prepaid expenses		336,688.74	448,929.68
Deferred tax assets		35,123,384.46	36,608,854.15
Other non-current assets		–	–
Total non-current assets		4,611,860,338.97	4,452,996,086.19
TOTAL ASSETS		7,688,277,656.10	7,112,046,675.67

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

ASSETS	<i>Note</i>	30 June 2014 (unaudited)	31 December 2013 (audited)
Current liabilities:			
Short-term borrowings		220,000,000.00	250,000,000.00
Financial liabilities held for trading		–	–
Notes payable		–	–
Accounts payable		225,605,311.70	210,276,551.36
Advances from customers		84,729,862.17	73,149,096.14
Employee benefits payable		83,130,065.68	60,386,689.87
Taxes payable		58,989,087.66	59,481,082.89
Interest payable		280,000.00	675,414.98
Dividends payable		297,140,201.50	77,540,856.01
Other payables		553,182,678.19	475,829,440.43
Current portion of non-current liabilities		–	–
Other current liabilities		–	–
Total current liabilities		<u>1,523,057,206.90</u>	<u>1,207,339,131.68</u>
Non-current liabilities:			
Long-term borrowings		8,627,418.40	8,627,419.10
Debentures payable		–	–
Long-term payables		7,802,224.39	7,802,224.39
Payables for specific projects		–	–
Provisions		500,191.19	500,191.19
Deferred tax liabilities		3,192,746.15	3,301,646.15
Other non-current liabilities		40,023,405.57	37,507,212.17
Total non-current liabilities		<u>60,145,985.70</u>	<u>57,738,693.00</u>
Total liabilities		<u>1,583,203,192.60</u>	<u>1,265,077,824.68</u>
Shareholders' equity			
Share capital		1,291,340,650.00	1,291,340,650.00
Capital surplus		2,453,961,645.93	2,456,941,082.91
Less: Treasury share		–	–
Surplus reserve		351,211,319.16	351,211,319.16
Undistributed profits		2,008,560,848.41	1,747,475,798.92
Difference on translation of foreign currency financial statements		–	–
Total shareholders' equity		<u>6,105,074,463.50</u>	<u>5,846,968,850.99</u>
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		<u><u>7,688,277,656.10</u></u>	<u><u>7,112,046,675.67</u></u>

INCOME STATEMENT

For the six months ended 30 June 2014

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

ITEM	Note	The six months ended 30 June 2014 (unaudited)	The six months ended 30 June 2013 (unaudited)
1. Revenue	15(4)	1,594,495,453.98	295,603,087.25
Less: Cost of sales	15(4)	929,450,248.28	143,663,394.76
Taxes and surcharges		18,095,942.62	4,774,751.36
Selling and distribution expenses		233,392,416.56	24,650,631.86
General and administrative expenses		172,203,390.56	47,888,377.90
Financial expenses		11,146,348.15	5,955,678.94
Asset impairment losses		1,276,338.08	922,408.44
Add: Profit arising from changes in fair value		45,693.30	138,681.60
Investment income	15(5)	388,327,584.92	234,892,640.74
Including: Share of profit of associates and jointly controlled entities	15(5)(c)	107,385,434.91	91,515,906.01
2. Operating profit		617,304,047.95	302,779,166.33
Add: Non-operating income		2,447,144.92	645,988.50
Less: Non-operating expenses		2,093,389.80	745,509.14
Including: Losses on disposal of non-current assets		–	980.50
3. Total profit		617,657,803.07	302,679,645.69
Less: Income tax expenses		59,564,404.08	14,626,213.55
4. Net Profit		<u>558,093,398.99</u>	<u>288,053,432.14</u>
5. Other comprehensive income		(2,979,436.98)	(744,572.55)
Items will be classified into profit or loss when satisfied with certain conditions at following accounting period		(2,979,436.98)	(744,572.55)
Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period		–	–
6. Total comprehensive income		<u>555,113,962.01</u>	<u>287,308,859.59</u>

CASH FLOW STATEMENT*For the six months ended 30 June 2014**(All amounts in Renminbi yuan unless otherwise stated)**[English Translation for Reference Only]*

ITEM	<i>Note</i>	The six months ended 30 June 2014 (unaudited)	The six months ended 30 June 2013 (unaudited)
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		890,642,790.00	103,484,768.19
Refund of taxes and surcharges		–	–
Cash received relating to other operating activities		65,058,960.64	36,030,596.24
Sub-total of cash inflows		955,701,750.64	139,515,364.43
Cash paid for goods and services		275,091,687.66	17,923,810.99
Cash paid to and on behalf of employees		288,136,362.83	49,504,895.18
Payments of taxes and surcharges		189,848,276.43	28,531,005.60
Cash paid relating to other operating activities		136,532,650.25	40,133,892.93
Sub-total of cash outflows		889,608,977.17	136,093,604.70
Net cash flows from operating activities	15(6)	66,092,773.47	3,421,759.73
2. Cash flows from investing activities			
Cash received from disposal of investments		–	–
Net cash received from disposal of subsidiaries		–	–
Cash received from returns on investments		203,076,790.41	56,129,560.11
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,452.99	2,860,884.15
Cash received relating to other investing activities		203,281,007.30	473,528,472.83
Sub-total of cash inflows		406,359,250.70	532,518,917.09
Cash paid to acquire fixed assets, intangible assets and other long-term assets		24,764,644.09	12,322,758.62
Cash paid to acquire investments		64,860,000.00	–
Net cash paid to acquire subsidiaries		–	–
Cash paid relating to other investing activities		181,161,069.35	200,155,883.78
Sub-total of cash outflows		270,785,713.44	212,478,642.40
Net cash flows from investing activities		135,573,537.26	320,040,274.69

ITEM	<i>Note</i>	The six months ended 30 June 2014 (unaudited)	The six months ended 30 June 2013 (unaudited)
3. Cash flows from financing activities			
Cash received from capital contributions		–	1,342,300.00
Including: Cash received from capital contributions by minority shareholders of subsidiaries			
		–	–
Cash received from borrowings		220,000,000.00	1,156,758.00
Cash received relating to other financing activities		–	–
Sub-total of cash inflows		<u>220,000,000.00</u>	<u>2,499,058.00</u>
Cash repayments of borrowings		250,000,000.00	78,000,000.00
Cash payments for interest expenses and distribution of dividends or profits		85,355,321.85	3,046,864.64
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries			
		–	–
Cash payments relating to other financing activities		–	5,128,333.32
Sub-total of cash outflows		<u>335,355,321.85</u>	<u>86,175,197.96</u>
Net cash flows from financing activities		<u>(115,355,321.85)</u>	<u>(83,676,139.96)</u>
4. Effect of foreign exchange rate changes on cash and cash equivalents			
		–	–
5. Net increase/(decrease) in cash and cash equivalents			
	156)	86,310,988.88	239,785,894.46
Add: Cash and cash equivalents at beginning of year		<u>462,902,261.84</u>	<u>141,232,654.49</u>
6. Cash and cash equivalent at end of period		<u><u>549,213,250.72</u></u>	<u><u>381,018,548.95</u></u>

STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	Undistributed profits	Total shareholders' equity
1. Balance at 31 December 2013 (audited)	1,291,340,650.00	2,456,941,082.91	–	351,211,319.16	1,747,475,798.92	5,846,968,850.99
Add: Changes in accounting policies	–	–	–	–	–	–
Corrections of prior year errors	–	–	–	–	–	–
2. Balance at 1 January 2014	1,291,340,650.00	2,456,941,082.91	–	351,211,319.16	1,747,475,798.92	5,846,968,850.99
3. Movements for the six months ended 30 June 2014						
(1) Net profit	–	(2,979,436.98)	–	–	261,085,049.49	258,105,612.51
(2) Other comprehensive income	–	(2,979,436.98)	–	–	–	(2,979,436.98)
Subtotal of items (1) and (2)	–	(2,979,436.98)	–	–	558,093,398.99	555,113,962.01
(3) Capital contribution and withdrawal by shareholders	–	–	–	–	–	–
Capital contribution by the shareholders	–	–	–	–	–	–
Share-based payment charged to equity	–	–	–	–	–	–
Others	–	–	–	–	–	–
(4) Profit distribution	–	–	–	–	(297,008,349.50)	(297,008,349.50)
Appropriation to surplus reserves	–	–	–	–	–	–
Appropriation to general risk provision	–	–	–	–	–	–
Profit distribution to shareholders	–	–	–	–	(297,008,349.50)	(297,008,349.50)
Others	–	–	–	–	–	–
(5) Transfer within shareholders' equity	–	–	–	–	–	–
Transfer from capital surplus to share capital	–	–	–	–	–	–
Transfer from surplus reserves to share capital	–	–	–	–	–	–
Surplus reserves used to offset accumulated losses	–	–	–	–	–	–
Others	–	–	–	–	–	–
(6) Others	–	–	–	–	–	–
4. Balance at 30 June 2014 (unaudited)	1,291,340,650.00	2,453,961,645.93	–	351,211,319.16	2,008,560,848.41	6,105,074,463.50

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	Undistributed profits	Total shareholders' equity
1. Balance at 31 December 2012 (audited)	810,900,000.00	1,095,415,498.20	–	296,127,857.17	1,329,205,080.02	3,531,648,435.39
Add: Changes in accounting policies	–	–	–	–	–	–
Corrections of prior year errors	–	–	–	–	–	–
2. Balance at 1 January 2013	810,900,000.00	1,095,415,498.20	–	296,127,857.17	1,329,205,080.02	3,531,648,435.39
3. Movements for the six months ended 30 June 2013	480,440,650.00	1,362,077,980.19	–	–	288,053,432.14	2,130,572,062.33
(1) Net profit	–	–	–	–	288,053,432.14	288,053,432.14
(2) Other comprehensive income	–	(744,572.55)	–	–	–	(744,572.55)
Subtotal of items (1) and (2)	–	(744,572.55)	–	–	288,053,432.14	287,308,859.59
(3) Capital contribution and withdrawal by shareholders	480,440,650.00	1,362,822,552.74	–	–	–	1,843,263,202.74
Capital contribution by the shareholders	480,440,650.00	1,362,822,552.74	–	–	–	1,843,263,202.74
Share-based payment charged to equity	–	–	–	–	–	–
Others	–	–	–	–	–	–
(4) Profit distribution	–	–	–	–	–	–
Appropriation to surplus reserves	–	–	–	–	–	–
Appropriation to general risk provision	–	–	–	–	–	–
Profit distribution to shareholders	–	–	–	–	–	–
Others	–	–	–	–	–	–
(5) Transfer within shareholders' equity	–	–	–	–	–	–
Transfer from capital surplus to share capital	–	–	–	–	–	–
Transfer from surplus reserves to share capital	–	–	–	–	–	–
Surplus reserves used to offset accumulated losses	–	–	–	–	–	–
Others	–	–	–	–	–	–
(6) Others	–	–	–	–	–	–
4. Balance at 30 June 2013 (unaudited)	1,291,340,650.00	2,457,493,478.39	–	296,127,857.17	1,617,258,512.16	5,662,220,497.72

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2014

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

1. GENERAL INFORMATION

Approved by the Circular Ti Gai Sheng [1997] No.139 issued by the State Commission for Restructuring the Economic Systems, Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (the “Company”) was 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 in the Company. The Company obtained business license on 1 September 1997 and the registered number is 440101000005674.

Approved by the Circular Ti Gai Sheng [1997] No.145 issued by the State Commission for Restructuring the Economic Systems and Circular Zheng Wei Fa [1997] No.56 issued by the Securities Regulatory Commission of the State Council, the Company issued 219,900,000 shares listed in Hong Kong Stock Exchange (H shares) in October 1997. Approved by China Securities Regulatory Commission on 10 January 2001, 78,000,000 A shares of the Company were issued and became listed in Shanghai Stock Exchange on 6 February 2001. The stock abbreviation is GZ Phar., and stock code is 600332.

The Company executed and completed the material assets reorganization transaction, which include: (1)The Company issued an addition of 445,601,005 A shares by way of share swap to absorb and merger Baiyunshan Co., Ltd. (Baiyunshan), a subsidiary of GPHL, in May 2013. (2)The Company issued an addition of 34,839,645 A shares to GPHL as consideration payment, to acquire the buildings and trademarks which are owned by GPHL or GPHL has the right to dispose of, and 100% equity interest of the subsidiary of GPHL, Guangyao Baiyunshan (Hong Kong) Co., Ltd. (“Guangyao Baiyunshan (Hong Kong)”) (Previously named “Polian Development Co., Ltd.”) and 12.5% equity interest of Baxter Healthcare Co., Ltd. (“Baxter Healthcare”) held by GPHL, The Company completed the registration of share on 5 July 2013. After the above-mentioned assets reorganization was completed, the Company’s total number of shares in issue was 1,291,340,650. The stock abbreviation is BYS.

The parent company is GPHL, and the ultimate holding company is Guangzhou State-owned Assets Supervision and Administration Commission.

The Company and its consolidated subsidiaries (together, the “Group”) are principally engaged in the manufacture of (1) Western and Chinese patent drug, chemical raw material medicine, natural medicine, biological medicine, research and development for intermediate product of API, manufacturing and sales. (2) The wholesale, retail, import and export of western pharmaceutical products, CPM and medical apparatus and the wholesale. (3) Research, development, manufacturing and sales of Great Health products. (4) Investment of medical, health management and youth preservation.

The major CPM products of the Group include Xiao Ke Pill (“消渴丸”), Xia Sang Ju (“夏桑菊”), Wu Ji Bai Feng Pill (“烏雞白鳳丸”), Hua Tuo Zai Zao Pill (“华佗再造丸”) and Mi Lian Chuan Bei Pi Pa Jelly (“蜜炼川贝枇杷膏”), Qing Kai Ling Tonic (“清開靈口服液”), Xiao Chai Hu Chong Ji (“小柴胡冲劑”) etc. The major western medicine products of the Group include cefathiamidine, amoxicillin and ceftriaxone sodium. The major pre-packaged food of the Group are Wang Lao Ji Herbal Tea (“王老吉涼茶”), etc.

The Group’s current structure mainly include 11 CPM manufacturing companies, 2 western medicine manufacturing companies, 1 chemical raw materials manufacturing company, 1 pre-packaged food manufacturing company, 3 pharmaceutical research and development companies and 4 pharmaceutical trading companies.

These financial statements were approved for issue by the Board of Directors on 29 August 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES**(1) Basis of preparation**

The Ministry of Finance 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 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. The Ministry of Finance issued 5 new and revised standards in January and February 2014, which include <Accounting Standards for Business Enterprises No.9-Employee Compensation>(revised), <Accounting Standards for Business Enterprises No.30-The Presentation of Financial Statements>(revised), <Accounting Standards for Business Enterprises No.33-Consolidated Financial Statements>(revised), <Accounting Standards for Business Enterprises No.39-Fair Value Measurement>, <Accounting Standards for Business Enterprises No.40-The Joint Venture Arrangements>(hereinafter collectively referred to as “Accounting Standards for Business Enterprises” or “CAS”), and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 – General Provisions on Financial Reporting (revised 2010) issued by the China Securities Regulatory Commission.

(2) Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company for the year ended 30 June 2014 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position as of 30 June 2014 and the operating results, cash flows and other information for the six months ended 30 June 2014 of the Group and the Company.

(3) Accounting period

Accounting year starts on 1 January and ends on 31 December. The financial statements cover the period from 1 January 2014 to 30 June 2014.

(4) Recording currency

The recording currency is renminbi (“RMB”).

Guangyao Baiyunshan (Hong Kong), a subsidiary of the Company, an overseas operating company, which uses Hong Kong Dollar as its recording currency.

(5) Accounting treatments for business combinations involving entities under and not under common control**(a) 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. Transaction fees of equity securities or debt securities issued for a business combination are included in the initially recognised amount of equity securities or debt securities.

(b) 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 recognised 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 recognised 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. Transaction fees of equity securities or debt securities issued for a business combination are included in the initially recognised amount of equity securities or debt securities.

(6) Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Subsidiaries are consolidated from the date on which the Group 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 under common control of the ultimate controlling party. The portion of the net profits realised 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 Company and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the 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 unrealised 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 Company are recognised as minority interests and presented separately in the consolidated financial statements within equity and net profits respectively.

(7) 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.

(8) Foreign currency translation**(a) 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 recognised 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 recognised 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 capitalised 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 recognised in profit or loss or capital surplus in the current year.

(b) Translation of foreign currency financial statements

The assets and liabilities items among the balance sheet of foreign operation shall be translated using the spot exchange rate at the balance sheet date. Other items other than the undistributed profits among shareholder's equity shall be translated using the spot exchange rate at the transaction date. The income and expenses among the income statement shall be translated using the average on translation of foreign currency financial statements exchange rate during the reporting period. Differences are individually listed in shareholder's equity. The cash flow items of overseas operation shall be translated using average exchange rate during the reporting period. The effect of exchange rate changes on cash is presented individually in the cash flow statement.

(9) Financial Instruments

(a) Financial assets

i) Classification

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 Group'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 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.

ii) Recognition and measurement

Financial assets are recognised at fair value on the balance sheet when the Group 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 recognised 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 amortised 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 recognised 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 recognised 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 recognised 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 derecognised, the cumulative gain or loss previously recognised directly in equity is reclassified to 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 recognised as investment income, which is recognised in profit or loss for the period.

iii) Impairment of financial assets

The Group 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 assets is impaired, the Group shall determine the amount of impairment loss.

Impairment of held to the available-for-sale financial assets: At the ending of the period, if the fair value of the available-for-sale financial assets declined dramatically, or it is expected the downturn is not temporary after considers all relevant factors, the impairment has occurred. Transfer the accumulated loss which is occurred by the fair value included in the owner equity decreased and verify that the impairment losses.

The standard of the fair value of the available-for-sale financial assets of the company decrease seriously: Closing fair value declines relative to the cost has reached or exceeded 50%; The standard of fair value decrease is not temporary: 12 months in a row fell. Computing method of investment cost: consideration of payment at acquisition (net of cash dividends declared but not yet paid or due but unpaid interest on bonds) and the relevant transaction cost are recognized as the investment cost. Determination basis of: Falling or downturn continued during the rally up less than 20% margin. Rebound duration not more than six months are treated as continue decrease period.

For available-for-sale debt instruments which impairment losses is confirmed, in subsequent accounting periods, the fair value is arisen and it is objectively connected with the event after impairment loss previously recognized. This impairment loss previously recognized shall reverse through profit or loss. When impairment loss of available-for-sale equity instrument has occurred, this loss shall not reverse thought profit or loss.

Impairment of held to maturity investment: Measurement method of the impairment loss of held to maturity investments is according to the measurement method of the impairment loss of receivables.

iv) *The basis and measurement for the transfer of financial assets and the derecognition of financial assets*

When the Group transfers financial assets, the financial assets should be derecognised when all the risks and rewards of ownership of the financial asset have been substantially transferred. The financial assets shall not be derecognised if the Group substantially retains all the risks and rewards of ownership of the financial asset. If the Group 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 derecognised.

In addition to two circumstances of the derecognition mentioned above, a financial assets shall be derecognised 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 recognised in profit or loss.

(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 the Group mainly comprise 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 amortised 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 amortised 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 derecognised or partly derecognised when the present obligation is discharged or partly discharged. The difference between the carrying amount of the derecognised portion of the financial liability and the consideration paid shall be recognised 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 the Group.

(10) 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 RMB1,000,000 (including RMB1,000,000) and other receivables are individually more than RMB 100,000 (including RMB100,000).
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 recognised 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 Group 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	Receivables with extremely low credit risk based on measurement of historical evidence
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	Percentage for bad-debt provision is 0%
Group 3	Percentage for bad-debt provision is 0%
Group 4	Percentage for bad-debt provision is 0%

Ratios of provision for bad debts used in the aging analysis method for groups are as follows:

Ageing	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 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.

(11) Inventories

(a) Classification of inventories

Inventories include goods in transit, raw materials, work in progress, semi-finished goods, finished goods, low-value consumables, packaging materials, goods in processing contract, goods on consignment and commodity stocks.

(b) Cost of inventories

Inventories are measured at actual cost at the time of acquisition.

Cost is determined using the weighted average method. The cost of finished goods, 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.

(c) Basis for the determination of net realizable value and the method of provision 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 realisable value. Net realisable 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

The Group adopts the perpetual inventory system.

(e) Amortisation of low-value consumables and packaging materials

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

(12) Long-term equity investments**(a) Initial recognition**

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, the Group's long-term equity investments in its jointly controlled entities and associates, as well as the long-term equity investments where the Group 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 Company is able to control. Jointly controlled entities are the investees over which the Group is able to exercise joint control together with other venturers. Associates are all entities over which the Group has significant influence, but not control, on their financial and operating policies.

Investments in subsidiaries are measured using the cost method in the Company's financial statements, and adjusted by 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 Group 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 Group'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 Group'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.

(b) Subsequent measurement

Under the cost method of accounting, long-term equity investment is recognised in profit or loss for the cash dividends or profit distribution declared by the investee as investment income.

Under the equity method of accounting, the Group recognised the investment income based on its share of net profit or loss of the investee. While the accounting policies and accounting period of the investees are inconsistent with the Group, the financial statements of the investees are all adjusted according to the accounting policies and accounting period of the Group and recognised investment income accordingly. The Group discontinues recognising 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 Group has obligations for additional losses and the conditions on recognition of provision are satisfied in accordance with the accounting standards on contingencies, the Group continues to recognise 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 Group record directly in capital surplus, provided that the Group's proportion of shareholding in the investee remains unchanged. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by the investee. The unrealised profits or losses arising from the intra-group transactions amongst the Group and its investees are eliminated in proportion to the Group's equity interest in the investees, and then based which the investment gain or losses are recognised. The loss on the intra-group transaction amongst the Group and its investees, of which the nature is asset impairment, is recognised in full, and the related unrealised loss is not eliminated.

(c) 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 Company is able to exercise control over the investee, the effect of potential voting rights of the investee shall be considered, such as convertible debts 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.

(d) 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 recognised as impairment loss and cannot be reversed once recognised.

(13) 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 Group and its cost can be reliably measured; otherwise, the expenditures are recognised in profit or loss in the period in which they are incurred.

The Group 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 amortised on a basis consistent with the amortisation policy which the Group 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 (amortisation) method applied are reviewed and adjusted as appropriate at each year-end.

An investment property is derecognised 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 recognised 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 recognised 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 recognised 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 recognised, it will not be reversed for the value recovered in the subsequent periods.

(14) 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 to other parties or administrative purposes, with useful life more than one year.

Fixed asset is recognised when it is probable that the economic benefits associated with the fixed asset will flow to the Group and its cost can be reliably measured. Fixed assets purchased or constructed by the Group 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 Group and its cost can be reliably measured. The carrying amount of those parts that are replaced is derecognised and all the other subsequent expenditures are recognised 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 capitalisation 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, machinery and equipment, motor vehicles, computer and electronic equipment, office equipment and fixed asset renovation. The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates are as follows:

Category	Estimated useful lives	Estimated 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%

(c) Impairment of fixed assets

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 recognised 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 recognised 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 recognised, 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 unrecognised finance charge.

Fixed assets held under a finance lease are depreciated on a basis consistent with the depreciation policy which the Group 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.

(e) Other specification*Disposal of fixed assets*

A fixed asset is derecognised 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 recognised in profit or loss.

(15) 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 capitalisation 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 Group's 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 recognised 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 recognised 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 recognised, it will not be reversed for the value recovered in the subsequent periods.

(16) 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 capitalised 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 capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use, the borrowing costs incurred thereafter are recognised in profit or loss for the current year. Capitalisation 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 capitalisation 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 borrowings during the capitalisation period.

For the general borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalisation 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.

(17) Intangible assets

(a) Recognition and measurement of intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Group, including land use rights, industrial property and patent technology, and non-patent technology etc. An intangible asset is recognised 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, amortisation of other patents and licenses and capitalised interest expenses in the development phase, and other costs which are directly attributable to bringing the intangible assets ready for their intended use.

(b) Periodical review of useful life and amortisation method

For an intangible asset with a finite useful life, review and adjustment on its useful life and amortisation method are performed at each year-end.

(c) Intangible asset with an indefinite useful life

An intangible asset is regarded by the Group as having an indefinite useful life when based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

The Company owns trademarks including Baiyunshan, Xingqun, Zhongyi, Pangaoshou, Chenliji, Jingxiutang, Qixing, which are identified as indefinite useful life due to expected economic interest in future.

The Company reviews the indefinite useful life of intangible assets at every accounting period.

The reviewed useful life of above intangible assets is indefinite.

(d) 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 recognised in profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalised 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;
- The expenditure attributable to the intangible asset during its development phase can be reliably measured.

Other development expenditures that do not meet the conditions above are recognised in profit or loss in the period in which they are incurred. Development costs previously recognised as expenses are not recognised as an asset in a subsequent period. Capitalised expenditure on the development phase is presented as development costs in the balance sheet and transferred to intangible assets at the date that the asset is ready for its intended use.

(e) 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 recognised 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 recognised 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 recognised, it will not be reversed for the value recovered in the subsequent periods.

(18) 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 recognised as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortised on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortisation.

(19) Provisions

Provisions for product warranties, onerous contracts etc. are recognised 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 recognised as interest expense.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

(20) Revenue

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Group.

(a) Revenue recognition

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the group entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(b) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer and the customer has accepted the goods, the Group 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 Group and the relevant revenue and costs can be measured reliably.

(c) Rendering of services

The revenue from rendering of services is recognised using the percentage of completion method.

(d) Transfer of asset use rights

Income from transfer of asset use rights include:

- Interest income is recognised on a time-proportion basis using the effective interest method;
- License fee income is recognised when the right to receive payment is established;
- Income from an operating lease is recognised on a straight-line basis over the period of the lease.

(e) Dividend income

Dividend income from long-term equity investment accounted for using cost method, financial assets at fair value through profit or loss and available-for-sale financial assets is recognised when the right to receive dividend is established.

(21) Government grants**(a) Classification**

Government grants are the obtained monetary assets and non-monetary assets from the government freely, which are divided into assets-related Government grants and income-related government grants.

The assets-related government grants refers to the obtained long-term assets with purchase, construction or otherwise formed, which is includes financial appropriation of the purchase on fixed assets or intangible assets and the financial discounts of special borrowings on fixed assets, etc. The profit-related government grants refers to the government grants other than the assets-related grants.

The specific standard of the asset-related grants: Government's documents defined the grants are used to purchase fixed assets or intangible assets, or the financial discounts of specific borrowing, or the grants is undefined by government's documents but is related to the form of long-term assets of the enterprise.

The specific standard of the income-related grants: It shall be defined to the income-related when not consistent with standard of asset-related grants.

Basis of the specific standard of grants when qualified objects are not defined: Un-qualified Objects with sufficient evidence that the government grants related to long-term assets, recognized as asset-related government grants. The remaining shall be defined as income-related grants.

(b) Accounting treatment

The assets-related government grants shall be recognized as deferred income in accordance with the useful life of the constructed and purchased assets by stages.

The income-related government grants for compensation to the related expenses or loss of enterprise at subsequent periods shall be recognized as deferred income and current revenue from non-operation during the recognition of related expenses; in addition, it shall be directly recognized as current revenue from non-operation to compensate the related expenses incurred.

(c) The point of recognition

Government grants shall be recognized and measured in accordance with the account when actual amount received. Only if there is sufficient evidence to show that grants is allocated in accordance with fixed quotas and comply with the conditions of financial policies and is expected to receive supporting funds, the grants shall be recognized and measured by certain amount.

(22) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised 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 recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised 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 realised or the liability is settled.

Deferred tax assets are only recognised 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 utilised.

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries, jointly controlled entities and associates, except where the Group 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 recognised.

Deferred tax assets and liabilities are offset when:

- The deferred taxes are related to the same tax payer within the Group and the same taxation authority;
- The tax payer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

(23) 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.

(a) Operating leases

Lease payments under an operating lease are recognised on a straight-line basis over the period of the lease, and are either capitalised as part of the cost of related assets, or charged as an expense for the current year.

(b) 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 unrecognised finance charge and is amortised 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 unrecognised finance charge.

(24) Changes in significant accounting policies and accounting estimates

(a) Changes in accounting policies

There are no changes in accounting policies of the Group in current period.

(b) Changes in accounting estimates

There are no changes in accounting estimates in the current period.

(25) Correction of prior period's accounting errors

There are no corrections of significant accounting errors in the current period.

(26) Other significant accounting policies

(a) Segment information

The Group identifies operating segments based on the internal organisation 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 Group 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 Group'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 Group.

An operating segment's revenue, expenses, operating result, assets and liabilities include those directly attributable to the operating segment, and those allocated to the segment on a reasonable basis. Revenue, expenses, assets and liabilities of the operating segment are determined at the amounts before the elimination of inter-group transactions and balances. Transfer price between operating segments is calculated on terms similar to those in arm's length transactions.

(b) 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 Group 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 recognised, with a corresponding charge to profit or loss when the Group 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 Group unilaterally.

Employee benefits are recognised 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.

(c) Dividend distribution

Cash dividend distribution is recognised as a liability in the period in which it is approved by the shareholders' meeting.

(27) Critical accounting estimates and judgements

(a) Current and deferred income tax

The Group is subject to income taxes in the mainland of People's Republic of China and Hong Kong. Critical 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 Group 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 utilized. 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.

Baiyunshan which was merged with the Company during the reporting period received the "Certificate of High/New Technology Enterprise", the certificated 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 Tax Bureau in November 2012, numbering GR201244000005 and the effective period is 3 years. The Company has applied for High/New Technology Enterprise in accordance with the main body of a merged company. Base on the recent information, management consider the certificate will be obtained in the year of 2014 in all probability and enjoy the tax rate of 15%. The deferred income tax is charged as this discount.

3 TAXATION

(1) Main tax and tax rate

(a) Turnover tax and Real-estate tax

Taxable item	Type	Tax rate
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	VAT	6%
Rental income	Business tax	5%
Transferred Technology income	VAT	3%, 6%
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%

(b) City maintenance and construction tax

Calculated and paid based on 7% of the amount of VAT, business tax and consumption tax paid.

(c) Education surcharge

Calculated and paid based on 3% of the amount of VAT, business tax and consumption tax paid.

(d) Local education surcharge

Calculated and paid based on 2% of the amount of VAT, business tax and consumption tax paid.

(e) Enterprise income tax

Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. (Zhong Yi), Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. (Jing Xiu Tang), Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. (Qi Xing), Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd. (Xing Qun), Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd. (Chen Li Ji), Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (Pan Gao Shou), Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. (Tian Xin), Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. (Ming Xing), Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd. (Guang Hua), 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.

The certificates of the 8 subsidiaries (namely, Zhong Yi etc), numbering GF201144000520, GF201144000114, GF201144000043, GF201144000298, GF201144000144, GF201144000400, GF201144000016, GF201144000599 respectively, were issued in 2011 and the effective period is 3 years. Since the certificates have expired in the year of 2013, the 8 subsidiaries have applied for renewal. Preferential enterprise income tax rate of 15% is applicable temporarily.

The certificate of Guang Hua, numbering GR201244000497, was issued in November 2012 and the effective period is 3 years.

A subsidiary of the Group, Guangxi Ying Kang Co., Ltd. (Guangxi Ying Kang) received the “Certificate of High/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, numbering GF201245000068, was issued in November 2012 and the effective period is 3 years.

Pursuant to the relevant national preferential tax policies for High/New Technology Enterprise, The company which is recognised as a High/New Technology Enterprise could enjoy these policies of enterprise income tax at the reduced rate of 15%.

Except for the preferential tax preference mentioned above, the group companies 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 of these entities is 25%. Guangyao Baiyunshan (Hong Kong) Co., Ltd. of the Group, pays the corporation profits tax in accordance with “Hong Kong Inland Revenue Ordinance” at a the corporation profit tax rate of 16.5%.

4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

(1) Subsidiaries

(a) Subsidiaries acquired from establishment or investment

Name of subsidiary	Type of subsidiary	Registration place	Nature of business and principal activities	Registered capital ('0000)	Scope of business	Paid-in capital at end of period ('0000)	Other assets in substance ('0000)	Legal Representative	Organisation code	% equity interest held by Company	% voting rights held	Consolidated interests at end of period ('0000)	Minority interests at end of period ('0000)	Amount of minority interests adjusted against minority interest in the profit or loss balance of minority interest ('0000)	Ending balance after the Company's equity interest adjusted against the amount of the current period's losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest ('0000)
Direct subsidiaries															
Xing Qin	Subsidiary	Guangzhou	Pharmaceutical manufacturing	7,717	Production of CPM	6,867	-	Yao Jiangxiong	1905196-X	88.99	88.99	Yes	1,919	-	-
Zhong Yi	Wholly-owned subsidiary	Guangzhou	Pharmaceutical manufacturing	21,741	Production of CPM	21,741	-	Zhang Chunbo	19045979-4	100.00	100.00	Yes	-	-	-
Chen Li Ji	Wholly-owned subsidiary	Guangzhou	Pharmaceutical manufacturing	11,285	Production of CPM	11,285	-	Ouyang Qiang	19045981-5	100.00	100.00	Yes	-	-	-
Guangzhou Han Fan ⁽¹⁾	Subsidiary	Guangzhou	Pharmaceutical manufacturing	24,606	Research and development of medicine and health products	24,490	-	Yuan Cheng	71241860-8	99.49	99.53	Yes	76	-	-
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Pharmaceutical manufacturing	8,242	Production of CPM	8,242	-	Li Guangliang	19045980-7	100.00	100.00	Yes	-	-	-
Direct subsidiaries															
Jing Xiu Tang	Subsidiary	Guangzhou	Pharmaceutical manufacturing	8,623	Production of CPM	7,623	-	Wang Wenchu	19045922-6	88.40	88.40	Yes	1,643	-	-

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

Name of subsidiary	Type of subsidiary	Registration place	Nature of business and principal activities	Registered capital ('0000)	Scope of business	Paid-in capital at end of period ('0000)	Other assets constitution investment in substance ('0000)	Legal Representative	Organisation code	% equity interest held by the Company	% voting rights held	Consolidated interests at end of period ('0000)	Minority interests at end of period ('0000)	Amount of minority interests adjusted against minority interest in the profit or loss ('0000)	Ending balance after the Company's equity interest adjusted against the amount of the current period's losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest ('0000)
Pan Gao Shou	Subsidiary	Guangzhou	Pharmaceutical manufacturing	6,544	Production of CPM	5,744	-	Yang Dongsheng	19048780-8	87.77	87.77	Yes	2,601	-	-
Cai Zhi Lin	Wholly-owned subsidiary	Guangzhou	Pharmaceutical trading	3,222	Retailing of Chinese raw medicine and CPM	3,222	-	Zhou Lushan	19050398-6	100.00	100.00	Yes	-	-	-
Guangzhou Pharmaceutical Import & Export Co., Ltd. ("Pharmaceutical Import & Export")	Wholly-owned subsidiary	Guangzhou	Pharmaceutical trading	2,400	Import and export trading of medicine	2,400	-	Feig Yaowen	19047097-7	100.00	100.00	Yes	-	-	-
Guangzhou Beiyunshan Bai Di Bio-Technology Co., Ltd. (Guangzhou Bai Di)	Subsidiary	Guangzhou	Pharmaceutical manufacturing	13,160	Research and Development of medicine	12,960	-	Chen Jianming	73154713-0	98.48	98.48	Yes	158	-	-
Direct subsidiaries															
Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. ("W.L.J Great Health")	Wholly-owned subsidiary	Guangzhou	Food manufacturing	1,000	Production and Sales of Pre-packaged food and dairy	1,000	-	Chen Mao	59151288-3	100.00	100.00	Yes	-	-	-
Guangzhou Guang Yao Yi Gan Biological Product Co., Ltd. (Guangzhou Yi Gan)	Subsidiary	Guangzhou	Pharmaceutical manufacturing	2,100	Advisory of research and development and technological transformation of biological products	1,260	-	Liu Juyan	05659089-8	60.00	60.00	Yes	153	-	-
Guangzhou Beiyunshan Xingzhou Pharmaceutical Co., Ltd. (Xingzhou) ⁽¹⁾	Subsidiary	Guangzhou	Pharmaceutical manufacturing	8,648	Chinese herbal medicine processing; food, health products technology research, advisory and transfer	6,486	-	Su Bin	08597715-X	75.00	75.00	Yes	2,176	-	-

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

Name of subsidiary	Type of subsidiary	Registration place	Nature of business and principal activities	Registered capital ('0000)	Scope of business	Paid-in capital at end of period ('0000)	Other assets in substance in investment constitution ('0000)	Legal Representative	Organisation code	% equity interest held by the Company	% voting rights held	Consolidated interests at end of period ('0000)	Minority interest in the profit or loss balance of minority interest ('0000)	Amount of minority interests adjusted against minority interest in the profit or loss balance of minority interest ('0000)	Ending balance after the Company's equity interest adjusted against the amount of the current period's losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest ('0000)
Direct subsidiaries															
Guangzhou Beiyunshan Medical and Health Industry Investment Co., Ltd. (Beiyunshan Medical and Health) ^(b)	Wholly-owned subsidiary	Guangzhou	Commercial service	1,000	Assets management, investment management,	-	-	Ying Jun	30438841-1	100	100	Yes	-	-	-
Indirect subsidiaries:															
Qi Xing	Subsidiary	Guangzhou	Pharmaceutical manufacturing	10,000	Production of CPM	7,500	-	Wu Changhai	61841434-4	75.00	75.00	Yes	3,929	-	-
Guangzhou Jing Xin Tang 1790 Trading Co., Ltd. (Jing Xin Tang 1790) ^(b)	Subsidiary	Guangzhou	Pharmaceutical trading	300	Sales of cosmetic	153	-	Chen Zhiqiong	76611890-X	45.08	51.00	Yes	180	-	-
Guangzhou Pan Gao Shou Natural Healthcare Products Co., Ltd (Pan Gao Shou Natural Healthcare) ^(b)	Subsidiary	Guangzhou	Pharmaceutical manufacturing	1,400	Production and processing of food and health products	1,400	-	Wei Dahua	1914513-8	87.77	100.00	Yes	-	-	-
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	Wholly-owned subsidiary	Guangzhou	Pharmaceutical trading	294	Retailing of Chinese raw medicine and CPM	294	-	Zhou Lushan	19050067-3	100.00	100.00	Yes	-	-	-
Indirect subsidiaries:															
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Wholly-owned subsidiary	Guangzhou	Pharmaceutical manufacturing	80	Processing of Chinese Raw medicine	80	-	Zhou Lushan	19066119-1	100.00	100.00	Yes	-	-	-
Guangzhou Cai Zhi Lin Corporation Bei Sheng Chinese raw medicine Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Pharmaceutical trading	500	Retailing of Chinese raw medicine and CPM	500	-	Zhou Lushan	78120107-4	100.00	100.00	Yes	-	-	-
Guangzhou Ao Ma Medical Apparatus Co., Ltd. (Guangzhou Ao Ma)	Wholly-owned subsidiary	Guangzhou	Pharmaceutical trading	668	Trading of medical apparatus	668	-	Lao Zhicong	68766959-4	100.00	100.00	Yes	-	-	-

Name of subsidiary	Type of subsidiary	Registration place	Nature of business and principal activities	Registered capital ('0000)	Scope of business	Paid-in capital at end of period ('0000)	Other assets in substance ('0000)	Legal Representative	Organisation code	% equity interest held by the Company	% voting rights held	Consolidated or not	Minority interests at end of period ('0000)	Amount of minority interests adjusted against minority interest in the profit or loss ('0000)	Ending balance after the Company's equity interest adjusted against the amount of the current period's losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest ('0000)
Ther Lin Zhi Guangyao Development Co., Ltd ⁽¹⁾	Subsidiary	Linzhi	Pharmaceutical trading	200	Production and trading of local product, and craft	110	-	Huang Xiang	58575305-1	54.74	55.00	Yes	42	-	-
Guangzhou Pan Gao Shou Food Beverage Co., Ltd ⁽¹⁾	Subsidiary	Guangzhou	Pharmaceutical manufacturing	100	Wholesale of pre-packaged food	100	-	Wei Dahua	58339020-6	87.77	100.00	Yes	-	-	-
Indirect subsidiaries:															
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd	Subsidiary	Wulanchabu	Pharmaceutical trading	100	Cultivation, purchase and sales of Chinese medicine herbs and agricultural by-products, development, advisory and service of Chinese medicine herbs	80	-	Zhou Lushan	59195946-6	80.00	80.00	Yes	15	-	-
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd	Subsidiary	Linqi	Pharmaceutical trading	200	Cultivation, purchase and sales of Chinese medicine herbs	120	-	Kong Jian	59033298-7	60.00	60.00	Yes	137	-	-

Name of subsidiary	Type of subsidiary	Registration place	Nature of business and principal activities	Registered capital ('0000)	Scope of business	Paid-in capital at end of period ('0000)	Other assets in substance in constitution investment	Legal Representative	Organisation code	% equity interest held by the Company	% voting rights held	Consolidated or not	Minority interests at end of period ('0000)	Amount of minority interests adjusted against minority interest in the profit or loss ('0000)	Ending balance after the Company's equity interest adjusted against the amount of the current period's losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest ('0000)
Indirect subsidiaries:															
Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd. ⁽¹⁾	Subsidiary	Kaifeng	Pharmaceutical trading	200	Cultivation, purchase and sales of Chinese medicine herbs, research and development of CPM; agricultural by-products development, advisory	140	-	Kong Jian	05084438-6	67.67	70.00	Yes	58	-	-
Jingxuan Dong F Guangyao Chinese Raw Medicine Development Co., Ltd. ⁽¹⁾	Subsidiary	Jingyu	Pharmaceutical trading	300	Cultivation, purchase and sales of Chinese medicine herbs	180	-	Zhou Lushan	06863532-0	57.50	60.00	Yes	334	-	-
Indirect subsidiaries:															
Heilongjiang Songang Guangyao Raw Medicine Development Co., Ltd.	Subsidiary	Harbin	Pharmaceutical trading	300	Research, cultivation, purchasing sales of Chinese Raw medicine; Purchasing and sales of agricultural by-products and wild products	180	-	Zhou Lushan	0700547-8	60.00	60.00	Yes	118	-	-

Name of subsidiary	Type of subsidiary	Registration place	Nature of business and principal activities	Registered capital ('0000)	Scope of business	Paid-in capital at end of period ('0000)	Other assets constitution investment in substance ('0000)	Legal Representative	Organisation code	% equity interest held by the Company	% voting rights held or not	Consolidated interests at end of period ('0000)	Minority interest in the profit or loss balance of minority interest ('0000)	Amount of minority interests adjusted against minority interest in the profit or loss balance of minority interest ('0000)	Ending balance after the Company's equity interest adjusted against the amount of the current period's losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest ('0000)
Chongqing Guangyao Raw Medicine Development Co., Ltd. (Chongqing Guangyao) ⁽¹⁾	Subsidiary	Chongqing	Pharmaceutical trading	300	Cultivation, purchasing, sites of Chinese raw medicine and agricultural by-products; Advisory and service of Chinese raw medicine cultivation technology	240	-	Wei Dahua	07567346-1	75.23	80.00	Yes	38	-	-
Indirect subsidiaries:															
Wang Lao Ji Great Health Yaan Co., Ltd.	Wholly-owned subsidiary	Yaan	Pharmaceutical manufacturing	5,000	In preparation	5,000	-	Wu Changhai	07145320-9	100.00	100.00	Yes	-	-	-
Guangzhou Baiyunshan Guanghua Health Products Co., Ltd. (Guanghua Health) ⁽¹⁾⁽⁴⁾	Subsidiary	Guangzhou	Pharmaceutical manufacturing	1000	Food manufacturing	150	Zhang Weixiang	09566095-9	63.36	75.00	Yes	(1)	-	-	-

Note 1: The reason of difference between ratio of equity interest held and ratio of voting rights held of these nine companies is that the Company indirectly holds these eight companies through subsidiaries which are not wholly-owned by the Company, making the ratio of equity interest held lower than ratio of voting rights held.

Note 2: The Company and Guangzhou Xingzhou Pharmaceutical Co., Ltd. invested RMB86,480 thousand to establish Xingzhou in February 2014, investment amounted to RMB64,860 thousand and RMB21,620 thousand, ratio of equity interest held are 75% and 25%.

Note 3: The Company established Baiyunshan Medical Health in May 2014, registered capital amounted to RMB 10,000 thousand, which was 100% of the registered capital.

Note 4: Guanghua and Beijing Kangbaorui Biological Technology Co., Ltd. established Guanghua Health in April 2014,. The registered capital was RMB 10,000 thousand, which was 75% and 25% of registered capita respectively.

(b) Subsidiaries acquired in a business combination involving enterprises under common control

Name of subsidiary	Type of subsidiary	Registration place	Nature of business and principle of activities	Registered capital (/0000)	Scope of business	Paid-in capital at end of period (/0000)	Other assets constitution investment in substance (/0000)	Legal Representative	Organisation Code	% equity interest held by the Company	% Voting rights held	Consolidated interests or not	Minority interest at end of period in the profit or loss (/0000)	Amount of minority interests adjusted against minority interest in the profit or loss (/0000)	Ending balance after the Company's equity interest adjusted against the amount of the current period's losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest (/0000)
Tian Xin	Subsidiary	Guangzhou	Pharmaceutical manufacturing	4,569	Manufacture, sales of chemical medicine, CPM, crude drug and health products	3,769	-	Chen Kunan	190485108	82.49	82.49	Yes	3,529	-	-
Guang Hua	Subsidiary	Guangzhou	Pharmaceutical manufacturing	5,529	Manufacture of chemical medicine material, CPM and veterinary medicine, cosmetics	4,670	-	Wang Wenchu	190485116	84.48	84.48	Yes	2,132	-	-
Ming Xing	Wholly-owned subsidiary	Guangzhou	Pharmaceutical manufacturing	2,649	Manufacture of chemical medicine material, chemical preparation medicine, CPM and health products	2,649	-	Li Hong	19046020X	100.00	100.00	Yes	-	-	-
Bayunshan Weiling Pharmaceutical Co., Ltd. ("Weiling")	Wholly-owned subsidiary	Jiexi	Pharmaceutical manufacturing	1,179	Manufacture and sales of tablet, capsules and granule	1,179	-	Chen Mao	618223177	100.00	100.00	Yes	-	-	-
Guangzhou Bayunshan Pharmaceutical Technological Development Co., Ltd. ("BYS Pharmaceutical Technological")	Subsidiary	Guangzhou	Pharmaceutical trading	200	Wholesale of CPM, chemical medicine material and antibiotic	102	-	Wang Wenchu	721974948	51.00	51.00	Yes	2,330	-	-
Guangzhou Bayunshan Pharmacy	Wholly-owned subsidiary	Guangzhou	Retailing	100	Retail of CPM, common Chinese and western medicine, tobacco and wine, sales of grocery	100	-	Wen Xianwen	19056006-7	100.00	100.00	Yes	-	-	-

Name of subsidiary	Type of subsidiary	Registration place	Nature of business and principle of activities	Registered capital (/0000)	Scope of business	Paid-in capital at end of period (/0000)	Other assets constitution investment in substance (/0000)	Legal Representative	Organisation Code	% equity interest held by the Company	% Voting rights held	Consolidated or not	Minority interest at end of period in the profit or loss (/0000)	Amount of minority interests adjusted against minority interest in the profit or loss (/0000)	Ending balance after the Company's equity interest adjusted against the amount of the current period's losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest (/0000)
Guangzhou Baiyunshan Great Health Hotel Co., Ltd. ("Great Health Hotel")	Wholly-owned subsidiary	Guangzhou	Hotel	50 (/0000)	Retailing, hospitality industry, Chinese catering	50 (/0000)	-	Cai Jingui	58760950-0	100.00	100.00	Yes	-	-	-
Guangzhou Baiyunshan (Hong Kong) Limited	Wholly-owned subsidiary	Hongkong	Pharmaceutical trading	HK\$500	Import and export trading of medicine	HK\$ 500	-	Xu Hanzao	Not applicable	100.00	100.00	Yes	-	-	-

(c) Subsidiaries acquired in a business combination involving enterprises not under common control

Name of subsidiary	Type of subsidiary	Registration place	Nature of business and principal activities	Registered capital (/0000)	Scope of business	Paid-in capital at end of period (/0000)	Other assets constitution investment in substance (/0000)	Legal Representative	Organisation code	% equity interest held by the company	% Voting rights held	Consolidated or not	Minority interest at end of period (/0000)	Amount of minority interests adjusted against minority interest in the profit or loss (/0000)	Ending balance after the Company's equity interest adjusted against the amount of the current year's losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest (/0000)
Ying Kang	Subsidiary	Nanning	Pharmaceutical	3,188	Wholesale of CPM, chemical material, medicine and antibiotic.	1,626	-	Xu Keyi	19828518-6	51.00	51.00	Yes	1,336	-	-

(2) Notes to the change of scope of consolidation

- (a) The reason for the increase of the 3 companies in consolidation scope comparing to the preceding period are: (1) the Company and Guangzhou Xingzhou Pharmaceutical Co., Ltd. invested RMB86,480 thousand to establish Xingzhou in February 2014, the Company's ratio of equity interest held are 75%. (2) Guanghua Pharmaceutical, a subsidiary of the Company, and other shareholders established Guanghua Health in April 2014, The registered capital was RMB 10,000 thousand, which was 75% of registered capital. (3) The Company established Baiyunshan Medical Health in May 2014, registered capital amounted to RMB 10,000 thousand, which was 100% of the registered capital.
- (b) There is no decrease in the consolidation scope in current period.

(3) New entities in the scope of consolidation and entities no-longer in the scope of consolidation**(a) New entities in the scope of consolidation**

Name of Subsidiary	Net Assets as at 30 June 2014	Net Profits for the six months ended 30 June 2014
Xingzhou	87,050,795.01	570,795.01
Guanghua Health	1,459,860.52	(40,139.48)
Baiyunshan Medical Health	-	-

(b) There is no entity no-longer in the scope of consolidation.**(4) Translation of overseas operating entity.**

Guangyao Baiyunshan (Hong Kong) Limited, a subsidiary of the Company, is a foreign operating entity, the assets and liabilities items among the balance sheet of Guangyao Baiyunshan (Hong Kong) Limited shall be translated using the spot exchange rate at the balance sheet date. Other items other than the undistributed profits among shareholder's equity shall be translated using the spot exchange rate at the transaction date. The income and expenses among the income statement shall be translated using the average exchange rate during the reporting period. Differences on translation of foreign currency financial statement are individually listed in shareholder's equity. The cash flow items of foreign operation shall be translated using average exchange rate during the reporting period. The effect of exchange rate changes on cash is presented individually in the cash flow statement.

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	30 June 2014			31 December 2013		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash on hand-						
RMB			912,648.93			754,930.02
Hong Kong Dollars ("HKD")	4.38	0.7938	3.48	3,587.38	0.7862	2,820.40
			<u>912,652.41</u>			<u>757,750.42</u>
Bank deposits						
RMB			2,776,328,996.15			1,878,374,679.49
US Dollars ("USD")	1,366,518.43	6.1528	8,407,914.60	3,151,972.60	6.0969	19,217,261.74
HKD	2,993,302.52	0.7938	2,375,933.88	2,463,147.39	0.7862	1,936,576.41
Euro (EUR)	535,982.51	8.3946	4,499,358.78	535,955.54	8.4189	4,512,156.10
Yen (JPY)	2.00	0.0600	0.12	10,000,002.00	0.0578	577,710.12
Great Britain Pound (GBP)	0.11	10.455	1.15	0.11	10.091	1.11
			<u>2,791,612,204.68</u>			<u>1,904,618,384.97</u>
Other deposits-						
RMB			52,685,974.64			30,271,005.98
HKD	44,007.49	0.7938	34,930.95	44,007.49	0.7862	34,598.69
			<u>52,720,905.59</u>			<u>30,305,604.67</u>
			<u>2,845,245,762.68</u>			<u>1,935,681,740.06</u>

Details of restricted cash are listed as follows:

	30 June 2014	31 December 2013
Cash deposit of notes payable within 3 months	11,263,095.15	11,232,987.27
Cash deposit of notes payable over 3 months	17,829,761.07	16,053,239.48
Cash deposit of construction	—	100,543.50
Housing fund	579,323.27	575,670.22
Deposit of direct commerce enterprise	20,000,000.00	—
	<u>49,672,179.49</u>	<u>27,962,440.47</u>

(2) Financial assets held for trading

	30 June 2014	31 December 2013
Listed shares	<u>3,408,360.50</u>	<u>3,362,667.20</u>
Including: market value of listed investment	<u>3,408,360.50</u>	<u>3,362,667.20</u>

The fair value of listed shares is determined at the closing price quoted in the Shanghai Stock Exchange on the last trading day of the reporting period.

(3) Notes receivable**(a) Classification of notes receivable**

	30 June 2014	31 December 2013
Bank acceptance notes	1,515,429,323.06	1,315,644,828.33
Commercial acceptance notes	<u>3,509,590.82</u>	<u>10,708,927.57</u>
	<u>1,518,938,913.88</u>	<u>1,326,353,755.90</u>

(b) As at 30 June 2014, there are no notes receivable that are being pledged of the Group. (As at 31 December 2013: RMB11,000 thousand)

(c) Notes receivable that are reclassified to accounts receivable due to inability of the companies of issuance and that are not matured but have been endorsed are summarised as follows:

(i) As at 30 June 2014, there are no notes receivable that are reclassified to accounts receivable due to inability of the companies of issuance. (As at 31 December 2013: RMB4,585 thousand)

(ii) As at 30 June 2014, the bank acceptance notes receivable that are not matured but have been endorsed amounted to RMB985,050 thousand (As at 31 December 2013: RMB1,053,687 thousand), the top five of which are summarised as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2014.04.29	2014.10.29	10,000,000.00
Entity 2	2014.02.18	2014.08.18	7,500,000.00
Entity 3	2014.01.21	2014.07.21	5,812,000.00
Entity 4	2014.03.13	2014.09.13	5,000,000.00
Entity 5	2014.03.13	2014.09.13	5,000,000.00

- (iii) As at 30 June 2014, the commercial acceptance notes that are not matured but have been endorsed amounted to RMB2,873 thousand (As at 31 December 2013: RMB7,698 thousand). the top five of which are summarised as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2014.06.20	2014.12.20	1,836,311.62
Entity 2	2014.05.30	2014.08.23	1,023,657.15
Entity 3	2014.06.25	2014.07.25	13,328.50

- (d) Notes receivable that are not matured but have been discounted:

- (i) As at 30 June 2014, the bank acceptance notes that are not matured but have been discounted amounted to RMB 70,922 thousand (As at 31 December 2013: RMB 114,178 thousand), and the top five of which are summarised as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2014.02.27	2014.08.25	7,069,682.31
Entity 2	2014.01.10	2014.07.10	4,230,176.37
Entity 3	2014.01.22	2014.07.22	3,491,486.12
Entity 4	2014.06.05	2014.12.05	3,011,312.00
Entity 5	2013.01.13	2014.07.10	3,000,000.00

- (ii) As at 30 June 2014 and 31 December 2013, there are no commercial acceptance notes that are not matured but have been discounted.

- (e) The balance of notes receivable dated 30 June 2014 will expiry before 31 December 2014.

(4) Dividends receivable

Item	31 December 2013	Current increase	Current decrease	30 June 2014
Dividends receivable				
within 1 year aging	–	60,492,160.13	60,492,160.13	–
Including: HWBYS	–	20,000,000.00	20,000,000.00	–
Nuocheng Biological	–	40,492,160.13	40,492,160.13	–

(5) Accounts receivable

The majority of the Group's sales are transacted with credit terms of 3 to 6 months granted to customers. The remaining transactions are settled by cash upon delivery, advance from customers or bank acceptance notes.

(a) Accounts receivable by aging are analysed as follows:

	30 June 2014	31 December 2013
Within 1 year	1,136,542,756.42	961,563,413.82
1 to 2 years	20,989,990.80	21,462,412.04
2 to 3 years	4,092,683.77	5,779,861.24
3 to 4 years	4,767,298.80	871,321.18
4 to 5 years	4,033,335.13	4,836,377.21
Over 5 years	9,663,249.39	8,577,552.93
	<u>1,180,089,314.31</u>	<u>1,003,090,938.42</u>

(b) Accounts receivable by categories are analysed as follows:

	30 June 2014			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	5,864,187.50	0.50%	5,391,750.00	91.94%
Subject to provision by groups:				
Group 1	1,168,372,203.30	99.00%	21,482,517.22	1.84%
Individually insignificant but subject to separate provision	<u>5,852,923.51</u>	0.50%	<u>5,852,923.51</u>	100.00%
	<u>1,180,089,314.31</u>	100.00%	<u>32,727,190.73</u>	2.77%

	31 December 2013			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	5,874,187.50	0.59%	5,391,750.00	91.79%
Subject to provision by groups:				
Group 1	991,218,442.23	98.81%	18,516,130.62	1.87%
Individually insignificant but subject to separate provision	<u>5,998,308.69</u>	0.60%	<u>5,998,308.69</u>	100.00%
	<u>1,003,090,938.42</u>	100.00%	<u>29,906,189.31</u>	2.98%

Classification of accounts receivable: refer to Note 2(10).

- (c) As at 31 December 2013, accounts receivable that are individually significant and subject to separate provision are analysed as follows:

	Ending balance	Provision for bad debts	Ratio	Reason
Customer 1	3,364,187.50	2,891,750.00	85.96%	It is expected the amount could not be recovered in full due to significant delinquency in repayment by this customer.
Customer 2	1,500,000.00	1,500,000.00	100.00%	In the execution procedure, there is a possibility that the amount could not be recoverable.
Customer 3	1,000,000.00	1,000,000.00	100.00%	The execution procedure has been accepted, there is a possibility that the amount could not be recoverable.
	<u>5,864,187.50</u>	<u>5,391,750.00</u>	91.94%	

- (d) The groups of accounts receivable in which provisions are made using aging analysis method are analysed as follows:

	30 June 2014			31 December 2013		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
Within 1 year	1,136,535,289.82	97.28%	11,365,358.02	960,108,483.73	96.85%	9,601,084.85
1 to 2 years	19,589,990.80	1.68%	1,958,999.06	21,462,412.04	2.17%	2,146,241.19
2 to 3 years	4,015,614.44	0.34%	1,204,684.35	3,393,212.69	0.34%	1,017,963.81
3 to 4 years	2,306,344.46	0.20%	1,153,172.24	458,736.15	0.05%	229,368.09
4 to 5 years	623,301.12	0.05%	498,640.89	1,370,624.76	0.14%	1,096,499.82
Over 5 years	5,301,662.66	0.45%	5,301,662.66	4,424,972.86	0.45%	4,424,972.86
	<u>1,168,372,203.30</u>	100.00%	<u>21,482,517.22</u>	<u>991,218,442.23</u>	100.00%	<u>18,516,130.62</u>

- (e) As at 30 June 2014, accounts receivable that are individually insignificant but subject to separate provision are analysed as follows:

	Ending balance	Provision for bad debts	Ratio	Reason
Customer 1	508,889.00	508,889.00	100.00%	Although the company has won the lawsuit, there is a possibility that the amount could not be recoverable.
Customer 2	477,000.16	477,000.16	100.00%	It is expected that the amount could not be recovered.
Customer 3	470,000.00	470,000.00	100.00%	It is expected that the amount could not be recovered.
Customer 4	467,462.40	467,462.40	100.00%	It is expected that the amount could not be recovered.
Customer 5	400,000.00	400,000.00	100.00%	The notes is not recoverable as a result of switch of accounts receivable.
Others	3,529,571.95	3,529,571.95	100.00%	It is expected that the amount could not be recovered.
	<u>5,852,923.51</u>	<u>5,852,923.51</u>	100.00%	

- (f) As at 30 June 2014 and 31 December 2013, there is no material accounts receivable which have past due but not impaired.
- (g) There are no other receivables that are subject to full provision or in large proportionate but have been reversed or collected in the current period.
- (h) There are no accounts receivable that have been collected by restructuring or other manners during the current period.
- (i) There are no accounts receivable that are written off during the current period.
- (j) As at 30 June 2014, accounts receivable from shareholders who hold more than 5% (including 5%) of the voting rights of the Company is account receivable of RMB 23 thousand from GPLH. (As at 31 December 2013: account receivable of RMB 11 thousand from GPLH)
- (k) As at 30 June 2014, the top five of accounts receivable are analysed as follows:

	Relationship with the Group	Amount	Aging	% of total balance
Customer 1	Third Party	134,674,350.42	Within 1 year	11.42%
Customer 2	Third Party	63,529,245.68	Within 1 year	5.38%
Customer 3	Third Party	41,220,427.43	Within 1 year	3.49%
Customer 4	Related Party	26,827,825.64	Within 1 year	2.27%
Customer 5	Third Party	19,998,193.60	Within 1 year	1.70%
		<u>286,250,042.77</u>		24.26%

- (l) As at 30 June 2014, accounts receivable from related parties accounted for 4.30% of total accounts receivable balance (As at 31 December 2013: 3.64%), refer to Note 6 for details.
- (m) There are no accounts receivable derecognised due to transfer of financial assets during the current period.
- (n) As at 30 June 2014, there are no securitizations that targeted at accounts receivable.

(o) Accounts receivable denominated in foreign currencies are summarised as follows:

	30 June 2014			31 December 2013		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
USD	436,457.10	6.1528	2,685,433.24	2,258,215.76	6.0969	13,768,115.67
HKD	4,792,979.02	0.7938	3,804,427.10	7,003,374.71	0.7862	5,506,263.30
			<u>6,489,860.34</u>			<u>19,274,378.97</u>

(6) Other receivables

	30 June 2014	31 December 2013
Petty cash	8,888,195.37	5,590,842.15
Deposits	20,900,566.54	29,838,619.79
Staff advances	35,065,761.80	28,921,124.81
Receivables due from external parties	91,859,528.21	80,899,440.84
Receivables due from related parties (<i>Note 6(5)</i>)	32,678,274.20	22,753,002.38
Tax refund for exports	30,821,801.52	21,117,734.81
Taxes pending for customs registration	1,522,509.16	4,623,940.24
Others	5,354,900.03	5,265,491.20
	<u>227,091,536.83</u>	<u>199,010,196.22</u>
Less: provision for bad debts	<u>18,279,656.14</u>	<u>17,864,477.96</u>
	<u>208,811,880.69</u>	<u>181,145,718.26</u>

(a) Other receivables by aging are analysed as follows:

	30 June 2014			31 December 2013		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	168,194,051.84	74.07%	133,476.03	144,239,141.72	72.48%	135,681.15
1 to 2 years	13,370,290.07	5.89%	309,226.95	7,931,234.15	3.99%	333,846.86
2 to 3 years	4,379,982.67	1.93%	800,332.13	5,348,410.41	2.69%	614,277.81
3 to 4 years	3,301,128.63	1.45%	2,234,518.08	5,023,200.99	2.52%	2,269,357.12
4 to 5 years	2,414,460.86	1.06%	422,820.60	1,878,996.56	0.94%	382,438.20
Over 5 years	35,431,622.76	15.60%	14,379,282.35	34,589,212.39	17.38%	14,128,876.82
	<u>227,091,536.83</u>	100.00%	<u>18,279,656.14</u>	<u>199,010,196.22</u>	100.00%	<u>17,864,477.96</u>

(b) Other receivables by categories are analysed as follows:

	30 June 2014			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	10,870,395.15	4.79%	10,870,395.15	100.00%
Subject to provision by groups:				
Group 1	19,801,011.49	8.72%	2,543,267.27	12.84%
Group 2	94,121,338.56	41.44%	–	0.00%
Group 3	32,678,274.20	14.39%	100,000.00	0.31%
Group 4	64,854,523.71	28.56%	–	0.00%
Individually insignificant but subject to separate provision	<u>4,765,993.72</u>	2.10%	<u>4,765,993.72</u>	100.00%
	<u>227,091,536.83</u>	100.00%	<u>18,279,656.14</u>	8.05%
	31 December 2013			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	10,870,395.15	5.46%	10,870,395.15	100.00%
Subject to provision by groups:				
Group 1	19,208,172.17	9.65%	2,211,869.09	11.52%
Group 2	77,145,826.05	38.76%	–	0.00%
Group 3	22,753,002.38	11.43%	100,000.00	0.44%
Group 4	64,350,586.75	32.35%	–	0.00%
Individually insignificant but subject to separate provision	<u>4,682,213.72</u>	2.35%	<u>4,682,213.72</u>	100.00%
	<u>199,010,196.22</u>	100.00%	<u>17,864,477.96</u>	8.98%

- (c) Other receivables that are individually significant and subject to separate provision are analysed as follows:

	Ending balance	Provision for bad debts	Ratio	Reason
Other receivables 1	2,868,759.75	2,868,759.75	100.00%	As this company was ceased, it is expected that the amount could not be recovered
Other receivables 2	1,800,957.60	1,800,957.60	100.00%	As this company was ceased, it is expected that the amount could not be recovered
Other receivables 3	1,520,000.00	1,520,000.00	100.00%	As this company went bankrupt, it is expected that the amount would not be recoverable
Other receivables 4	1,025,878.50	1,025,878.50	100.00%	As this company went bankrupt, it is expected that the amount would not be recoverable
Other receivables 5	502,043.54	502,043.54	100.00%	As this company is on bankruptcy liquidation procedures, it is expected that the amount could not be recovered
Others	3,152,755.76	3,152,755.76	100.00%	It is expected that the amount could not be recovered
	<u>10,870,395.15</u>	<u>10,870,395.15</u>	100.00%	

- (d) The groups of other receivables in which provisions are made using aging analysis method are analysed as follows:

	30 June 2014			31 December 2013		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	13,347,405.36	67.41%	133,476.03	13,568,115.20	70.64%	135,681.15
1 to 2 years	3,092,269.48	15.62%	309,226.95	3,338,468.60	17.38%	333,846.86
2 to 3 years	1,541,823.91	7.79%	462,547.18	566,288.40	2.95%	169,886.52
3 to 4 years	281,978.87	1.42%	140,989.44	264,869.63	1.38%	132,434.82
4 to 5 years	202,531.00	1.02%	162,024.80	152,053.00	0.79%	121,642.40
Over 5 years	1,335,002.87	6.74%	1,335,002.87	1,318,377.34	6.86%	1,318,377.34
	<u>19,801,011.49</u>	100.00%	<u>2,543,267.27</u>	<u>19,208,172.17</u>	100.00%	<u>2,211,869.09</u>

- (e) Other receivables that are individually insignificant but subject to separate provision are analysed as follows:

	Ending balance	Provision for bad debts	Ratio	Reason
Other receivables 1	85,500.00	85,500.00	100.00%	It is expected that the amount could not be recovered
Other receivables 2	78,580.00	78,580.00	100.00%	It is expected that the amount could not be recovered
Other receivables 3	71,739.00	71,739.00	100.00%	It is expected that the amount could not be recovered
Other receivables 4	65,846.20	65,846.20	100.00%	It is expected that the amount could not be recovered
Other receivables 5	60,080.00	60,080.00	100.00%	It is expected that the amount could not be recovered
Others	4,404,248.52	4,404,248.52	100.00%	It is expected that the amount could not be recovered
	<u>4,765,993.72</u>	<u>4,765,993.72</u>	100.00%	

- (f) There are other receivables that are subject to full provision or in large proportionate but have been reversed or collected in the current period.
- (g) There are no other receivables that have been collected by restructuring or other manners in the current period.
- (h) There are no other receivables that have been written off in the current period.
- (i) As at 30 June 2014, other receivable from shareholders who hold more than 5% (including 5%) of the voting rights of the Company is RMB2,438 thousand from GPLL. (As at 31 December 2013: RMB842 thousand).
- (j) As at 30 June 2014, the top five of the debt form the balance of other receivables is analysed as follows:

	Relationship with the company	Amount	Aging	% of total balance
Other receivables 1	Third party	30,821,801.52	Within 1 year	13.58%
Other receivables 2	Related party	20,651,845.91	Within 2 year, Over 5 year	9.09%
Other receivables 3	Third party	9,628,072.99	Within 1 year	4.24%
Other receivables 4	Related party	8,177,188.65	Within 1 year	3.60%
Other receivables 5	Third party	6,944,481.72	Within 1 year	3.06%
		<u>76,223,390.79</u>		<u>33.57%</u>

- (k) As at 30 June 2014, accounts receivable from related parties accounted for 14.39% of total other accounts receivable balance (as at 31 December 2013: 11.43%): refer to Note 6 for details.
- (l) There are no other receivables derecognised due to transfer of financial assets during the current period.
- (m) As at 30 June 2014, there are no securitizations that targeted at other receivables.

- (n) As at 30 June 2014, the other receivables denominated in foreign currencies are summarised as follows:

	30 June 2014			31 December 2013		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
HKD	35,240.56	0.7938	27,972.20	674,748.02	0.7862	530,507.14
USD	2,293.20	6.1528	14,109.59	-	Not applicable	-
			<u>42,081.79</u>			<u>530,507.14</u>

(7) Advances to suppliers

- (a) The aging of advances to suppliers is analysed as follows:

	30 June 2014		31 December 2013	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	608,433,449.46	95.05%	564,108,967.87	91.89%
1 to 2 years	26,680,479.00	4.17%	45,971,995.32	7.49%
2 to 3 years	2,097,843.68	0.33%	899,375.16	0.15%
Over 3 years	2,880,399.31	0.45%	2,901,983.43	0.47%
	<u>640,092,171.45</u>	100.00%	<u>613,882,321.78</u>	100.00%

- (b) The top five of advances to suppliers are analysed as follows:

	Relationship with the Group	Amount	Aging	Reason of unsettlement
Supplier 1	Third party	94,569,427.79	Within 1 year	Normal purchases
Supplier 2	Third party	66,422,805.25	Within 1 year	Normal purchases
Supplier 3	Third party	28,620,001.00	Within 1 year	Normal purchases
Supplier 4	Third party	21,437,683.46	Within 1 year	Normal purchases
Supplier 5	Third party	18,092,914.11	Within 1 year	Normal purchases
		<u>229,142,831.61</u>		

- (c) As at 30 June 2014 and 31 December 2013, there are no advances to shareholders who hold more than 5% (including 5%) of the voting rights of the Company.
- (d) As at 30 June 2014, the advances to related parties accounted for 1.79% of the total balance of advances to suppliers (as at 31 December 2013: 1.42%): refer to Note 6 for details.

(e) The advances to suppliers denominated in foreign currencies are summarised as follows:

	30 June 2014			31 December 2013		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
USD	116,167.50	6.1480	714,197.79	1,676,642.10	6.1346	10,286,671.47
HKD	7,942,800.92	0.7928	6,297,449.70	30,976,632.30	0.8077	25,019,855.88
			<u>7,011,647.49</u>			<u>35,306,527.35</u>

(f) As at 30 June 2014 and 31 December 2013, there is no significant advances to suppliers with aging over one year.

(8) Inventories

(a) Classification of inventories:

	30 June 2014			31 December 2013		
	Ending balance	Provision for declines in value of inventories	Carrying amount	Ending balance	Provision for declines in value of inventories	Carrying amount
Goods in transit	15,473,993.44	-	15,473,993.44	6,259,476.04	-	6,259,476.04
Raw materials	621,952,161.12	1,849,523.26	620,102,637.86	596,252,876.34	1,163,784.28	595,089,092.06
Work in progress	135,255,046.93	-	135,255,046.93	156,376,261.67	-	156,376,261.67
Semi-finished goods	206,601,807.14	981,315.46	205,620,491.68	190,609,695.88	981,315.46	189,628,380.42
Finished goods	694,261,334.30	12,713,747.57	681,547,586.73	683,304,886.83	12,214,273.40	671,090,613.43
Low-value consumables	5,624,770.32	-	5,624,770.32	3,951,500.73	-	3,951,500.73
Packaging materials	115,817,042.32	293,215.43	115,523,826.89	104,359,501.34	-	104,359,501.34
Goods In processing contract	11,178,813.02	-	11,178,813.02	15,464,794.08	-	15,464,794.08
Commodity Stocks	561,188,911.48	558,931.62	560,629,979.86	503,727,260.88	558,931.62	503,168,329.26
Others	771,514.86	-	771,514.86	441,799.02	-	441,799.02
	<u>2,368,125,394.93</u>	<u>16,396,733.34</u>	<u>2,351,728,661.59</u>	<u>2,260,748,052.81</u>	<u>14,918,304.76</u>	<u>2,245,829,748.05</u>

(b) Provisions for declines in the value of inventories

Item	31 December 2013	Current period additions	Current period additions			30 June 2014
			Reversal	Write-off	Other reductions	
Raw materials	1,163,784.28	685,738.98	-	-	-	1,849,523.26
Work in progress	981,315.46	-	-	-	-	981,315.46
Finished goods	12,214,273.40	1,891,516.00	-	1,392,041.83	-	12,713,747.57
Low-value consumables	-	-	-	-	-	-
Packaging materials	-	293,215.43	-	-	-	293,215.43
Commodity stocks	558,931.62	-	-	-	-	558,931.62
	<u>14,918,304.76</u>	<u>2,870,470.41</u>	<u>-</u>	<u>1,392,041.83</u>	<u>-</u>	<u>16,396,733.34</u>

(c) Provisions for declines in the value of inventories are analysed as follows:

Item	Basis for provision	Reason for reversal	% of amount of reversal to the relevant inventory balance
Raw materials	The difference when net realisable value is less than carrying amount of raw material	Increase in net realisable value	-
Finished goods	Carrying amount over net realisable value	Increase in market price	-
Commodity stocks	Carrying amount over net realisable value	Increase in market price	-

(9) Other current assets

	30 June 2014	31 December 2013
Deductible Input VAT	4,468,434.09	19,142,497.23
Provisional Income Tax paid	-	205,083.92
Provisional Urban Land Use Tax	1,260,945.90	-
	<u>5,729,379.99</u>	<u>19,347,581.15</u>

The Group pays the enterprise income tax, VAT and other taxes in accordance with taxation laws, and presents them on the balance sheet based on their nature in accordance with the provisions of “Accounting Standards for Business Enterprises No.30 – Presentation of Financial Statements “. For balance of deductible VAT, it is required to be presented as “Other current assets” or “Other non-current assets” in the balance sheet based on its liquidity.

(10) Available-for-sale financial assets

(a) Details are as follows:

	30 June 2014	31 December 2013
Available-for-sale shares	<u>16,897,919.96</u>	<u>17,608,107.28</u>

The available-for-sale financial assets comprise the A-share of China Everbright Bank Company Limited and A-share of Bank of Communications held by the Group, and the fair value of which is determined at the closing price quoted in the Shanghai Stock Exchange on the last trading day of the reporting period.

(b) As at 30 June 2014, amount of available-for-sale financial assets (amortized cost), fair value, accumulated movement of fair value charged as other comprehensive income and impairment are summarized as follows:

Item	Available-for-sale equity instrument
Cost of available-for-sale stock	11,249,958.40
Fair value	16,897,919.96
Accumulated movement of fair value charged as other comprehensive income	4,775,412.04
Accumulated movement of fair value charged as deferred tax liabilities	872,549.52
Impairment	–

(11) Investment in jointly controlled entities and associates

Entity	Enterprise type	Registered address	Legal Representative	Principal activities	Registered capital (RMB'000)	Share holding	Voting right	Total assets at end of period (RMB'000)	Total liabilities at end of period (RMB'000)	Net assets at end of period (RMB'000)	Sales for the period (RMB'000)	Net profit for the period (RMB'000)
1. Jointly controlled entities												
GP Corp.	Sino-foreign equity joint venture	Guangzhou	Li Bingrong	Trading of western pharmaceutical products and medical apparatus	70,000	50.00%	50.00%	1,040,374	818,379	221,995	1,316,808	11,231
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. ("Wang Lao Ji")	Sino-foreign equity joint venture	Guangzhou	Wang Jianyi	Production processing, sales of CPM beverage and candies	20,476	48.05%	48.05%	176,669	79,065	97,584	140,445	3,735
Guangzhou Promise Biological Products Co., Ltd. (Nuo Cheng) (Note 1)	Stock corporation	Guangzhou	Zhou Lijian	Production of Freeze-dried rabies vaccine for human use; import of goods, import & export of technology	8,400	49.24%	50.00%	34,689	13,942	20,748	17,187	4,703
HWBYS	Sino-foreign equity joint venture	Guangzhou	Du Zhiqiang	Manufacture, construction engineering, research & development and sales of medicine, health product, food & Chinese medicinal herbs	20,000	50.00%	50.00%	155,269	85,632	69,638	97,703	10,462
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. (Baxter Qiao Guang)	Sino-foreign equity joint venture	Guangzhou	Chen Mao	Manufacture of high-capacity injection and imports, wholesale of medicine.	17,750	50.00%	50.00%	182,295	14,401	3,894	9,863	(716)
2. Associates												
Hanzhou Zheda Han Fang Chinese Medical Info. Engineering Co., Ltd. Golden Eagle Fund Management Co., Ltd. Guangzhou Jinshe Medical Co., Ltd.	Limited Liability Company	Hangzhou	Qu Habin	Technology service and development	100	44.00%	44.00%	6	4	2	-	-
	Limited Liability Company	Zhuhai	Liu Dong	Fund management	25,000	20.00%	20.00%	20,657	6,328	14,328	9,819	475
	Limited Liability Company	Guangzhou	Gao Qi	Research and development: natural health product, Chinese medicine and food	200	38.25%	38.25%	6	3	3	-	-
Wei Yi Co., Ltd. (Note 2)	Limited Liability Company	Guangzhou	Qiao Yong	Medical investment management	2,000	50.50%	41.00%	387	-	387	-	(14)

Note 1: The reason of difference between ratio of equity interest held and ratio of voting rights held of this company is that the Company holds the shares of this company indirectly through subsidiaries which are not wholly-owned by the Company, making the ratio of equity interest held lower than ratio of voting rights held.

Note 2: The reason of difference between ratio of equity interest held and ratio of voting rights held of this company is that as at 8 November 2012, the Company and Guangdong Wen Ming Investment Management Co., Ltd. and Ka Shi Region Weiwuer Hospital jointly established Wei Yi Co., Ltd. Pursuant to the Articles of Association, the registered capital of this company is RMB20,000 thousand, the Company, Guangdong Wen Ming Investment Management Co., Ltd. and Ka Shi Region Weiwuer Hospital contributed RMB8,200 thousand, RMB7,800 thousand and RMB 4,000 thousand respectively. The first phase contribution from the Company and Guangdong Wen Ming Investment Management Co., Ltd. is RMB2,020 thousand and RMB1,980 thousand respectively. As at 30 June 2014, the paid-in capital of Guangdong Wen Ming Investment Management Co., Ltd. is RMB4,000 thousand.

None of the jointly controlled entities and associates of the Group are listed companies.

(12) Long-term equity investments

(a) Details of long-term equity investments:

Entity	Investment cost	31 December 2013	Current period movement	30 June 2014	% Equity interest held	% Voting rights held	Impairment provision	Impairment provided in the current period	Cash dividend in current period
Equity method:									
GP Corp.	396,589,139.78	947,954,367.34	40,138,811.26	988,093,178.60	50.00%	50.00%	-	-	-
Wang Lao Ji	102,035,124.44	450,506,289.82	17,903,765.54	468,410,055.36	48.05%	48.05%	-	-	-
Nuo Cheng	42,000,000.00	121,162,661.82	(17,425,089.30)	103,737,572.52	49.24%	50.00%	-	-	40,942,160.13
HWBYS	100,000,000.00	297,472,505.41	31,461,945.12	328,934,450.53	50.00%	50.00%	-	-	20,000,000.00
Baxter Qiao Guang	37,000,000.00	23,051,837.53	(3,580,405.57)	19,471,431.96	50.00%	50.00%	-	-	-
Guangzhou Jinshen Medical Co., Ltd.	765,000.00	-	-	-	38.25%	38.25%	-	-	-
Hangzhou Zheda Han Fang									
Chinese Medical									
Info. Engineering Co., Ltd.	440,000.00	-	-	-	44.00%	44.00%	-	-	-
Golden Eagle Fund Management Co., Ltd	50,000,000.00	28,565,457.47	949,568.30	29,515,025.77	20.00%	20.00%	-	-	-
Wei Yi Co., Ltd.	2,020,000.00	2,020,000.00	(72,751.23)	1,947,248.77	50.50%	41.00%	-	-	-
Subtotal	730,849,264.22	1,870,733,119.39	69,375,844.12	1,940,108,963.51	-	-	-	-	60,942,160.13

Entity	Investment cost	31 December 2013	Current period movement	30 June 2014	% Equity interest held	% Voting rights held	Impairment provision	Impairment provided in the current period	Cash dividend in current period
Cost method:									
Shanghai Jiute Tang Chinese Medicine Co., Ltd. (Note 1)	515,000.00	547,193.71	-	547,193.71	9.53%	10.00%	-	-	-
Beijing Imperial Court Cultural Development Company Ltd.	200,000.00	200,000.00	-	200,000.00	10.00%	10.00%	-	-	-
Qi Xing Ma Zhong Pharmaceutical Co., Ltd (Note 2)	362,826.38	362,826.38	-	362,826.38	40.00%	40.00%	-	-	-
San You Development Co., Ltd of Indonesia (Note 2)	1,078,551.23	1,078,551.23	-	1,078,551.23	50.00%	50.00%	1,078,551.23	-	-
Sales Store of Peking Road of Guangzhou Medicine Co., Ltd (Note 2)	218,399.05	218,399.05	-	218,399.05	20.00%	20.00%	-	-	-
South China Innovative Pharmaceutical Co., Ltd of Guangdong	10,000,000.00	10,000,000.00	-	10,000,000.00	11.12%	11.12%	-	-	-
Shenzhen Zhong Lian Guang Shen Pharmaceutical Group Co., Ltd.	312,077.00	312,077.00	-	312,077.00	-	-	-	-	-
Guangzhou Zhong Ying Cambridge Technology Co., Ltd.	300,000.00	300,000.00	-	300,000.00	9.97%	9.97%	300,000.00	-	-
Dongbei Pharmaceutical Factory	750,000.00	750,000.00	-	750,000.00	-	-	750,000.00	-	-
Wuhan Pharmaceutical Co., Ltd.	2,000,000.00	2,000,000.00	-	2,000,000.00	2.80%	2.80%	2,000,000.00	-	-
Securities of Enterprises Activities Center	50,000.00	50,000.00	-	50,000.00	-	-	50,000.00	-	-
Guangzhou Dong Ning Pharmaceutical Co., Ltd.	275,000.00	275,000.00	-	275,000.00	5.00%	5.00%	275,000.00	-	-
Guangzhou Nan Xun Pharmaceutical Co., Ltd.	7,677,876.51	7,677,876.51	-	7,677,876.51	13.00%	13.00%	-	-	-
Guangzhou Yu Fa Medical Instrument Co., Ltd.	100,000.00	100,000.00	-	100,000.00	10.00%	10.00%	100,000.00	-	-
Baxter Healthcare	82,338,800.00	82,338,800.00	-	82,338,800.00	12.50%	12.50%	-	-	-
Guangzhou Bank of Commerce	100,000.00	100,000.00	-	100,000.00	-	-	-	-	-
Subtotal	106,278,530.17	106,310,723.88	-	106,310,723.88	-	-	4,553,551.23	-	-
Subtotal	837,127,794.39	1,977,043,843.27	69,375,844.12	2,046,419,687.39	-	-	4,553,551.23	-	60,942,160.13

Note: 1) The reason of difference between ratio of equity interest held and ratio of voting rights held of this company is that the Company holds the shares of this company indirectly through subsidiaries which are not wholly-owned by the Company, making the ratio of equity interest held lower than ratio of voting rights held.

2) The Group has not participated in the operation of Mazhong Medicine of Qi Xing and Sales Store of Peking Road of Guangzhou Medicine Co., Ltd. no exercised significant influence on them, in which the investments were measured using the cost method.

(b) There are no limitation on fund transfer between the Group and its invested.

(13) Investment properties

(a) Investment properties-cost method:

	31 December 2013	Current period addition	Current period disposal	30 June 2014
Cost	384,036,824.44	60,630.82	–	384,097,455.26
Buildings	365,691,923.75	60,630.82	–	365,752,554.57
Land use rights	18,344,900.69	–	–	18,344,900.69
Accumulated depreciation and amortisation	137,727,579.07	5,450,241.41	–	143,177,820.48
Buildings	130,116,617.42	5,263,898.52	–	135,380,515.94
Land use rights	7,610,961.65	186,342.89	–	7,797,304.54
Net book value	246,309,245.37			240,919,634.78
Buildings	235,575,306.33			230,372,038.63
Land use rights	10,733,939.04			10,547,596.15
Provision for impairment	–	–	–	–
Buildings	–	–	–	–
Land use rights	–	–	–	–
Carrying amount	246,309,245.37			240,919,634.78
Buildings	235,575,306.33			230,372,038.63
Land use rights	10,733,939.04			10,547,596.15

- (1) Depreciation charges for the six months ended 30 June 2014 amounted to RMB5,243 thousand. (for the six months ended 30 June 2013: RMB3,760 thousand); Amortisation charges for the six months ended 30 June 2014 amounted to RMB186 thousand (for the six months ended 30 June 2013: RMB 113 thousand).
- (2) As for the six months ended 30 June 2014, The decrease of original cost and accumulated depreciation of the investment properties arising from the fluctuations in exchange is RMB61 thousand and RMB21 thousand respectively. (As for the six months ended 30 June 2013: RMB115 thousand and RMB38 thousand respectively.)
- (3) The land use right among the investment properties is located in Mainland China, and the useful life is 10-50 years.

(14) Fixed assets and accumulated depreciation

(a) Fixed assets

	31 December 2013	Current increase	Current decrease	30 June 2014
Cost	3,646,819,534.48	144,592,497.99	42,536,345.61	3,748,875,686.86
Buildings	1,840,811,233.82	5,351,822.06	5,363,699.12	1,840,799,356.76
Machinery and equipment	1,420,172,674.16	124,243,065.33	29,236,556.63	1,515,179,182.86
Motor vehicles	94,901,677.28	4,327,211.11	5,477,279.40	93,751,608.99
Electronic equipments	130,166,198.46	5,955,207.06	1,119,569.20	135,001,836.32
Office equipment	99,616,615.71	4,340,237.43	1,339,241.26	102,617,611.88
Decoration and fixtures	61,151,135.05	374,955.00	–	61,526,090.05
Accumulated depreciation	1,894,495,741.68	85,300,035.14	40,986,460.07	1,938,809,316.75
Buildings	685,319,874.87	28,206,455.58	5,037,481.70	708,488,848.75
Machinery and equipment	935,750,280.26	44,950,829.26	28,228,770.44	952,472,339.08
Motor vehicles	67,741,017.19	2,229,200.30	5,341,667.46	64,628,550.03
Electronic equipments	88,145,253.38	4,066,966.26	1,090,384.60	91,121,835.04
Office equipment	65,554,235.25	4,296,937.35	1,288,155.87	68,563,016.73
Decoration and fixtures	51,985,080.73	1,549,646.39	–	53,534,727.12
Provision for impairment	20,441,846.95	–	–	20,441,846.95
Buildings	9,818,341.35	–	–	9,818,341.35
Machinery and equipment	8,819,651.52	–	–	8,819,651.52
Motor vehicles	158,224.47	–	–	158,224.47
Electronic equipments	1,642,783.23	–	–	1,642,783.23
Office equipment	2,846.38	–	–	2,846.38
Decoration and fixtures	–	–	–	–
Carrying amount	1,731,881,945.85			1,789,624,523.16
Buildings	1,145,673,017.60			1,122,492,166.66
Machinery and equipment	475,602,742.38			553,887,192.26
Motor vehicles	27,002,435.62			28,964,834.49
Electronic equipments	40,378,161.85			42,237,218.05
Office equipment	34,059,534.08			34,051,748.77
Decoration and fixtures	9,166,054.32			7,991,362.93

- (i) For the six months ended 30 June 2014, the fixed assets transferred from construction in progress amounted to RMB108,527 thousand (for six months ended 30 June 2013: RMB51,898 thousand).
- (ii) As for the six months ended 30 June 2014, the decrease of original cost and accumulated depreciation of fixed assets is due to fluctuations in exchange amount are RMB80 thousand and RMB29 thousand respectively. (As for the six months ended 30 June 2013: RMB152 thousand and RMB47 thousand respectively)
- (iii) Depreciation expenses for the six months ended 30 June 2014 amounted to RMB83,520 thousand in total (for the six months ended 30 June 2013: RMB81,056 thousand), of which RMB52,223 thousand, RMB1,363 thousand and RMB29,934 thousand were charged to cost of sales, selling and distribution expenses and general and administrative expenses, respectively (for the six months ended 30 June 2013: RMB50,305 thousand, RMB1,280 thousand and RMB29,471 thousand respectively).

- (b) As at 30 June 2014, the buildings and the machinery and equipment are temporarily idle, which are analysed as follows:

	Cost	Accumulated depreciation	Provision for impairment loss	Carrying amount
Buildings	6,478,874.98	1,610,962.12	4,618,987.46	248,925.40
Machinery	15,029,241.63	7,270,254.23	7,758,987.40	–
Electrical equipment	147,897.48	69,184.00	78,713.48	–

- (c) As at 30 June 2014, fixed assets which were lack of ownership certificate are summarised as follows:

	Carrying amount	Reason	Estimated date of obtaining the ownership certificate
Buildings	38,944,675.53	Procedures are not complete, so the certificates are not handled.	Uncertain
Motor vehicles	125,812.50	Procedures are not complete, so the ownership cannot be transferred	Uncertain
	<u>39,070,488.03</u>		

- (d) Fixed assets held under operating leases are summarised as follows:

	30 June 2014 Carrying Amount	31 December 2013 Carrying Amount
Buildings	<u>7,978,813.44</u>	<u>8,200,580.22</u>

- (e) As at 30 June 2014, Guangyao Baiyunshan (Hong Kong) Limited, a subsidiary of the Company, acquired the comprehensive credit loan amounted to HKD300 thousand, letter of credit and the total amount of trust letter amounted to HKD100,000 thousand from Bank of China (Hong Kong) Co., Ltd., by the original value amounted to HKD8,893 thousand, the net value HKD6,580 thousand of the buildings of fixed assets and the original value amounted to HKD6,843 thousand, the net value amounted to HKD4,167 thousand of investment properties as a pledge, and the issued undue L/C amounted to USD264 thousand, HKD 10,311 thousand and JPY66,346 thousand.

(15) Construction in progress

	30 June 2014			31 December 2013		
	Ending balance	Provision for impairment	Carrying amount	Ending balance	Provision for impairment	Carrying amount
Construction in progress	<u>402,405,747.97</u>	<u>1,121,052.88</u>	<u>401,284,695.09</u>	<u>336,543,747.06</u>	<u>1,121,052.88</u>	<u>335,422,694.18</u>

(a) Movement of construction in progress

	Budget	31 December 2013	Current period additions	Current period reductions		30 June 2014	Source of funds	% contribution in budget
				Transferred to Fixed assets	Other decrease			
Sewage Disposal Line of Zhongyi	1,076,307.00	304,757.56	–	304,757.56	–	–	Self-funding	68.48%
Yunpu New Equipment Project	8,500,000.00	1,882,681.16	139,233.11	1,619,330.89	27,918.80	374,664.58	Self-funding	114.27%
Pill Line	5,000,000.00	1,225,000.00	369,200.00	–	–	1,594,200.00	Self-funding	31.88%
Improvement Project for Sewage Disposal Line	1,500,000.00	–	65,000.00	65,000.00	–	–	Self-funding	75.75%
Road works dormitory surrounding	1,630,000.00	401,999.84	1,406,231.03	–	–	1,808,230.87	Self-funding	110.93%
Near-infrared line detection Tendril-leaved Fritillary Bulb Dose	5,500,000.00	5,425,374.24	629.80	5,426,004.04	–	–	Self-funding	98.65%
Office Building	8,713,000.00	6,617,741.18	3,271,200.85	–	–	9,888,942.03	Self-funding	113.50%
Research of Bio Vaccine & Industrialisation Platform	25,600,000.00	3,778,978.46	12,040,346.67	–	–	15,819,325.13	Self-funding	61.79%
Pill Preparation Line Technological Transformation Project	8,000,000.00	2,480,683.77	416,680.00	–	–	2,897,363.77	Self-funding	83.25%
GMP Site Improvement	6,920,000.00	2,759,174.94	722,308.81	217,727.35	–	3,263,756.40	Self-funding	104.68%
Machinery/office equipment, transportation	6,110,000.00	462,204.00	637,774.07	691,471.77	–	408,506.30	Self-funding	95.57%
General Factory Powder Inj. Equipment Project	69,700,000.00	26,114,188.45	4,323,554.50	–	–	30,437,742.95	Self-funding	104.15%
General Factory Oral Cephalosporins Improvement	7,850,000.00	1,220,912.42	–	–	–	1,220,912.42	Self-funding	100.00%
Chemical Factory Sterile APIs No.204 Workshop Technology Improvement	3,260,000.00	806,092.36	–	–	–	806,092.36	Self-funding	24.73%
Chemical Factory Cephalosporins Sterile APIs Line Improvement	48,381,100.00	21,347,851.22	7,743,521.01	29,091,372.23	–	–	Self-funding, loan	60.13%
Chemical Factory Oral API GMP Improvement	11,695,100.00	4,482,235.79	529,660.77	–	–	5,011,896.56	Self-funding	42.85%
Tian Xin Powder Inj. Project	14,000,000.00	3,976,034.77	2,679,378.77	3,795,886.20	–	2,859,327.34	Self-funding	56.70%
Tian Xin Chemical Institute Project	25,500,000.00	19,318,385.23	2,982,521.90	18,316,364.34	–	3,984,542.79	Self-funding	111.68%
Tian Xin Wei D 2 Tartaric Acid Inj.	15,000,000.00	200,000.00	–	–	–	200,000.00	Self-funding	1.33%
Tian Xin Asepsis Water Inj Workshop	20,000,000.00	7,498,235.73	717,684.50	2,400,823.12	–	5,815,097.11	Self-funding	61.62%
Tian Xin Waste Water Recycling	1,200,000.00	329,845.00	–	–	–	329,845.00	Self-funding	27.49%
Tian Xin Powder Injector & Screw Arbor Line	19,800,000.00	1,757,128.42	–	556,108.03	–	1,201,020.39	Self-funding	8.87%
Tian Xin Cephalosporins Workshop Improvement	12,000,000.00	7,853,267.06	317,684.50	5,612,935.49	–	2,558,016.07	Self-funding	96.03%
Tian Xin Water Inj Workshop	15,900,000.00	10,292,744.70	3,160,123.72	9,522,818.37	–	3,930,050.05	Self-funding	119.39%
Ming Xing Equipment Improvement	67,430,000.00	3,615,973.02	6,950,633.51	4,356,807.44	–	6,209,799.09	Self-funding	69.44%
Ming Xing Cong Hua Xing Zhou Workshop	9,710,000.00	2,186,959.32	256,414.64	2,408,134.64	35,239.32	–	Self-funding	97.88%
Ming Xing Workshop Improvement	16,100,000.00	3,587,066.55	309,675.00	471,381.55	–	3,425,360.00	Self-funding	68.82%
Ming Xing Decoration	17,200,000.00	10,711,493.57	751,531.81	1,865,689.51	–	9,597,335.87	Self-funding	75.54%
Wanglaoji herbal tea museum decoration	5,500,000.00	2,849,550.73	97,738.50	–	–	2,947,289.23	Self-funding	53.59%

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

	Budget	31 December 2013	Current period additions	Current period reductions		30 June 2014	Source of funds	% contribution in budget
				Transferred to Fixed assets	Other decrease			
Wanglaoji Yaan manufacturing project	298,000,000.00	1,092,423.00	83,003,665.11	-	-	84,096,088.11	Self-funding	33.65%
Zhongtuoan Wulonggang AB0807098-1block	120,000,000.00	1,355,800.00	1,346,301.00	-	-	2,702,101.00	Self-funding	21.31%
Eye drops workshop improvement	4,230,000.00	64,000.00	30,000.00	-	64,000.00	30,000.00	Self-funding	2.22%
Adhesive plaster workshop improvement	1,660,000.00	60,000.00	328,382.25	-	-	388,382.25	Self-funding	93.40%
Tonghe cream improvement	6,920,000.00	1,069,404.71	79,463.16	-	-	1,148,867.87	Self-funding	16.60%
Liwan No.24 building GMP improvement (2013)	3,320,000.00	194,400.00	-	-	-	194,400.00	Self-funding	5.86%
Liwan No.21 building GMP improvement	5,421,000.00	125,200.00	-	-	-	125,200.00	Self-funding	2.31%
Penicillin GMP Improvement	12,900,000.00	8,211,350.94	2,986,468.57	3,294,831.43	-	7,902,988.08	Self-funding	86.80%
GMP Improvement	18,460,000.00	18,009,453.19	4,501,479.25	5,995,438.88	-	16,515,493.56	Self-funding, loan	121.94%
Purchasing import lamp inspection machine project	12,000,000.00	4,927,518.80	-	-	-	4,927,518.80	Self-funding	41.06%
Preparation workshop GMP improvement	2,500,000.00	1,150,000.00	545,000.00	-	-	1,695,000.00	Self-funding	67.80%
Ming Xing relocation improvement	340,000,000.00	79,407,091.41	897,924.53	-	-	80,305,015.94	Self-funding	23.62%
Lyophilized powder	30,000,000.00	16,257,514.07	1,273,626.36	-	-	17,531,140.43	Self-funding	58.44%
Welling new factory	45,760,000.00	33,033,204.50	554,097.33	-	-	33,587,301.83	Self-funding	73.40%
Damiwan plastic sealing buckle, Automatic production line for wax dipping	2,200,000.00	-	993,000.00	-	-	993,000.00	Self-funding	45.14%
dry type granulator	1,500,000.00	-	892,620.00	-	-	892,620.00	Self-funding	59.51%
300L supercritical technology improvement	1,500,000.00	1,072,254.70	276,124.75	-	-	1,348,379.45	Self-funding	89.89%
Chinese medicine treatment before extraction								
of the modernization of production GMP, the first stage project of technical transformation project	94,954,500.00	-	16,825,895.27	-	-	16,825,895.27	Self-funding	17.72%
Others	53,795,193.13	17,027,572.25	13,356,380.04	12,513,998.00	3,263,115.22	14,606,839.07	Self-funding	
		336,543,747.06	177,779,155.09	108,526,880.84	3,390,273.34	402,405,747.97		

(b) Borrowing costs eligible for capitalization in current period are summarized as follows:

Item	31 December 2013	Current increase	Transfer to fixed assets	Other reduction	30 June 2014
Chemical Factory Cephalosporins Sterile APIs Line Improvement	213,325.59	132,646.57	-	-	345,972.16
Powder-needle & water inj. GMP improvement	503,407.76	441,344.99	-	-	944,752.75
Total	<u>716,733.35</u>	<u>573,991.56</u>	<u>-</u>	<u>-</u>	<u>1,290,724.91</u>

(c) Impairment of construction in progress

Item	31 December 2013	Current increase	Current decrease	30 June 2014	Reason
General factory veterinary drugs workshop GMP improvement	869,318.50	-	-	869,318.50	Project stopped
Guanghua sewage expansion project	251,734.38	-	-	251,734.38	Project stopped
Total	<u>1,121,052.88</u>	<u>-</u>	<u>-</u>	<u>1,121,052.88</u>	

(d) The construction progress of significant constructions in progress are analysed as follows:

	Progress
Wanglaoji Yaan manufacturing project	Construction phase
Chinese medicine treatment before extraction of the modernization of production GMP the first stage project of technical transformation project	Construction phase
General Factory Powder Inj. Equipment Project	Construction phase
Chemical Factory Cephalosporins Sterile APIs Line Improvement	Construction completed, pending for use
Tian Xin Chemical Institute Project	Pending for acceptance and settlement
Tian Xin Water Inj Workshop	Construction phase
Powder-needle & water inj. GMP improvement	Construction phase
Ming Xing Equipment Improvement	Construction phase
Ming Xing decoration	Construction phase
Ming Xing Relocation improvement	Preparation phase
Weiling new factory	Construction phase
Lyophilized powder	Construction phase
Research of Bio vaccine & industrialization platform	Construction phase

(16) Intangible assets

(a) Details of intangible assets

	31 December 2013	Current increase	Current decrease	30 June 2014
Original cost	507,576,947.50	22,654,585.90	183,900.00	530,047,633.40
Land use rights	308,366,706.42	22,065,183.30	–	330,431,889.72
Industrial patents and technologies	15,520,091.28	–	–	15,520,091.28
Non-patent technologies	12,119,201.20	–	–	12,119,201.20
Trademarks	159,360,537.74	–	–	159,360,537.74
Others	12,210,410.86	589,402.60	183,900.00	12,615,913.46
Accumulated amortisation	137,202,636.59	5,690,698.79	–	142,893,335.38
Land use rights	81,704,514.56	3,517,243.87	–	85,221,758.43
Industrial patents and technologies	7,141,122.21	264,602.77	–	7,405,724.98
Non-patent technologies	8,347,222.00	615,295.12	–	8,962,517.12
Trademarks	32,678,667.92	9,538.60	–	32,688,206.52
Others	7,331,109.90	1,284,018.43	–	8,615,128.33
Impairment	1,517,616.28	–	–	1,517,616.28
Land use rights	480,700.24	–	–	480,700.24
Industrial patents and technologies	453,343.04	–	–	453,343.04
Non-patent technologies	–	–	–	–
Trademarks	583,573.00	–	–	583,573.00
Others	–	–	–	–
Carrying amount	368,856,694.63			385,636,681.74
Land use rights	226,181,491.62			244,729,431.05
Industrial patents and technologies	7,925,626.03			7,661,023.26
Non-patent technologies	3,771,979.20			3,156,684.08
Trademarks	126,098,296.82			126,088,758.22
Others	4,879,300.96			4,000,785.13

In current period, the amortisation of intangible assets amounted to RMB5,691 thousand (for the six months ended 30 June 2013: RMB1,445 thousand), which were recognized in profit or loss for the current period. The land use right of the intangible assets is located in Mainland China, and the useful life is 10-50 years.

(17) Development costs

	31 December 2013	Current increase	Current period transferred out		30 June 2014
			Recognized in profit or loss in current period	Recognized as intangible assets	
Capitalised expenditures	3,716,517.68	8,785,436.89	–	–	12,501,954.57
Expensed expenditures	–	138,651,813.07	138,651,813.07	–	–
	<u>3,716,517.68</u>	<u>147,437,249.96</u>	<u>138,651,813.07</u>	<u>–</u>	<u>12,501,954.57</u>

(18) Long-term prepaid expenses

	31 December 2013	Current increase	Current period amortisation	Other decrease	30 June 2014
Building decoration and fixtures	3,019,915.66	1,237,084.51	1,109,486.46	–	3,147,513.71
Basketball field construction	157,067.51	–	72,492.69	–	84,574.82
ERP system fee	–	24,300.00	2,025.00	–	22,275.00
Installation of the product identification code for the packing production line	165,859.46	–	142,165.25	–	23,694.21
GMP improvement fee	409,474.17	119,005.61	52,847.99	–	475,631.79
Rain sewage diversion improvement	377,748.93	–	80,946.24	–	296,802.69
Zhongxin warehouse iron canopy improvement	335,154.15	–	61,877.73	–	273,276.42
GSP authentication network construction	336,762.95	–	224,508.72	–	112,254.23
Others	2,297,073.10	176,491.00	477,525.50	–	1,996,038.60
	<u>7,099,055.93</u>	<u>1,556,881.12</u>	<u>2,223,875.58</u>	<u>–</u>	<u>6,432,061.47</u>

(19) Deferred tax assets and deferred tax liabilities

(a) Recognised deferred tax assets

	30 June 2014	31 December 2013
Impairment provision of construction in progress	168,157.94	168,157.94
Impairment provision of long-term equity investment	587,551.22	587,551.22
Provision for declines in values of inventories	1,060,940.96	1,074,416.55
Provision for bad debts	7,023,694.33	6,983,793.01
Impairment provision of fixed assets	2,481,650.45	2,481,650.45
Difference arising from accounting and tax depreciations of fixed assets	1,967,385.60	1,967,385.60
Changes in fair value of financial assets held for trading	322,306.22	322,306.22
Employee benefits payable	27,980,637.58	28,506,513.64
Provisions	75,028.68	75,028.68
Other payables	107,255,168.51	200,575,405.13
Other non-current liabilities	12,261,335.96	12,261,335.96
Deductible tax losses	2,944,394.26	2,358,525.18
Provision for impairment of intangible assets	120,175.06	120,175.06
Difference arising from accounting and tax amortizations of intangible assets	316,758.07	316,758.07
Elimination of unrealized profits arising from the inter-company transaction	18,044,117.28	9,151,314.21
	<u>182,609,302.12</u>	<u>266,950,316.92</u>

(b) Recognised deferred tax liabilities

	30 June 2014	31 December 2013
Other receivables-rental income	799,455.95	799,455.95
Changes in fair value of available-for-sale financial assets	872,549.52	978,881.29
Depreciation balance of fixed assets revaluation	337,501.80	337,501.80
Amortisation balance of intangible assets revaluation	1,359,488.40	1,359,488.40
	<u>3,368,995.67</u>	<u>3,475,327.44</u>

- (c) Deductible temporary differences and deductible losses that are not recognised as deferred tax assets are analysed as follows:

	30 June 2014	31 December 2013
Deductible temporary differences	65,854,798.29	65,854,798.29
Deductible tax losses	81,447,512.29	81,775,442.10
	<u>147,302,310.58</u>	<u>147,630,240.39</u>

- (d) The tax losses that are not recognized as deferred tax assets will expire in the following years

	30 June 2014	31 December 2013
2014	14,063,079.62	20,651,753.02
2015	6,723,985.46	6,723,985.46
2016	10,573,746.33	10,573,746.33
2017	11,830,866.41	12,361,462.33
2018	28,157,899.61	31,464,494.96
2019	10,097,934.86	–
	<u>81,447,512.29</u>	<u>81,775,442.10</u>

- (e) The temporary differences on which deferred tax assets are recognized are summarised as follows

	30 June 2014	31 December 2013
Impairment provision of construction in progress	1,121,052.88	1,121,052.88
Impairment provision of long-term equity investment	3,610,204.88	3,610,204.88
Provision for declines in values of inventories	6,834,443.77	6,924,281.04
Provision for bad debts	34,828,664.15	34,576,196.17
Impairment provision of fixed assets	16,544,336.31	16,544,336.31
Difference arising from accounting and tax depreciations of fixed assets	13,115,904.02	13,115,904.02
Changes in fair value of financial assets held for trading	2,148,708.10	2,148,708.10
Employee benefits payable	157,002,275.12	160,508,115.50
Other payables	519,694,360.06	890,213,675.30
Other non-current liabilities	81,608,906.39	81,608,906.39
Deductible tax losses	19,629,295.01	15,723,501.22
Elimination of unrealized profits arising from the inter-company transaction	113,573,116.07	58,447,970.75
Provision for impairment of intangible assets	480,700.24	480,700.24
Difference arising from accounting and tax amortizations of intangible assets	2,111,720.43	2,111,720.43
Provisions	500,191.19	500,191.19
	<u>972,803,878.62</u>	<u>1,287,635,464.42</u>

- (f) The temporary differences on which deferred tax liabilities were recognized are summarised as follows:

	30 June 2014	31 December 2013
Other receivables-rental income	5,329,706.31	5,329,706.31
Changes in fair value of available-for-sale financial assets	5,687,352.83	6,398,173.42
Depreciation balance of fixed assets revaluation	2,250,012.00	2,250,012.00
Amortisation balance of intangible assets revaluation	9,063,256.00	9,063,256.00
	<u>22,330,327.14</u>	<u>23,041,147.73</u>

(20) Provision for asset impairment

	31 December		Current period reductions			30 June
	2013	Current Increase	Reversal	Write-off	Other decrease	2014
Provision for bad debts	47,770,667.27	3,236,179.60	-	-	-	51,006,846.87
Provision for declines in value of inventories	14,918,304.76	2,870,470.41	-	1,392,041.83	-	16,396,733.34
Impairment provision of long-term equity investments	4,553,551.23	-	-	-	-	4,553,551.23
Impairment provision of fixed assets	20,441,846.95	-	-	-	-	20,441,846.95
Impairment provision of construction in progress	1,121,052.88	-	-	-	-	1,121,052.88
Impairment provision of intangible assets	1,517,616.28	-	-	-	-	1,517,616.28
Impairment provision of goodwill	475,756.92	-	-	-	-	475,756.92
	<u>90,798,796.29</u>	<u>6,106,650.01</u>	<u>-</u>	<u>1,392,041.83</u>	<u>-</u>	<u>95,513,404.47</u>

(21) Short-term borrowings

	30 June 2014	31 December 2013
Credit borrowings	413,336,504.21	429,751,500.77
Pledge borrowings	–	9,900,000.00
Guaranteed borrowings	80,000,000.00	70,000,000.00
	<u>493,336,504.21</u>	<u>509,651,500.77</u>

- (a) As at 30 June 2014 and 31 December 2013, there are no overdue short-term borrowings.
- (b) As at 30 June 2014 and 31 December 2013, there are no borrowings under mortgaged.
- (c) As at 30 June 2014, there are no pledged bank borrowings. (As at 31 December 2013: the pledged bank borrowings amounted to RMB9,900 thousand, which of accounts receivables amounted to RMB11,000 thousand)
- (d) As at 30 June 2014, the weighted average interest rate of short-term borrowings is 6.0476% per annum (As at 31 December 2013: 6.0456% per annum).
- (e) As at 30 June 2014, the short-term borrowings including balance of foreign currency are summarized as follows:

	<u>30 June 2014</u>			<u>31 December 2013</u>		
	Foreign currency	Exchange rate	RMB	Foreign currency	Exchange rate	RMB
USD	–	Not applicable	–	1,290,000.00	6.1325	<u>7,910,925.00</u>

(22) Notes payable

	30 June 2014	31 December 2013
Bank acceptance notes	105,463,548.66	93,173,655.25
Commercial acceptance notes	27,213,384.90	37,600,000.00
	<u>132,676,933.56</u>	<u>130,773,655.25</u>

As at 30 June 2014, notes payable amounting to RMB132,677 thousand were expected to be due within 1 year (As at 31 December 2013: RMB130,774 thousand).

(23) Accounts payable**(a) Details of accounts payable:**

	30 June 2014		31 December 2013	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	2,395,363,296.17	98.47%	1,440,862,487.84	97.99%
Over 1 year	37,288,006.16	1.53%	29,498,049.77	2.01%
	<u>2,432,651,302.33</u>	<u>100.00%</u>	<u>1,470,360,537.61</u>	<u>100.00%</u>

- (b) As at 30 June 2014 and 31 December 2013, there are no accounts payable to shareholders who hold more than 5% (including 5%) of the voting rights of the Company.
- (c) As at 30 June 2014, the amount of accounts payable to related parties accounted for 1.40% of the total balance (As at 31 December 2013: 0.89%): refer to Note 6 for details.
- (d) As at 30 June 2014 and 31 December 2013, there are no accounts payable that are individually significant whose aging are over 1 year.
- (e) Accounts payable denominated in foreign currencies are summarised as follows:

	30 June 2014			31 December 2013		
	Amount	Exchange rate	RMB	Amount	Exchange rate	RMB
USD	325,521.70	6.1528	2,002,869.91	873,224.05	6.0969	5,323,959.71
HKD	-	Not applicable	-	10,826.68	0.7862	8,512.25
			<u>2,002,869.91</u>			<u>5,332,471.96</u>

(24) Advances from customers**(a) Details of advances from customers**

	30 June 2014		31 December 2013	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	591,915,330.85	96.51%	852,478,967.90	97.36%
Over 1 year	21,387,122.98	3.49%	23,100,579.42	2.64%
	<u>613,302,453.83</u>	<u>100.00%</u>	<u>875,579,547.32</u>	<u>100.00%</u>

- (b) As at 30 June 2014 and 31 December 2013, there are no advances from shareholders who hold more than 5% (including 5%) of the voting rights of the Company.
- (c) As at 30 June 2014, advances from related parties accounted for 11.07% of the total balance (As at 31 December 2013: 2.23%): refer to Note 6 for details.
- (d) As at 30 June 2014 and 31 December 2013, there are no advances from customers that are individually significant whose aging are over 1 year.

(e) Advances from customers denominated in foreign currencies are summarised as follows:

	30 June 2014			31 December 2013		
	Amount	Exchange rate	RMB	Amount	Exchange rate	RMB
USD	170,258.40	6.1903	1,053,945.28	170,548.62	6.1705	1,052,365.24
HKD	9,143.74	0.0841	769.07	21,019.20	0.7923	16,653.51
			<u>1,054,714.35</u>			<u>1,069,018.75</u>

(25) Employee benefits payable

	31 December 2013	Current increase	Current decrease	30 June 2014
Wages and salaries, bonuses, allowances and subsidies	308,123,235.52	1,106,047,508.90	1,132,070,800.66	282,099,943.76
Staff welfare	520,042.05	51,720,908.47	42,925,174.03	9,315,776.49
Social insurances	196,177.66	134,358,195.54	133,500,456.07	1,053,917.13
Including: Medical insurance	(4,834.90)	33,044,427.69	33,087,107.69	(47,514.90)
Basic pension insurance	4,834.45	71,447,462.72	71,350,621.24	101,675.93
Annuity	199,275.81	21,174,320.07	20,426,087.07	947,508.81
Unemployment insurance	2,947.41	3,625,377.57	3,624,229.26	4,095.72
Work injury insurance	292.41	2,597,947.03	2,592,801.12	5,438.32
Maternity insurance	(7,381.88)	2,233,664.21	2,183,569.08	42,713.25
Other insurances	1,044.36	234,996.25	236,040.61	–
Housing funds	6,753.70	53,988,542.66	53,490,700.93	504,595.43
Labor union funds and employee education funds	4,941,264.95	15,297,133.28	15,679,157.44	4,559,240.79
Compensation for lay-off	–	829,425.10	829,425.10	–
Housing allowance	18,878,462.80	9,144,817.16	12,514,473.27	15,508,806.69
Staff and workers' bonus and welfare fund	431,904.94	–	31,904.94	400,000.00
Others	1,330,086.21	6,910,731.43	6,891,209.37	1,349,608.27
	<u>334,427,927.83</u>	<u>1,378,297,262.54</u>	<u>1,397,933,301.81</u>	<u>314,791,888.56</u>

As at 30 June 2014, employee benefits payable mainly include the wages, bonus and service fee of June 2014 which were accrued but have not been paid. No defaulted payables are included in the employee benefits and the balance is estimated to be used up in the year of 2014.

(26) Taxes payable

	30 June 2014	31 December 2013
VAT	49,194,440.61	127,220,262.33
Business tax	1,330,419.62	1,185,744.57
City maintenance and construction tax	11,553,838.26	10,083,347.34
Education surcharge	4,981,415.35	4,335,021.46
Local education surcharge	3,263,864.51	2,922,209.28
Enterprise income tax	89,338,520.00	240,323,868.00
Individual income tax	1,852,829.85	9,234,519.98
Real-estate tax	5,625,028.34	1,033,448.20
Urban land use tax	2,528,737.14	–
Urban area embankment maintenance fee	4,119,813.00	6,381,581.35
Stamp duty	712,246.14	651,616.40
Others	–	12,069.47
	<u>174,501,152.82</u>	<u>403,383,688.38</u>

(27) Interest payable

Item	30 June 2014	31 December 2013
Interest payable of short-term borrowings	<u>280,000.00</u>	<u>675,414.98</u>

(28) Dividends payable

Investor	30 June 2014	31 December 2013
Public shares	297,140,156.49	77,540,811.00
Baiyunshan Group	45.01	45.01
Minority shareholders	<u>39,890,376.91</u>	<u>35,972,445.12</u>
	<u>337,030,578.41</u>	<u>113,513,301.13</u>

(29) Other payables**(a)** The aging of other payables is analysed as follows:

	30 June 2014	31 December 2013
Within 1 year	1,548,985,963.29	1,075,363,506.40
Over 1 year	131,234,030.04	136,349,000.64
	<u>1,680,219,993.33</u>	<u>1,211,712,507.04</u>

(b) Other payables are analysed by categories as follows:

	30 June 2014	31 December 2013
Deposits	88,183,262.51	84,113,878.93
Technology development expenses	752,268.24	1,032,360.91
Rental expenses	1,970,350.00	785,699.69
Payables to third parties	95,459,061.08	101,140,187.61
Amount due to employees	6,895,074.20	8,180,604.37
Payables to related parties (<i>Note 6(5)</i>)	41,840,451.28	32,381,184.74
Accruals for purchase of fixed assets	5,459,759.36	7,530,558.54
Sales rebate	161,290,370.31	313,958,358.03
Accrued expenses	1,254,035,362.19	636,423,766.90
Others	24,334,034.16	26,165,907.32
	<u>1,680,219,993.33</u>	<u>1,211,712,507.04</u>

(c) Details of accrued expenses:

	30 June 2014	31 December 2013
Rental expenses	5,268,041.54	4,788,163.36
Agent fees	3,572,964.46	5,239,164.72
Advertising and promotional expenses	1,016,006,252.77	434,784,769.45
Utilities	7,183,945.02	2,931,629.82
Transportation expenses	157,214,422.45	116,858,313.12
Conference expenses	5,980,765.87	7,009,258.62
Research and development expenses	15,736,098.02	7,708,976.20
Marketing expenses	146,752.06	6,396,288.30
Travelling expenses	3,424,838.50	3,495,518.50
Consulting expenses	2,110,000.00	10,730,986.80
Trademark expenses	3,000,000.00	3,000,000.00
Others	34,391,281.50	33,480,698.01
	<u>1,254,035,362.19</u>	<u>636,423,766.90</u>

- (d) As at 30 June 2014, other payables to shareholders who hold more than 5% (including 5%) of the voting rights of the Company are other payables of RMB41,775 thousand to GPHL (As at 31 December 2013: RMB30,835 thousand to GPHL).
- (e) As at 30 June 2014, other payables to related parties accounted for 2.49% of the total balance (as at 31 December 2013: 2.67%); refer to Note 6 for details.
- (f) As at 30 June 2014 and 31 December 2013, significant other payables whose aging are over 1 year mainly include unsettled balance for purchase of fixed assets and intangible assets, and purchase deposit.
- (g) As at 30 June 2014, all other payables are denominated in foreign currencies as follows:

	30 June 2014			31 December 2013		
	Foreign currency	exchange rate	RMB	Foreign currency	exchange rate	RMB
HKD	2,420,488.75	0.7938	1,921,262.95	2,626,071.75	0.7862	2,064,696.40
			<u>1,921,262.95</u>			<u>2,064,696.40</u>

(30) Long-term borrowings

(a) Classification of long-term borrowings:

Category of borrowings	30 June 2014	31 December 2013
Credit borrowings	<u>8,627,418.40</u>	<u>8,627,419.10</u>

(b) Top five of the long-term borrowings:

Company	Beginning	Ending	Currency	Ratio (%)	30 June 2014	31 December 2013
Industrial Bank Co., Ltd Guangzhou Branch	2013-7-15	2016-2-25	RMB	6.15	2,473,319.50	2,473,319.50
Industrial Bank Co., Ltd Guangzhou Branch	2013-8-29	2016-2-25	RMB	6.15	1,733,516.00	1,733,516.70
Industrial Bank Co., Ltd Guangzhou Branch	2013-6-27	2016-2-25	RMB	6.15	1,156,758.00	1,156,758.00
Industrial Bank Co., Ltd Guangzhou Branch	2013-9-22	2016-2-25	RMB	6.15	1,204,062.00	1,204,062.00
Industrial Bank Co., Ltd Guangzhou Branch	2013-10-14	2016-2-25	RMB	6.15	751,640.70	751,640.70

(31) Long-term payables

	30 June 2014	31 December 2013
State fund	18,864,953.57	18,864,953.57
Department of Finance of Guangxi Zhuang Autonomous Region	2,264,426.47	2,264,426.47
State Pharmaceutical Administration	305,000.00	305,000.00
Others	981,372.36	781,372.36
	<u>22,415,752.40</u>	<u>22,215,752.40</u>

(32) Special payables

	30 June 2014	31 December 2013
Compensation of relocation	<u>19,058,160.00</u>	<u>19,058,160.00</u>

(33) Estimated liabilities

	30 June 2014	31 December 2013
Estimated loss of rejection on goods	<u>500,191.19</u>	<u>500,191.19</u>

(34) Other non-current liabilities

Item	31 December 2013	Current increase of grants	Current revenue from non-operation	For cooperation	Other decrease	30 June 2014
Government grants related to assets:						
Including:						
Technology funds granted by government	42,240,533.54	19,586.13	2,181,546.43	-	-	40,078,573.24
Relocation compensation	2,895,723.13	-	182,822.22	-	-	2,712,900.91
Financial discount	1,952,686.11	40,200.00	76,133.46	-	-	1,916,752.65
Special fund of environmental protection	5,599,809.14	43,200.00	362,750.34	-	-	5,280,258.80
Innovating platform construction	4,222,595.60	-	165,605.53	-	-	4,056,990.07
Government land support funds	-	10,453,300.00	-	-	-	10,453,300.00
Others	3,436,300.96	8,000.00	323,875.15	-	-	3,120,425.81
Government grants related to income:						
Including:						
Technology funds granted by government	55,671,770.17	14,147,150.14	11,165,722.29	5,920,700.00	-	52,732,498.02
Special fund of technology exports	331,798.73	-	10,170.00	-	-	321,628.73
Medical industrial research project	2,323,426.14	-	-	-	-	2,323,426.14
Special fund of energy-saving improvement	733,950.00	-	6,300.00	-	-	727,650.00
Special fund of innovative firms	423,378.21	-	1,949.88	-	-	421,428.33
Subsidy of Service industrial	-	2,700,000.00	-	-	-	2,700,000.00
Others	2,806,016.10	1,583,300.00	124,783.90	-	(100,800.00)	4,163,732.20
Appropriation to Long-term services fund	293,538.18	-	-	-	2,807.59	296,345.77
Total	<u>122,931,526.01</u>	<u>28,994,736.27</u>	<u>14,601,659.20</u>	<u>5,920,700.00</u>	<u>97,992.41</u>	<u>131,305,910.67</u>

(35) Share capital

	31 December 2013		Current increase (+)/decrease(-)				30 June 2014		
	Amount	% of the total balance	Issued shares	Shares dividends	Transfer from reserves	Others	Subtotal	Amount	% of the total balance
Shares with restriction of trading –									
State-owned shares	-	-	-	-	-	-	-	-	-
State-owned legal person shares	34,839,645.00	2.70	-	-	-	-	-	34,839,645.00	2.70
Other domestic shares	-	-	-	-	-	-	-	-	-
Including:									
Domestic non-state-owned legal person shares	-	-	-	-	-	-	-	-	-
Domestic natural person shares	-	-	-	-	-	-	-	-	-
Foreign shares	-	-	-	-	-	-	-	-	-
Including:									
Foreign legal person shares	-	-	-	-	-	-	-	-	-
Foreign natural person shares	-	-	-	-	-	-	-	-	-
Shares with restriction of trading – subtotal	34,839,645.00	2.70	-	-	-	-	-	34,839,645.00	2.70
Shares without restriction of trading:									
RMB ordinary shares	1,036,601,005.00	80.27	-	-	-	-	-	1,036,601,005.00	80.27
Foreign shares listed in the PRC	-	-	-	-	-	-	-	-	-
Foreign shares listed out of the PRC	219,900,000.00	17.03	-	-	-	-	-	219,900,000.00	17.03
Others	-	-	-	-	-	-	-	-	-
Shares without restriction of trading-subtotal	1,256,501,005.00	97.30	-	-	-	-	-	1,256,501,005.00	97.30
Total share capital	1,291,340,650.00	100.00	-	-	-	-	-	1,291,340,650.00	100.00

	31 December 2012			Current increase (+) / decrease (-)			30 June 2013		
	Amount	% of the total balance	Issued shares	Amount	% of the total balance	Issued shares	Amount	% of the total balance	Issued shares
Shares with restriction of trading –									
State-owned shares	-	-	-	-	-	-	-	-	-
State-owned legal person shares	-	-	34,839,645.00	-	-	-	34,839,645.00	34,839,645.00	2.70
Other domestic shares	-	-	-	-	-	-	-	-	-
Including:									
Domestic non-state-owned legal person shares	-	-	-	-	-	-	-	-	-
Domestic natural person shares	-	-	-	-	-	-	-	-	-
Foreign shares	-	-	-	-	-	-	-	-	-
Including:									
Foreign legal person shares	-	-	-	-	-	-	-	-	-
Foreign natural person shares	-	-	-	-	-	-	-	-	-
Shares with restriction of trading – subtotal	-	-	34,839,645.00	-	-	-	34,839,645.00	34,839,645.00	2.70
Shares without restriction of trading:									
RMB ordinary shares	591,000,000.00	72.88	445,601,005.00	-	-	-	445,601,005.00	1,036,601,005.00	80.27
Foreign shares listed in the PRC	-	-	-	-	-	-	-	-	-
Foreign shares listed out of the PRC	219,900,000.00	27.12	-	-	-	-	219,900,000.00	219,900,000.00	17.03
Others	-	-	-	-	-	-	-	-	-
Shares without restriction of trading-subtotal	810,900,000.00	100.00	445,601,005.00	-	-	-	445,601,005.00	1,256,501,005.00	97.30
Total share capital	810,900,000.00	100.00	480,440,650.00	-	-	-	480,440,650.00	1,291,340,650.00	100.00

(36) Capital surplus

	31 December 2013	Current increase	Current decrease	30 June 2014
Share premium	1,709,943,033.90	–	–	1,709,943,033.90
Other capital surplus	783,845,044.79	–	2,966,471.21	780,878,573.58
Including: Transfer of capital surplus recognized under the previous accounting system	24,955,836.66	–	–	24,955,836.66
	<u>2,493,788,078.69</u>	<u>–</u>	<u>2,966,471.21</u>	<u>2,490,821,607.48</u>
	<u>31 December 2012</u>	<u>Current increase</u>	<u>Current decrease</u>	<u>30 June 2013</u>
Share premium	914,006,770.47	795,936,263.43	–	1,709,943,033.90
Other capital surplus	788,767,102.30	–	9,033,329.23	779,733,773.07
Including: Transfer of capital surplus recognized under the previous accounting system	24,955,836.66	–	–	24,955,836.66
	<u>1,702,773,872.77</u>	<u>795,936,263.43</u>	<u>9,033,329.23</u>	<u>2,489,676,806.97</u>

The fluctuation of the capital surplus in current period was due to:

- (a) The decrease of capital surplus amounted to RMB604 thousand is due to the net changes in fair value of available-for-sale financial assets held by the Group, which include the decrease of RMB617 thousand due to the decline in the price of the A-share of China Everbright Bank Company Limited held by the Group and the increase of RMB13 thousand due to the increase in the price of the A-share of Bank of Communications held by the Group.
- (b) As the capital surplus of GP Corp., a jointly controlled entity, decreased in the current period, the Group recognized the decrease in capital surplus amounted to RMB2,362 thousand based on its share of interest in GP Corp.

(37) Surplus reserve

	31 December 2013	Current increase	Current decrease	30 June 2014
Statutory surplus reserve	604,894,136.27	–	–	604,894,136.27
Free surplus reserve	118,925,617.49	–	–	118,925,617.49
	<u>723,819,753.76</u>	<u>–</u>	<u>–</u>	<u>723,819,753.76</u>
	31 December 2012	Current increase	Current decrease	30 June 2013
Statutory surplus reserve	668,805,957.33	–	118,995,283.05	549,810,674.28
Free surplus reserve	118,925,617.49	–	–	118,925,617.49
	<u>787,731,574.82</u>	<u>–</u>	<u>118,995,283.05</u>	<u>668,736,291.77</u>

In accordance with the Company Law and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated upto 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the share capital after approval from the relevant authorities.

The appropriation of discretionary surplus reserve should be proposed by the Board of Directors and approved by the General Meeting of Shareholders. The discretionary surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities.

(38) Undistributed profits

	The six months ended 30 June 2014	The six months ended 30 June 2013
Undistributed profits at the beginning of the year (before adjustments)	2,330,514,583.35	2,271,551,430.93
Adjustments of undistributed profits at the beginning of the year (Add: positive; Less: negative)	–	–
Undistributed profits at the beginning of the year (after adjustments)	2,330,514,583.35	2,271,551,430.93
Add: Net profit for the current period	673,659,153.85	587,229,435.88
Less: Appropriation for statutory surplus reserve	–	–
Less: distributed dividends	297,008,349.50	–
Less: Others	–	788,518,023.69
	<u>2,707,165,387.70</u>	<u>2,070,262,843.12</u>

- (a) As at 30 June 2014, surplus reserves of the Company's subsidiaries amounted to RMB 260,413 thousand is included in undistributed profits (As at 31 December 2013: RMB260,413 thousand).
- (b) Pursuant to the resolution of board of shareholders 2013 on 26 June 2014, the Group distributed cash dividends amounted to RMB297,008 thousand which was calculated by issued shares amounted to 1,291,340,650 to all shareholders, total distributed cash dividends was RMB0.23 per share.

(39) Minority interest

Investee	Investment relationship with the Company	30 June 2014	30 June 2013
Xing Qun	Direct subsidiary	19,185,557.16	16,239,345.58
Guangzhou Han Fan	Direct subsidiary	763,767.10	713,335.32
Jing Xiu Tang	Direct subsidiary	16,428,140.49	14,617,373.38
Pan Gao Shou	Direct subsidiary	26,011,674.51	26,213,855.89
Guangzhou Bai Di	Direct subsidiary	1,577,125.69	1,052,263.26
Xizang Lin Zhi Guangyao Development Co., Ltd.	Indirect subsidiary	416,700.52	533,354.39
Guangxi Ying Kang	Direct subsidiary	13,359,179.04	16,547,524.78
Qi Xing	Indirect subsidiary	39,290,271.55	38,910,795.17
Jing Xiu Tang 1790	Indirect subsidiary	1,801,978.67	1,461,208.72
Guangzhou Yi Gan	Direct subsidiary	1,526,853.50	707,422.38
Xingzhou	Direct subsidiary	21,762,698.75	–
Chongqing Guangyao	Indirect subsidiary	583,940.38	–
Tian Xin	Direct subsidiary	35,291,293.52	34,135,068.72
Guang Hua	Direct subsidiary	21,320,229.83	19,801,470.92
Baiyunshan Pharmaceutical Technology Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Direct subsidiary	23,296,562.51	16,864,738.05
Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	148,944.10	182,932.21
Jingyuxian Guangyao Dong E Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	577,326.44	600,000.00
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	3,335,961.36	1,200,000.00
Heilongjiang Sengong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	1,372,606.47	1,144,361.81
Guanghua Health	Indirect subsidiary	1,177,881.72	–
		(10,034.87)	–
		<u>229,218,658.44</u>	<u>190,925,050.58</u>

(40) Revenue and cost of operation

	The six months ended 30 June 2014		
	Main operation	Other operation	Subtotal
Revenue	9,942,920,175.92	77,370,161.71	10,020,290,337.63
Cost of operation	6,434,992,331.39	18,617,526.57	6,453,609,857.96
Gross profit	3,507,927,844.53	58,752,635.14	3,566,680,479.67

	The six months ended 30 June 2013		
	Main operation	Other operation	Subtotal
Revenue	9,000,964,815.89	71,507,977.62	9,072,472,793.51
Cost of operation	5,804,608,755.85	18,634,647.06	5,823,243,402.91
Gross profit	3,196,356,060.04	52,873,330.56	3,249,229,390.60

(a) Revenue cost of main operation by natures are summarised by business as follows:

	Revenue of main operation		Cost of main operation	
	The six months ended 30 June 2014	The six months ended 30 June 2013	The six months ended 30 June 2014	The six months ended 30 June 2013
Manufacturing	7,597,438,766.14	7,257,864,649.76	4,260,005,826.69	4,188,599,323.65
Trading	2,345,481,409.78	1,743,100,166.13	2,174,986,504.70	1,616,009,432.20
	<u>9,942,920,175.92</u>	<u>9,000,964,815.89</u>	<u>6,434,992,331.39</u>	<u>5,804,608,755.85</u>

(b) Revenue and cost of main operation by regions are summarised as follows:

	Revenue of main operation		Cost of main operation	
	The six months ended 30 June 2014	The six months ended 30 June 2013	The six months ended 30 June 2014	The six months ended 30 June 2013
Southern China	5,414,276,460.84	4,875,582,915.54	3,693,544,732.16	3,298,573,200.55
Eastern China	1,855,441,948.62	1,753,278,899.24	1,053,301,818.38	1,025,207,513.26
Northern China	1,024,523,784.24	904,400,991.01	576,322,060.37	531,251,921.46
Northeastern China	147,349,104.67	178,866,961.77	86,978,620.41	110,359,990.28
Southwestern China	942,124,494.80	854,308,313.69	603,457,549.92	539,769,576.10
Northwestern China	296,405,045.93	310,354,321.69	164,239,827.74	181,213,968.25
Other countries	262,799,336.82	124,172,412.95	257,147,722.41	118,232,585.95
	<u>9,942,920,175.92</u>	<u>9,000,964,815.89</u>	<u>6,434,992,331.39</u>	<u>5,804,608,755.85</u>

- (c) Top five of the revenue of the Group amounted to RMB800,167 thousand in total (For the six months ended 30 June 2013: RMB716,682 thousand), which accounts for 8.05% of the total revenue of the Group (For the six months ended 30 June 2013: 7.95%).

	Revenue of the main operation	Percentage of the total revenue of the main operation of the group
Customer 1	193,310,642.28	1.95%
Customer 2	192,781,372.98	1.94%
Customer 3	145,528,723.93	1.46%
Customer 4	143,890,598.53	1.45%
Customer 5	124,656,034.45	1.25%
	<u>800,167,372.17</u>	<u>8.05%</u>

(d) Revenue from other operation

	The six months ended 30 June 2014	The six months ended 30 June 2013
Leases of assets	34,958,477.36	42,457,932.84
Sales of materials	1,874,799.41	1,793,336.56
Trademark fee income	13,307,967.10	13,158,385.89
Consulting fee income	611,263.39	664,398.84
Medicine slotting fee income	404,397.36	300,052.80
Technology services income	585,618.07	492,265.26
Utilities expense collected on behalf	5,652,490.99	5,035,614.47
Management fee	3,132,397.51	1,474,372.59
Labour income	1,226,307.12	468,696.67
License fee	11,533,000.00	–
Others	4,083,443.40	5,662,921.70
	<u>77,370,161.71</u>	<u>71,507,977.62</u>

(e) Expenditure from other operation

	The six months ended 30 June 2014	The six months ended 30 June 2013
Depreciation of assets leased out	9,185,273.85	7,791,085.53
Cost of materials sold	1,412,140.81	1,714,365.91
Utilities expense collected on behalf	4,973,117.94	6,814,278.99
Labour fee	1,040,196.36	468,696.67
Management fee	33,886.62	33,886.62
Others	1,972,910.99	1,812,333.34
	<u>18,617,526.57</u>	<u>18,634,647.06</u>

(41) Taxes and surcharges

	The six months ended 30 June 2014	The six months ended 30 June 2013
Business tax	3,735,472.36	4,876,383.51
City maintenance and construction tax	48,130,804.94	43,270,602.39
Education surcharge	20,545,243.73	18,611,475.78
Local education surcharge	13,944,669.60	12,403,498.70
Housing Real-estate tax	3,175,690.01	3,704,825.00
Others	3,383.71	1,380.46
	<u>89,535,264.35</u>	<u>82,868,165.84</u>

Basis of calculation: refer to Note 3.

(42) Selling and distribution expenses

	The six months ended 30 June 2014	The six months ended 30 June 2013
Employee benefit expenses	757,138,502.93	615,060,796.27
Sales service fees	67,308,538.62	38,309,232.70
Travelling expenses	56,475,621.33	47,064,221.74
Office expenses	8,540,595.15	8,765,168.91
Transportation expenses	221,977,063.97	221,163,468.70
Rental expenses	12,439,234.67	8,482,461.06
Conference expenses	24,330,118.00	29,778,865.34
Advertising and promotion fees	1,001,764,329.34	935,348,095.26
Consulting fees	3,980,060.10	15,415,530.95
Depreciation charges	1,363,040.79	1,280,096.50
Others	4,300,499.75	62,131,639.75
	<u>2,159,617,604.65</u>	<u>1,982,799,577.18</u>

(43) General and administrative expenses

	The six months ended 30 June 2014	The six months ended 30 June 2013
Employee benefit expenses	282,931,625.95	274,839,472.90
Insurance premium	1,328,635.39	1,294,158.59
Depreciation charges	23,461,870.67	24,728,146.36
Utilities	3,666,269.80	2,833,512.15
Administrative expenses	12,805,172.07	9,451,188.12
Travelling expenses	6,354,121.88	5,400,544.45
Transportation expenses	6,956,948.20	7,868,220.01
Repairing expenses	8,233,830.74	12,666,954.01
Rental expenses	9,722,035.45	8,390,371.01
Conference expenses	2,731,516.47	4,623,056.26
Research and development expenses	138,651,813.07	117,473,240.64
Taxation charges	26,031,951.60	26,604,838.79
Amortisation	9,780,129.69	5,356,059.69
Professional service fees	4,154,740.45	11,582,093.73
including: Audit fees	–	181,603.77
Consulting fees	2,222,688.31	1,608,772.74
Trademark License fees	46,845,330.47	45,361,244.68
Others	30,267,419.53	50,859,980.98
	<u>616,146,099.74</u>	<u>610,941,855.11</u>

(44) Financial expenses

	The six months ended 30 June 2014	The six months ended 30 June 2013
Interest expenses	15,264,960.49	20,983,907.00
Discount interest expenses of notes	4,104,973.31	2,896,886.56
Interest income	(22,276,013.19)	(5,777,822.79)
Exchange (gains)/losses	(1,059,701.86)	303,825.86
Bank charges	837,117.07	1,236,364.35
Cash discounts	85,476.97	(919,898.00)
	<u>(3,043,187.21)</u>	<u>18,723,262.98</u>

For the six months ended 30 June 2014 and the six months ended 30 June 2013, all interest expenses belong to borrowings which loan repayment dates are within 5 years.

(45) Asset impairment losses

	The six months ended 30 June 2014	The six months ended 30 June 2013
Provision for bad debts	3,236,179.60	2,524,667.93
Declines in values of inventories	2,870,470.41	3,189,463.91
	<u>6,106,650.01</u>	<u>5,714,131.84</u>

(46) Profit arising from changes in fair value

	The six months ended 30 June 2014	The six months ended 30 June 2013
Gain or loss arising from changes in fair value of listed shares of Hafei Aviation Industry Co., Ltd held by the Group	26,037.90	208,116.00
Loss arising from changes in fair value of listed shares of Harbin Pharmaceutical Group Co., Ltd. held by the Group	19,655.40	(69,434.40)
	<u>45,693.30</u>	<u>138,681.60</u>

(47) Investment income**(a) Details of investment incomes:**

	The six months ended 30 June 2014	The six months ended 30 June 2013
Investment income from financial assets:		
Income from financial assets held for trading	–	9,249.60
Income from available-for-sale financial assets	–	350,900.00
Gain or loss of entrusted loans	(484,907.50)	(487,850.79)
	<u>(484,907.50)</u>	<u>(127,701.19)</u>
Income from long-term equity investment:		
Income from long-term equity investments recognised by equity method	142,114,609.80	129,522,781.96
Income from long-term equity investments recognised by cost method	18,245.04	–
Investment income from disposal of long-term equity investment	–	3,049,556.76
	<u>142,132,854.84</u>	<u>132,572,338.72</u>
	<u>141,647,947.34</u>	<u>132,444,637.53</u>

- (b) Details of investment income from long-term equity investments under equity method which are more than 5% of total profit are as follows:

	The six months ended 30 June 2014	The six months ended 30 June 2013
GP Corp.	52,873,807.34	45,162,187.95
Wang Lao Ji	16,164,530.61	35,585,057.44
HWBYS	52,262,789.52	49,391,133.60
	<u>121,301,127.47</u>	<u>130,138,378.99</u>

(48) Non-operating income

	The six months ended 30 June 2014	The six months ended 30 June 2013
Gain on disposal of non-current assets	99,184.42	14,712.35
Including: gain on disposal of fixed assets	99,184.42	14,712.35
Government grants	15,025,678.43	10,873,889.82
Penalty income	81,330.12	384,519.20
Sales of scraps	1,708,246.65	1,465,605.59
Waived liabilities	29,428.02	55,522.34
Compensation for relocation	1,084,577.76	1,107,886.62
Others	3,082,741.17	2,154,045.55
	<u>21,111,186.57</u>	<u>16,056,181.47</u>

Details of government grants:

Item	The six months ended 30 June 2014	The six months ended 30 June 2013
Government grants related to assets:		
Including:		
Technology funds granted from government	2,181,546.43	2,417,673.29
Compensation for relocation	182,822.22	182,822.22
Financial discount	76,133.46	35,933.46
Specific funds of environmental protection	362,750.34	174,074.16
Innovating platform construction	165,605.53	167,278.55
Others	323,875.15	118,714.32
	<u>3,292,733.13</u>	<u>3,096,496.00</u>
Government grants related to income:		
Including:		
Technology funds granted from government	11,165,722.29	7,000,801.70
Reward of enterprise development	–	399,438.00
Others	567,223.01	377,154.12
	<u>11,732,945.30</u>	<u>7,777,393.82</u>
Total	<u><u>15,025,678.43</u></u>	<u><u>10,873,889.82</u></u>

(49) Non-operating expenses

	The six months ended 30 June 2014	The six months ended 30 June 2013
Loss on disposal of non-current assets	796,820.20	1,106,880.02
Including: Loss on disposal of fixed assets	796,820.20	1,106,880.02
Public welfare donations	2,909,124.65	4,643,139.87
Penalty and overdue fines	39,592.07	779,582.19
Reward of family planning	320,592.00	71,000.00
Others	1,085,134.53	161,570.24
	<u><u>5,151,263.45</u></u>	<u><u>6,762,172.32</u></u>

(50) Income tax expenses

	The six months ended 30 June 2014	The six months ended 30 June 2013
Current income tax	168,101,360.05	319,826,695.12
Deferred income tax	(9,782,565.31)	(236,169,404.84)
	<u>158,318,794.74</u>	<u>83,657,290.28</u>

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	The six months ended 30 June 2014	The six months ended 30 June 2013
Total profit	<u>855,971,611.89</u>	<u>690,059,725.93</u>
Income tax expenses calculated at statutory tax rates	<u>213,992,902.97</u>	<u>172,514,931.48</u>
Tax effect of different rates applicable to subsidiaries	(24,041,541.07)	(39,237,125.08)
Adjust effect for income tax of previous period	25,358.88	–
Gain of loss belong to cooperative enterprise & joint venture	(32,488,234.36)	(56,797,472.54)
Non-taxable revenue	(907,393.56)	–
Expenses not deductible for tax purposes	606,625.29	8,801,238.11
Tax effect of deductible temporary differences & deductible loss which are not recognised	<u>1,131,076.58</u>	<u>(1,624,281.69)</u>
Income tax expenses	<u>158,318,794.74</u>	<u>83,657,290.28</u>

(51) Earnings per share**(a) Basic earnings per share***(i) Weighted average basic earnings per share*

Weighted average basic earnings per share is calculated by dividing consolidated net profit for the current year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding:

	The six months ended 30 June 2014	The six months ended 30 June 2013
Consolidated net profit attributable to ordinary shareholders of the Company	673,659,153.85	587,229,435.88
Weighted average number of ordinary shares outstanding:	<u>1,291,340,650</u>	<u>1,261,239,823.00</u>
Weighted average basic earnings per share of weighted average:	<u>0.522</u>	<u>0.466</u>

(ii) Overall diluted basic earnings per share

Overall diluted basic earnings per share is calculated by dividing consolidated net profit for the current year attributable to ordinary shareholders of the Company by the number of ordinary shares outstanding:

	The six months ended 30 June 2014	The six months ended 30 June 2013
Consolidated net profit attributable to ordinary shareholders of the Company	673,659,153.85	587,229,435.88
Weighted average number of ordinary shares outstanding:	<u>1,291,340,650.00</u>	<u>1,291,340,650.00</u>
Weighted average basic earnings per share of weighted average:	<u>0.522</u>	<u>0.455</u>

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusted net profit for the current year attributable to ordinary shareholders by the adjusted weighted average number of ordinary shares outstanding. For the six months ended 30 June 2014, there were no potential ordinary shares (for the six months ended 30 June 2013: nil), diluted earnings per share is equal to basic earnings per share.

(52) Other comprehensive income

	The six months ended 30 June 2014	The six months ended 30 June 2013
Items will be classified into profit or loss when satisfied with certain conditions at following accounting period:		
Losses arising from available-for-sale financial assets	(710,187.32)	(1,311,273.29)
Less: Income tax effect arising from available-for-sale financial assets	<u>(106,331.77)</u>	<u>(281,603.02)</u>
	<u>(603,855.55)</u>	<u>(1,029,670.27)</u>
Recognition of share of other comprehensive income of the investee based on equity method	(2,362,336.98)	(18,572.55)
Difference on translation of foreign currency financial statements	352,044.57	(616,096.24)
Others	<u>—</u>	<u>—</u>
Subtotal	<u>(2,614,147.96)</u>	<u>(1,664,339.06)</u>
Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period:		
Recognition of share of other comprehensive income of the investee based on equity method	<u>—</u>	<u>—</u>
Total	<u><u>(2,614,147.96)</u></u>	<u><u>(1,664,339.06)</u></u>

(53) Notes to the consolidated cash flow statement**(a) Cash received relating to other operating activities:**

	The six months ended 30 June 2014	The six months ended 30 June 2013
Non-operating income	5,956,163.68	4,965,167.62
Other operation income	87,736,695.97	74,942,789.84
Government grants	29,418,755.50	16,287,626.49
Interest income	<u>22,276,013.19</u>	<u>5,777,822.79</u>
	<u><u>145,387,628.34</u></u>	<u><u>101,973,406.74</u></u>

(b) Cash paid relating to other operating activities:

	The six months ended 30 June 2014	The six months ended 30 June 2013
Cash payments of selling and distribution expenses	734,834,049.80	746,307,202.12
Cash payments of general and administrative expenses	201,713,104.59	221,913,164.62
Financial expenses-bank charges	837,117.07	4,133,250.91
Others	66,494,299.60	14,972,437.92
	<u>1,003,878,571.06</u>	<u>987,326,055.57</u>

(c) Cash received relating to other investing activities:

	The six months ended 30 June 2014	The six months ended 30 June 2013
Interest received from securities accounts	4,101.50	2,861.70
	<u>4,101.50</u>	<u>2,861.70</u>

(d) Cash paid relating to other investing activities:

	The six months ended 30 June 2014	The six months ended 30 June 2013
Tax expenses arising from the interest income of entrusted loans	1,161,069.35	1,430,150.45
Subsidiaries sold	–	131,066.64
	<u>1,161,069.35</u>	<u>1,561,217.09</u>

(54) Supplementary information of cash flow statements

(a) Supplementary information of cash flow statements

(i) Reconciliation of net profit to cash flow operating activities

	The six months ended 30 June 2014	The six months ended 30 June 2013
Net profit	697,652,817.15	606,402,435.65
Add: Provision for assets impairment	6,106,650.01	5,714,131.84
Depreciation of fixed assets, and depreciation and amortisation of Investment properties	88,949,416.78	84,928,254.66
Amortisation of intangible assets	5,690,698.79	1,445,051.79
Amortisation of long-term prepaid expenses	2,223,875.58	2,006,060.20
Loss (less: gain) on disposal of fixed assets, intangible assets and other long-term assets	704,648.38	311,934.16
Loss on scrapping of fixed assets	(7,012.60)	780,233.51
Loss (less: gain) on changes in fair value	(45,693.30)	(138,681.60)
Financial expenses	15,183,411.76	19,858,584.14
Investment gain	(141,647,947.34)	(132,444,637.53)
Decrease in deferred tax assets	84,341,014.80	(237,095,014.90)
Increase/(less: decrease) in deferred tax liabilities	–	925,610.06
Decrease in inventories	(108,769,383.95)	(124,775,741.08)
Decrease of operating receivables	(390,256,522.99)	(557,991,748.99)
Increase of operating payables	906,879,274.55	1,697,258,150.71
Others	–	–
Net cash flows from operating activities	<u>1,167,005,247.62</u>	<u>1,367,184,622.62</u>

(ii) Investing and financing activities that do not involve cash receipts and payments:

	The six months ended 30 June 2014	The six months ended 30 June 2013
Conversion of debt into capital	–	–
Convertible company bonds due within one year	–	–
Fixed assets held under finance leases	–	–

(iii) Net movement in cash and cash equivalents

	The six months ended 30 June 2014	The six months ended 30 June 2013
Cash at the end of period	2,806,836,678.34	2,142,523,492.33
Less: cash at the beginning of year	1,918,952,286.86	1,114,346,524.75
Add: cash equivalents at end of the period	–	–
Less: cash equivalents at beginning of the year	–	–
	<u>–</u>	<u>–</u>
Net movement in cash and cash equivalents	<u>887,884,391.48</u>	<u>1,028,176,967.58</u>

The cash and cash equivalents do not include housing fund of RMB579 thousand, Deposit of direct commerce enterprise of RMB20,000 thousand and security deposit for bank payable notes over 3 months of RMB17,830 thousand.

(b) Details of cash and cash equivalents

	30 June 2014	30 June 2013
Cash	2,806,836,678.34	2,142,523,492.33
Including: Cash on hand	912,652.41	936,335.11
Bank deposits that are readily available for payment	2,791,612,204.68	2,129,263,416.70
Other cash that are readily available for payment	14,311,821.25	12,323,740.52
Cash equivalents	<u>–</u>	<u>–</u>
Total cash and cash equivalents	<u>2,806,836,678.34</u>	<u>2,142,523,492.33</u>

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) General information of the parent company:

Name of the Parent company	Relationship	Business Type	registration place	Legal Representative	Nature of business	Registered Capital (RMB '0000)	% equity interest	% voting rights	Ultimate holding company	Organiz-ation code
GPHL	Parent Company	Limited liability company (wholly state-owned)	No. 45, North Street, Shamian Guangzhou	Li Chuyuan	Manufacturing and trading	125,281	45.24%	45.24%	Guangzhou State-owned Assets Supervision and Administration Commission	23124735-0

Registered capital and changes in registered capital of the parent company:

30 June 2014
(RMB '0000)

GPHL 125,281

The percentage of equity interests and voting rights held by the parent company in the Company:

30 June 2014

	% equity interest held	% voting rights held
GPHL	45.24%	45.24%

(2) Information of subsidiaries

For the general information and related information of the subsidiaries, please refer to Note 4.

(3) Information of Jointly controlled entities and Associates

Name of related party	Business Type	Registration address	Legal Representative	Nature of business	Registered Capital (RMB'0000)	% equity interest	% voting rights	Code of Organization
1. Jointly controlled entities								
GP Corp.	Sino-foreign joint venture	Guangzhou	Li Bingrong	Trading of medicine and medical apparatus	70,000	50.00%	50.00%	73296653-X
Wang Lao Ji	Sino-foreign joint venture	Guangzhou	Wang Jianyi	Production and sales of Chinese Medicine, beverage and candies.	20,476	48.05%	48.05%	19047976-0
Nuo Cheng	Stock Corporation	Guangzhou	Zhou Lijian	Production of Freeze-dried rabies vaccine for human use; import of goods, import & export of technology	8,400	49.24%	50.00%	78608627-1
HWBYS	Sino-foreign joint venture	Guangzhou	Du Zhiqiang	Manufacture, construction engineering, research & development and sales of medicine, health product, food & Chinese medicinal herbs	20,000	50.00%	50.00%	773303038
Baxter Qiao Guang	Sino-foreign joint venture	Guangzhou	Chen Mao	Manufacturing of high-capacity inj. and imports, wholesale of medicine.	17,750	50.00%	50.00%	661806271
2. Associates								
Hangzhou Zheda Han Fang Chinese Medical Info. Engineering Co., Ltd.	Limited Liability Company	Hangzhou	Qu Haibin	Technological development service	100	44.00%	44.00%	73843530-X
Golden Eagle Fund Management Co., Ltd	Limited Liability Company	Zhuhai	Liu Dong	Fund management	25,000	20.00%	20.00%	74448348-X
Guangzhou Jinshen Medical Co., Ltd.	Limited Liability Company	Guangzhou	Gao Qi	Research and development: natural health products, Chinese medicine and food	200	38.25%	38.25%	751974324
Wei Yi Co., Ltd.	Limited Liability Company	Guangzhou	Qiao Yong	Medical investment management	2,000	50.50%	41.00%	058918922

(4) Information of other related parties that do not control or are controlled by the Group

Name of entity	Relationship with the Group	Organization code
Guangzhou Pharmaceutical Industrial Research Institute	Controlled by the same parent company	455347297
Guangzhou Yu Fa Medical Apparatus Co., Ltd.	Controlled by the same parent company	618407881
Guangzhou South China Medical Apparatus Co., Ltd.	Controlled by the same parent company	23123789-X

(5) Related party transactions

(a) For the subsidiaries which are controlled by the Company and consolidated into the consolidated financial statements, the transactions amongst them and that between the Company and them have been eliminated.

(b) Purchases of goods from related parties

Name of related party	Type of transaction	Nature of transaction	Pricing Policies and procedures for decision-making	Six months ended 30 June 2014		Six months ended 30 June 2013	
				Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
HWBYS	Purchase of goods	Chinese raw medicine or medicine	Market price	162,802,070.96	2.73	19,440,658.77	0.36
GP Corp.	Purchase of goods	Chinese raw medicine or medicine	Market price	91,044,417.65	1.53	72,730,634.66	1.34
Wang Lao Ji	Purchase of goods	Chinese raw medicine or medicine	Market price	10,793,629.72	0.18	6,550,780.35	0.12
				<u>264,640,118.33</u>	<u>4.44</u>	<u>98,722,073.78</u>	<u>1.82</u>

(c) Sales of goods to related parties

Name of related party	Type of transaction	Nature of transaction	Pricing Policies and procedures for decision-making	The six months ended 30 June 2014		The six months ended 30 June 2013	
				Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
GPHL	Sales of goods	Chinese raw medicine or medicine	Market price	30,582.57	–	22,159.28	–
Guangzhou Pharmaceutical Industrial Research Institute	Sales of goods	Chinese raw medicine or medicine	Market price	20,512.82	–	28,205.13	–
HWBYS	Sales of goods	Chinese raw medicine or medicine	Market price	94,573,215.26	0.95	91,605,731.42	1.02
GP Corp.	Sales of goods	Chinese raw medicine or medicine	Market price	192,781,372.98	1.94	204,722,725.46	2.27
Wang Lao Ji	Sales of goods	Chinese raw medicine or medicine	Market price	82,235,197.10	0.83	91,672,258.53	1.02
Nuo Cheng	Sales of goods	Chinese raw medicine or medicine	Market price	90,256.42	–	120,529.93	–
Baxter Qiao Guang	Sales of goods	Chinese raw medicine or medicine	Market price	775,558.97	0.01	174,162.40	–
				<u>370,506,696.12</u>	<u>3.73</u>	<u>388,345,772.15</u>	<u>4.31</u>

(d) Other related party transactions

(i) The company renders guarantee for subsidiaries as follows:

1) The company renders guarantee for subsidiaries as follows:

Name of the guaranteed company	Nature of guarantee	Maximum guarantee	Actual amount as at 30 June 2014	Duration
Cai Zhi Lin	loans for working capital	30,000,000.00	10,000,000.00	1 year
Cai Zhi Lin	loans for working capital	30,000,000.00	10,000,000.00	1 year
Cai Zhi Lin	loans for working capital	30,000,000.00	30,000,000.00	1 year
Cai Zhi Lin	Bank acceptance notes	30,000,000.00	3,400,000.00	1 year
Cai Zhi Lin	loans for working capital		10,000,000.00	1 year
Cai Zhi Lin	Bank acceptance notes		16,150,000.00	1 year
Cai Zhi Lin	loans for working capital	30,000,000.00	20,000,000.00	1 year
Cai Zhi Lin	Bank acceptance notes		39,100,000.00	1 year
Guangzhou Han Fan	Bank acceptance notes	10,000,000.00	700,000.00	1 year
Pharmaceutical Import & Export	Bank acceptance notes	50,000,000.00	33,189,605.00	1 year
			<u>172,539,605.00</u>	

- 2) The Group renders guarantee for associates as follows:

Name of the guaranteed company	Nature of guarantee	Maximum guarantee	Actual amount	Duration
			as at 30 June 2014	
Nuo Cheng	loans for working capital	60,000,000.00	<u>18,700,000.00</u>	One year

Another associate of Nuo Cheng renders the guarantee of joint liability for the above loans.

(ii) *Leases*

- 1) Tenancy Agreement

Pursuant to a tenancy agreement entered into by the Company and GPHL, GPHL has granted to the Group the right to use certain premises such as warehouses and offices for a fixed annual rental. The term is from 1 January 2014 to 31 December 2016. The Group should pay GPHL RMB548 thousand of the above-mentioned for the current period (for the six months ended 30 June 2013: RMB537 thousand).

- 2) Office Tenancy Agreement-No. 5 front stalls of GPHL located at No. 45 North Shamian Street

Pursuant to the Tenancy Agreement entered into by the Company and GPHL on 27 June 2013, the Company rents the No. 5 front stalls of GPHL located at No. 45 North Street Shamian at a fixed annual rent., which term is 3 years, the Company should pay GPHL RMB255 thousand in current period. (for the six months ended 30 June 2013: nil)

- 3) Warehouse and Office Building Tenancy Agreement

Pursuant to the Tenancy Agreement entered into by the Company and GPHL, the Company rents certain buildings to GP Corp. at a fixed annual rental at fixed amount per annum with a lease term from 1 January 2014 to 31 December 2016 and the rental amounted to RMB907 thousand. (for the six months ended 30 June 2013: nil)

Pursuant to the Tenancy Agreement entered into by the Company and Baxter Qiao Guang, the Company rents the building located in No.25, Fangcun Avenue to Baxter Qiao Guang at a fixed annual rental at fixed amount per annum with a lease term from 10 May 2007 to the relocated date and the rental amounted to RMB1,350 thousand. (for the six months ended 30 June 2013: RMB2,400 thousand)

Pursuant to the Tenancy Agreement entered into by the Company and GP Corp., the Company rents the building located in No.74, Duobao Road to GP Corp. at a fixed annual rent at a fixed amount per annum with a lease term from 1 January 2014 to 31 December 2014 and the rental amounted to RMB24 thousand. (for the six months ended 30 June 2013: RMB23 thousand)

Pursuant to the Tenancy Agreement entered into by Guangzhou Baiyunshan Baidi Biological Co., Ltd., (“Baidi”) and Nuocheng Biological, Guangzhou Baiyunshan Baidi Biological Co., Ltd. rents the building located in No.1, Wanbao Street North, Panyu District, Guangzhou to Nuocheng Biological at a fixed annual rental at fixed amount per annum with a lease term from 15 March 2011 to 14 March 2016 and the rental amounted to RMB935 thousand. (for the six months ended 30 June 2013: RMB918 thousand)

Pursuant to the Tenancy Agreement entered into by Guanghua, a subsidiary of the Company, and BYSHW, Guanghua rents the building located in No.355, Shatai Rd North, Guangzhou to BYSHW at a fixed annual rental at fixed amount per month with a lease term from 10 March 2014 to 9 March 2016 and the rental amounted to RMB24 thousand. (for the six months ended 30 June 2013: nil)

(iii) License Agreement

Pursuant to the Trademark License Agreement entered into by WLJ Great Health and GPLH on 25 May 2012 and 26 April 2013, GPLH authorised the use of 5 trademarks by WLJ Great Health; WLJ Great Health agreed to pay license fees to GPLH at 2.1% of its aggregate net sales, GPLH and the Company are to entitled by 53% and 47% of the license fee respectively.

Pursuant to the Trademark License Supplementary Agreement entered into by the Company, Wang Lao Ji and GPLH on 28 July 2005, Wang Lao Ji agreed to pay license fees to GPLH for the use of the trademarks at 2.1% of its aggregate net sales since Wang Lao Ji become to be a foreign-invested company limited. GPLH and the Company are to entitled by 53% and 47% of the license fee respectively.

The Company should receive license fee amounted to RMB51,412 thousand for the current period (for the six months ended 30 June 2013:RMB47,161 thousand) and should pay GPLH RMB57,975 thousand(for the six months ended 30 June 2013: RMB53,182 thousand)

The arrangement of the Trademark Trusteeship Agreement and Trademark Trusteeship Supplementary Agreement entered into by GPLH and the Company(GPLH is consignor and the Company is consignee):(1) During the period of validity of Trusteeship Agreement, consignor shall authorizes all the use rights of “Wang Lao Ji” trademark to consignee; (2) During the period of validity of Trusteeship Agreement, consignee shall pay the expenses arising from trusteeship. (but consignor shall pay the expenses arising from dispute to the authority and the expenses arising from the dispute to the previous Trademark Trusteeship Agreement and Trademark Trusteeship Supplementary Agreement);(3)Consignee shall directly receive the trademark license fee which is arranged in the Trademark License Agreement signed during the trusteeship(including the supplementary agreement or new agreement which is signed by consignor or consignee). (4)During the period of validity of Trusteeship Agreement, consignor should pay the company RMB 1,000 thousand for the basic trusteeship fee before the end of every March; (5)On the premise of non-violation to the Trademark License Agreement or supplementary which is entered into by consignor and third party before this Agreement become effective, for the Trademark License Agreement which is signed during the period of validity of Trusteeship Agreement,(including the supplementary agreement or new agreement which is signed during the expiry date of Trusteeship), consignee should pay consignor 80% of the trademark license fee of the previous year before the end of every March. (or the lower proportion which is negotiated by consignor and consignee, the proportion could not higher than 80% in any case, it could be 80% if both parties failed to reach an agreement for that.) as the authorized income for consignor. (the basic trusteeship fee of previous year of consignor shall directly deducted from this expenses by consignee)As the confirmed trademark “Wang Lao Ji”, The proportion to be shared of consignor and consignee shall be confirmed in accordance with the previous arrangement before this agreement was signed, and shall not be limited to the trademark trusteeship agreement. This agreement became effective on 5 July 2013, and will expire on the date of trademark transformation or the date of termination from both parties’ negotiation.

Meanwhile, when the legal dispute is settled, GPLH committed to legally transfer the trademark “Wang Lao Ji” and other 4 trademarks authorized to Wang Lao Ji exclusively to the company within 2 years since the above-mentioned trademarks can be transferred in accordance with the effective laws and regulations

In July 2012, Hong To conducted prosecution to China International Economic and Trade Arbitration Commission with “X20120416 Dispute case of Trademark License Agreement”, the arbitrations are as follows: 1. Judge GPLH to continue to execute Trademark License Agreement. 2. Judge GPLH to stop nonperformance. GPLH shall stop manufacturing and selling the tinned and bottled “Wang Lao Ji Herbal Tea ” and must not authorize other person with the above-mentioned act. 3. Judge GPLH to pay the arbitration fees. As at the reporting date, this arbitration is on the docket.

GPLH started to authorize the Group and its joint-control entity to use the registered trademark “GPC” without compensation in June, 2000.

(iv) *Transformation of research and development project*

		For the six months ended 30 June 2014 (RMB'000)	For the six months ended 30 June 2013 (RMB'000)
	Company		
Service fee for technology	Guangzhou Pharmaceutical General Institute	500	–

(v) *Employee benefits of key management personnel*

Employee benefits of the Group’s key management personnel amounted to RMB1,277 thousand for the six months ended 30 June 2014 (for the six months ended 30 June 2013: RMB1,253 thousand). The Group’s key management personnel include directors, supervisors, general manager, vice general manager, financial controller and secretary to the Board of Director (“BOD”). The key management includes 15 persons for the six months ended 30 June 2014 (for the six months ended 30 June 2013: 15 persons), among which 9 persons received their salaries from the Group (for the six months ended 30 June 2013: 11 persons).

(e) Receivables from and payables to related parties

(i) Receivables from related parties

		30 June 2014		31 December 2013	
		Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
	Related Parties				
Notes receivable:	GP Corp.	70,345,928.50	-	55,200,715.35	-
	HWBYS	-	-	6,250,000.00	-
		<u>70,345,928.50</u>	<u>-</u>	<u>61,450,715.35</u>	<u>-</u>
Accounts receivable:	GPHL	22,505.28	225.05	10,943.58	109.44
	Guangzhou Pharmaceutical Industrial Research Institute	-	-	2,259,600.00	22,596.00
	HWBYS	26,827,825.64	268,278.25	19,069,217.89	190,692.18
	GP Corp.	13,500,236.65	135,002.37	10,461,373.56	104,613.74
	Wang Lao Ji	10,093,392.40	100,933.92	4,527,584.00	45,275.84
	Nuo Cheng	20,000.00	200.00	45,000.00	450.00
	Baxter Qiao Guang	302,000.00	3,020.00	95,400.00	954.00
		<u>50,765,959.97</u>	<u>507,659.59</u>	<u>36,469,119.03</u>	<u>364,691.20</u>

		30 June 2014		31 December 2013	
Related Parties		Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Other					
receivables:	GPHL	2,437,996.87	-	842,087.85	-
	Guangzhou South China Medical Apparatus Co., Ltd.	100,000.00	100,000.00	100,000.00	100,000.00
	HWBYS (Note 1)	20,651,845.91	-	19,258,298.81	-
	GP Corp.	7,798.00	-	205,486.60	-
	Wang Lao Ji	8,177,178.65	-	2,285,283.77	-
	Baxter Qiao Guang	1,303,454.77	-	61,845.35	-
		<u>32,678,274.20</u>	<u>100,000.00</u>	<u>22,753,002.38</u>	<u>100,000.00</u>
Advances to					
suppliers:	HWBYS	9,195,296.45	-	6,183,497.21	-
	GP Corp.	-	-	2,523,411.25	-
	Wang Lao Ji	2,059,664.95	-	-	-
	Guangzhou Yu Fa Medical Apparatus Co., Ltd.	210,278.62	-	-	-
		<u>11,465,240.02</u>	<u>-</u>	<u>8,706,908.46</u>	<u>-</u>

Note 1: The other receivables of HWBYS include the other receivables amounted to RMB19,272 thousand of Bozhou Baiyunshan, a subsidiary of HWBYS. Bozhou Baiyunshan was the subsidiary of Baiyunshan with 80% shareholding, Baiyunshan has transferred the 80% shares to HWBYS in May 2013. The above-mentioned other receivables are the borrowings and interests of Bozhou Baiyunshan to Baiyunshan, which is arisen before the equity transfer.

(ii) Payables to related parties

	Related party	30 June 2014	31 December 2013
Notes Payable:	GP Corp.	–	3,814,560.00
	HWBYS	–	4,872,280.00
		–	8,686,840.00
Accounts Payable:	HWBYS	2,642,160.08	1,087,454.09
	GP Corp.	31,332,752.94	11,604,351.96
	Wang Lao Ji	107,240.00	321,351.19
		34,082,153.02	13,013,157.24
Other Payables	GPHL	41,775,451.28	30,835,415.51
	Guangzhou Pharmaceutical Industrial Research Institute	–	500,000.00
	HWBYS	20,000.00	20,000.00
	GP Corp.	45,000.00	1,025,769.23
		41,840,451.28	32,381,184.74
Advances from customers:	HWBYS	2,490,822.21	3,893,014.43
	GP Corp.	12,186,508.42	2,630,257.22
	Wang Lao Ji	53,198,517.90	12,968,599.69
	Nuocheng	7,000.00	–
		67,882,848.53	19,491,871.34

7 CONTINGENCIES

- (1) In year 2012, WLJ Great Health, the wholly-owned subsidiary was sued with its unauthorised use of the. specific name, package and decoration of the famous products by Guangdong Jia Duo Bao Beverage & Food Co., Ltd. (JDB).

As at the reporting date, this case has been under the jurisdiction of the Guangdong Higher People's Court as specified by the Supreme People's Court. The Company considers that it is not probable that WLJ Great Health will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

- (2) In year 2012, WLJ Great Health, the wholly-owned subsidiary was sued with its unauthorized use of the. slogan" 怕上火,喝王老吉" by JDB.

Chongqing First intermediate people's court rejected the appeal of illicit competition for slogan "怕上火,喝王老吉" accrued from Guangdong Jiaduobao Co., Ltd. on 24 December 2013. Meanwhile, the appeal of destroying, no longer using advertisement "怕上火,喝王老吉" and promotion, declaration of apology and compensation amounted to RMB10,000 thousand was rejected. JDB lodged an appeal.

As at the reporting date, this case has been under the jurisdiction of the Chongqing Higher People's Court as specified by the Supreme People's Court. The Company considers that it is not probable that WLJ Great Health will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

8 COMMITMENTS

(1) Capital expenditures commitments

(a) Capital expenditures contracted for but are not yet necessary to be recognised on the balance sheet

The Group's capital expenditures contracted for but are not yet necessary to be recognised on the balance sheet are as follows:

	30 June 2014	30 June 2013
Investment	–	–
Building, machinery and equipment	170,642,198.79	96,890,046.26
	<u>170,642,198.79</u>	<u>96,890,046.26</u>

The Group's share of the jointly controlled entities' capital commitments are as follows:

	30 June 2014	30 June 2013
Building, machinery and equipment	63,492,919.93	63,421,889.95
	<u>63,492,919.93</u>	<u>63,421,889.95</u>

(b) Capital commitments authorised by the management but are not yet contracted for

	30 June 2014	30 June 2013
Investment	–	362,860,000.00
Building, machinery and equipment	837,072,000.86	96,504,020.71
	<u>837,072,000.86</u>	<u>459,364,020.71</u>

(2) Operating lease commitments

The Group's rental assets from operating lease are mainly buildings, the minimum lease payments of significant rental under operating lease are summarised as follows:

Remaining leasing term	Minimum lease payables	
	30 June 2014	30 June 2013
Within 1 year	30,015,333.10	22,136,299.95
1 to 2 years	7,956,318.06	17,429,010.80
2 to 3 years	6,509,496.49	2,762,769.20
Over 3 years	23,711,014.86	5,553,361.39
	<u>68,192,162.51</u>	<u>47,881,441.34</u>

The rental expenses under operating lease amounted to RMB23,752 thousand are recognised in the profit or loss for the six months ended 30 June 2014 (for the six months ended 30 June 2013: RMB18,408 thousand).

(3) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 31 December 2013.

9 EVENTS AFTER THE BALANCE SHEET DATE

As at 30 June 2014, there are no significant events after the balance sheet date.

10 OTHER SIGNIFICANT EVENTS

There are no significant debt restructurings and non-monetary transactions incurred in the current period.

11 SEGMENT INFORMATION

As the chief operating decision-maker, the BOD assesses performance of the operating segments and allocates resources by reviewing the Group's internal reporting. Management has determined the operating segments based on these reports.

The BOD considered the nature of the Group's business and determined that the Group has two reportable operating segments as follows:

- Manufacturing: manufacture and sale of western pharmaceutical products, CPM and health products produced by the Group's manufacturing subsidiaries;
- Trading: wholesale and retail of western pharmaceutical products, medical apparatus, CPM and Chinese raw medicine; wholesale of goods other than pharmaceutical products.

Sales between segments are carried out on terms equivalent to those that prevail in arm's length transactions.

Assets and liabilities are allocated based on the segment operations, expenses attributable indirectly to each segment are allocated among segments based on the proportion of revenue.

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

- (1) The segment information for the six months ended 30 June 2014 and as of 30 June 2014 are as follows:

	Manufacturing	Trading	Unallocated	Elimination	Total
Revenue	7,647,729,182.89	2,353,053,105.96	19,508,048.78	–	10,020,290,337.63
Inter-segment revenue	148,038,521.85	3,039,867,038.15	60,060,666.55	(3,247,966,226.55)	–
Interest income	(22,843,329.04)	(528,905.54)	(711,056.74)	1,807,278.13	(22,276,013.19)
Interest expenses	17,676,152.19	20,465,331.44	12,035,321.00	(30,721,393.86)	19,455,410.77
Share of profit or loss of associates and jointly controlled entities	23,517,070.83	–	107,385,434.91	11,212,104.06	142,114,609.80
Asset impairment losses	4,505,477.60	9,887,528.88	(1,833.53)	(8,284,522.94)	6,106,650.01
Depreciation and amortisation	86,550,920.43	2,442,241.72	8,220,757.44	–	97,213,919.59
Total profit	675,173,948.57	46,109,438.73	416,038,085.66	(281,349,861.07)	855,971,611.89
Income tax expenses	96,722,298.96	10,672,515.83	58,076,517.34	(7,152,537.39)	158,318,794.74
Net profit (Including: minority interest)	578,451,649.61	35,436,922.90	357,961,568.32	(274,197,323.68)	697,652,817.15
Total assets	9,520,345,126.80	2,976,240,367.25	7,157,293,146.14	(5,854,788,476.78)	13,799,090,163.41
Total liabilities	6,348,054,400.69	2,761,160,041.16	1,084,185,580.50	(3,829,332,786.97)	6,364,067,235.38
Long-term equity investments in associates and jointly controlled entities	103,737,572.52	–	1,836,371,390.99	–	1,940,108,963.51
Additions of non-current assets other than long-term equity investments	240,459,311.53	2,175,756.45	850,934.51	–	243,486,002.49

- (2) The segment information for the six months ended 30 June 2013 and as of 31 December 2013 are as follows:

	Manufacturing	Trading	Unallocated	Elimination	Total
Revenue	7,303,109,790.96	1,749,842,943.55	19,520,059.00	–	9,072,472,793.51
Inter-segment revenue	122,147,863.37	2,025,632,779.43	51,086,082.86	(2,198,866,725.66)	–
Interest income	8,892,371.30	460,109.09	1,039,077.47	(4,613,735.07)	5,777,822.79
Interest expenses	12,692,037.44	18,361,029.46	21,045,020.96	(29,137,192.30)	22,960,895.56
Share of profit or loss of associates and jointly controlled entities	–	–	103,013,282.26	26,509,499.70	129,522,781.96
Asset impairment losses	3,702,685.55	2,471,595.25	68,923.46	(529,072.42)	5,714,131.84
Depreciation and amortisation	84,827,398.39	2,415,668.60	1,208,352.16	(72,052.50)	88,379,366.65
Total profit	442,358,504.08	25,998,305.32	270,440,302.66	(48,737,386.13)	690,059,725.93
Income tax expenses	39,345,934.42	6,318,870.82	43,508,784.41	(5,516,299.37)	83,657,290.28
Net profit (Including: minority interest)	403,012,569.65	19,679,434.50	226,931,518.25	(43,221,086.75)	606,402,435.65
Total assets	8,177,645,896.25	2,166,054,216.66	6,918,419,046.40	(5,012,996,007.92)	12,249,123,151.39
Total liabilities	5,222,107,061.12	1,986,384,749.68	1,103,419,355.88	(3,085,024,710.23)	5,226,886,456.45
Long-term equity investments in associates and jointly controlled entities	121,162,661.82	–	1,749,570,457.57	–	1,870,733,119.39
Additions of non-current assets other than long-term equity investments	421,774,612.38	4,726,393.21	304,296,402.52	–	730,797,408.11

The Group's revenue from external customers in the PRC and other countries/area, and the total non-current assets other than financial assets and deferred tax assets located in the PRC and other countries/area are summarised as follows:

	For the six months ended 30 June 2014	For the six months ended 30 June 2013
Revenue from external customers		
PRC	9,757,491,000.81	8,948,300,380.56
Other countries/area	<u>262,799,336.82</u>	<u>124,172,412.95</u>
	<u>10,020,290,337.63</u>	<u>9,072,472,793.51</u>
Total non-current assets	30 June 2014	31 December 2013
PRC	4,857,859,344.26	4,645,092,792.07
Other countries/area	<u>20,406,342.71</u>	<u>20,683,653.62</u>
	<u>4,878,265,686.97</u>	<u>4,665,776,445.69</u>

12 FINANCIAL INSTRUMENT AND RISK

The Group's activities expose it to a variety of financial risks: market risk (mainly currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(1) Market risk

(a) Foreign exchange risk

The Group's major operating activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. Nevertheless, the Group is exposed to foreign exchange risk arising from the recognized assets and liabilities and future transactions denominated in foreign currencies (mainly USD and HKD). The Group's finance department (Group Finance) is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies, in order to minimize the foreign exchange risk. The Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk.

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As at 30 June 2014 and 31 December 2013, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarised as follows:

	30 June 2014					Total
	USD	HKD	EUR	JPY	GBP	
Financial assets denominated in foreign currency –						
Cash at bank and on hand	8,407,914.60	2,410,868.31	4,499,358.78	0.12	1.15	15,318,142.96
Accounts receivable	2,685,433.24	3,804,427.10	–	–	–	6,489,860.34
Other receivables	14,109.59	27,972.20	–	–	–	42,081.79
	<u>11,107,457.43</u>	<u>6,243,267.61</u>	<u>4,499,358.78</u>	<u>0.12</u>	<u>1.15</u>	<u>21,850,085.09</u>
Financial liabilities denominated in foreign currency –						
Short-term borrowings	–	–	–	–	–	–
Accounts payable	2,002,869.91	–	–	–	–	2,002,869.91
Other payables	–	1,921,262.95	–	–	–	1,921,262.95
	<u>2,002,869.91</u>	<u>1,921,262.95</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,924,132.86</u>
31 December 2013						
	USD	HKD	EUR	JPY	GBP	Total
Financial assets denominated in foreign currency –						
Cash at bank and on hand	19,217,261.74	1,973,995.50	4,512,156.10	577,710.12	1.11	26,281,124.57
Accounts receivable	13,768,115.67	5,506,263.30	–	–	–	19,274,378.97
Other receivables	–	530,507.14	–	–	–	530,507.14
	<u>32,985,377.41</u>	<u>8,010,765.94</u>	<u>4,512,156.10</u>	<u>577,710.12</u>	<u>1.11</u>	<u>46,086,010.68</u>
Financial liabilities denominated in foreign currency –						
Short-term borrowings	7,910,925.00	–	–	–	–	7,910,925.00
Accounts payable	5,323,959.71	8,512.25	–	–	–	5,332,471.96
Other payables	–	2,064,696.40	–	–	–	2,064,696.40
	<u>13,234,884.71</u>	<u>2,073,208.65</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>15,308,093.36</u>

As at 30 June 2014, if RMB had strengthened/weakened by 10% against the USD, HKD, EUR and JPY with all other variables held constant, the Group's net profit for the period would have been approximately RMB1,344 thousand (As at 31 December 2013: lower/higher RMB2,312 thousand) higher/lower.

(b) Interest rate risk

As at 30 June 2014, there is a small amount of long-term interest bearing borrowings (refer to long-term borrowings), thus, the Group is not exposed to significant interest rate risks.

(2) Credit risk

Credit risk is managed on a group basis. Credit risk mainly arises from cash at bank, accounts receivable, other receivables, notes receivable etc.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on accounts receivable, other receivables and notes receivable. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

(3) Liquidity risk

Cash flow forecast is performed by each subsidiary of the Group and aggregated by Group Finance. Group Finance monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institution so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

As at 30 June 2014, the financial assets and liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash flows:

	30 June 2014					
	Within 1 year	1-2 years	2-5 years	Over 5 years	Without fixed maturity	Total
Financial assets –						
Cash at bank and on hand	2,845,245,762.68	–	–	–	–	2,845,245,762.68
Notes receivable	1,518,938,913.88	–	–	–	–	1,518,938,913.88
Accounts receivable	1,180,089,314.31	–	–	–	–	1,180,089,314.31
Other receivables	214,318,770.52	–	–	–	–	214,318,770.52
	<u>5,758,592,761.39</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>5,758,592,761.39</u>
Financial liabilities –						
Short-term borrowings	510,920,652.93	–	–	–	–	510,920,652.93
Long-term borrowings	530,586.23	8,974,116.53	–	–	–	9,504,702.76
Notes payable	132,676,933.56	–	–	–	–	132,676,933.56
Accounts payable	2,432,651,302.33	–	–	–	–	2,432,651,302.33
Other payables	1,680,219,993.33	–	–	–	–	1,680,219,993.33
Long-term payables	–	–	–	22,415,752.40	–	22,415,752.40
	<u>4,756,999,468.39</u>	<u>8,974,116.53</u>	<u>–</u>	<u>22,415,752.40</u>	<u>–</u>	<u>4,788,389,337.31</u>
Provision of guarantees	<u>60,000,000.00</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>60,000,000.00</u>

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	31 December 2013					Total
	Within 1 year	1-2 years	2-5 years	Over 5 years	Without fixed maturity	
Financial assets –						
Cash at bank and on hand	1,935,681,740.06	–	–	–	–	1,935,681,740.06
Notes receivable	1,326,353,755.90	–	–	–	–	1,326,353,755.90
Accounts receivable	1,003,090,938.42	–	–	–	–	1,003,090,938.42
Other receivables	196,434,702.48	–	–	–	–	196,434,702.48
	<u>4,461,561,136.86</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>4,461,561,136.86</u>
Financial liabilities						
Short-term borrowings	522,754,872.57	–	–	–	–	522,754,872.57
Long-term borrowings	552,154.82	552,154.82	8,712,133.27	–	–	9,816,442.91
Notes payable	130,773,655.25	–	–	–	–	130,773,655.25
Accounts payable	1,470,360,537.61	–	–	–	–	1,470,360,537.61
Other payables	1,211,712,507.04	–	–	–	–	1,211,712,507.04
Long-term payables	–	–	–	22,215,752.40	–	22,215,752.40
	<u>3,336,153,727.29</u>	<u>552,154.82</u>	<u>8,712,133.27</u>	<u>22,215,752.40</u>	<u>–</u>	<u>3,367,633,767.78</u>
Provision of guarantees	<u>60,000,000.00</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>60,000,000.00</u>

The repayment periods of the bank loans and other loans are analysed as follow:

	30 June 2014		31 December 2013	
	Bank borrowings	Other borrowings	Bank borrowings	Other borrowings
Wholly repayable within five years	<u>520,425,355.69</u>	<u>–</u>	<u>532,571,315.48</u>	<u>–</u>

(4) Fair value**(a) Financial instruments not measured at fair value**

Financial assets and liabilities not measured at fair value mainly represent receivables, short-term borrowings, payables and long-term payables.

The carrying amount of financial assets and liabilities not measured at fair value is a reasonable approximation of their fair values.

(b) Financial instruments measured at fair value

Based on the lowest level input that is significant to the fair value measurement in its entirety, the fair value hierarchy has the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that is not based on observable market data (that is, unobservable inputs).

As at 30 June 2014, the financial assets measured at fair value by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets –	–	–	–	–
Financial assets held for trading –	–	–	–	–
Investments in equity instrument held for trading	3,408,360.50	–	–	3,408,360.50
Available-for-sale financial assets –	–	–	–	–
Available-for-sale equity instruments	16,897,919.96	–	–	16,897,919.96
	<u>20,306,280.46</u>	<u>–</u>	<u>–</u>	<u>20,306,280.46</u>

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As at 31 December 2013, the financial assets measured at fair value by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets –	–	–	–	–
Financial assets held for trading –	–	–	–	–
Investments in equity instrument held for trading	3,362,667.20	–	–	3,362,667.20
Available-for-sale financial assets–	–	–	–	–
Available-for-sale equity instruments	17,608,107.28	–	–	17,608,107.28
	<u>20,970,774.48</u>	<u>–</u>	<u>–</u>	<u>20,970,774.48</u>

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 that is not traded in an active market is determined by using valuation techniques. 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. Inputs to valuation techniques include prepayment rates, rates of estimated credit losses, and interest rates or discount rates.

13 FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

	31 December 2013	Profit or loss arising from changes in fair value during the current period	Accumulated changes in fair value recognised in equity during the current period	Impairment loss recognised during the current period	30 June 2014
Financial assets –					
Financial assets at fair value through profit or loss	3,362,667.20	45,693.30	–	–	3,408,360.50
Available-for-sale financial assets	17,608,107.28	–	(603,855.55)	(106,331.77)	16,897,919.96
	<u>20,970,774.48</u>	<u>45,693.30</u>	<u>(603,855.55)</u>	<u>(106,331.77)</u>	<u>20,306,280.46</u>

14 FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

	31 December 2013	Profit or loss arising from changes in fair value during the current period	Accumulated changes in fair value recognised in equity	Impairment loss recognised during current period	30 June 2014
Financial assets –					
Cash and bank	26,281,124.57	–	–	–	15,318,142.96
Accounts receivable	19,274,378.97	–	–	–	6,489,860.34
Other receivables	530,507.14	–	–	–	42,081.79
	<u>46,086,010.68</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>21,850,085.09</u>
Financial liabilities –					
Short-term borrowings	7,910,925.00	–	–	–	–
Accounts payable	5,332,471.96	–	–	–	2,002,869.91
Other payables	2,064,696.40	–	–	–	1,921,262.95
	<u>15,308,093.36</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,924,132.86</u>

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Accounts receivable

The majority of the Company's sales are transacted at cash.

(a) The aging of accounts receivable is analysed as follows:

	30 June 2014	31 December 2013
Within 1 year	153,072,177.31	133,951,675.87
1 to 2 years	2,563,390.33	2,480,216.25
2 to 3 years	362,515.07	1,656,386.57
3 to 4 years	1,511,281.93	30,193.88
4 to 5 years	80,893.88	91,606.42
Over 5 years	3,416,154.66	3,375,248.24
	<u>161,006,413.18</u>	<u>141,585,327.23</u>

(b) Accounts receivable by categories are analysed as follows:

	30 June 2014			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provisions	1,500,000.00	0.93%	1,500,000.00	100.00%
Subject to provision by groups: Group 1	158,651,786.94	98.54%	4,527,699.82	2.85%
Individually insignificant but subject to separate provisions	<u>854,626.24</u>	0.53%	<u>854,626.24</u>	100.00%
	<u>161,006,413.18</u>	100.00%	<u>6,882,326.06</u>	4.27%
	31 December 2013			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provisions	1,500,000.00	1.06%	1,500,000.00	100.00%
Subject to provision by groups: Group 1	139,230,700.99	98.34%	4,243,458.42	3.05%
Individually insignificant but subject to separate provisions	<u>854,626.24</u>	0.60%	<u>854,626.24</u>	100.00%
	<u>141,585,327.23</u>	100.00%	<u>6,598,084.66</u>	4.66%

Classification of accounts receivable: refer to Note 2 (10).

(c) As at 30 June 2014, individually significant and subject to separate provisions are as follow:

	Ending balance	Amount of bad debts	Ratio	Reason
Customer 1	1,500,000.00	1,500,000.00	100.00%	Although the Group has suited this company, it is expected that the amount would not be recoverable.

- (d) The groups of accounts receivable in which provisions are made using aging analysis method are analysed as follows:

	30 June 2014			31 December 2013		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
Within 1 year	153,072,177.31	96.48%	1,530,721.77	133,951,675.87	96.21%	1,339,516.74
1 to 2 years	2,563,390.33	1.62%	256,339.04	2,480,216.25	1.78%	248,021.63
2 to 3 years	362,515.07	0.23%	108,754.52	156,386.57	0.11%	46,915.97
3 to 4 years	11,281.93	0.01%	5,640.97	30,193.88	0.02%	15,096.94
4 to 5 years	80,893.88	0.05%	64,715.10	91,606.42	0.07%	73,285.14
Over 5 years	2,561,528.42	1.61%	2,561,528.42	2,520,622.00	1.81%	2,520,622.00
	<u>158,651,786.94</u>	100.00%	<u>4,527,699.82</u>	<u>139,230,700.99</u>	100.00%	<u>4,243,458.42</u>

- (e) As at 30 June 2014, accounts receivable that are individually insignificant but subject to separate provision are as follows:

	Ending balance	Amount of bad debts	Ratio	Reason
Customer 1	470,000.00	470,000.00	100.00%	Its aging is over 5 years, it is expected that the amount would not be recoverable
Customer 2	315,508.74	315,508.74	100.00%	Its aging is over 5 years, it is expected that the amount would not be recoverable
Customer 3	69,117.50	69,117.50	100.00%	Its aging is over 5 years, it is expected that the amount would not be recoverable
	<u>854,626.24</u>	<u>854,626.24</u>	100.00%	

- (f) There are no accounts receivable that are reversed or collected during the current period.
- (g) There are no accounts receivable that are collected by restructuring or other manners during the current period.
- (h) There are no accounts receivable that are written off during the current period.
- (i) As at 30 June 2014, there are no accounts receivable due from shareholders who hold more than 5% (including 5%) of the voting rights of the Company.

(j) As at 30 June 2014, accounts receivable with significant balance are analysed as follows:

Name of the entity	Relation with the Company	Amount	Aging	% of total balance
Customer 1	Related party	69,290,014.62	Within 1 year	43.04%
Customer 2	Related party	9,190,685.00	Within 1 year	5.71%
Customer 3	Third party	7,248,015.00	Within 1 year	4.50%
Customer 4	Third party	5,049,633.80	Within 1 year	3.14%
Customer 5	Third party	4,629,000.00	Within 1 year	2.88%
		<u>95,407,348.42</u>		<u>59.27%</u>

(k) Accounts receivable from related parties are analysed as follows:

Name of the entity	Relation with the Company	Amount	Aging	% of total balance
Baiyunshan Pharmaceutical Technology	Subsidiary	69,290,014.62	Within 1 year	43.04%
Pharmaceutical Import & Export	Wholly-owned subsidiary	9,190,685.00	Within 1 year	5.71%
Tian Xin	Wholly-owned subsidiary	3,221,550.00	Within 1 year	2.00%
HWBYS	Jointly controlled entity	1,156,651.14	Within 1 year	0.72%
GP Corp.	Jointly controlled entity	325,973.28	Within 1 year	0.20%
		<u>83,184,874.04</u>		<u>51.67%</u>

(l) There are no accounts receivables derecognized during the current period.

(m) As at 30 June 2014, there are no securitizations that targeted at accounts receivable.

(2) Other receivables

	30 June 2014	31 December 2013
Receivables due from related parties	935,610,600.75	914,081,195.16
Including: entrusted loan	323,000,000.00	323,000,000.00
others	612,610,600.75	591,081,195.16
Rentals, deposits and staff advances	14,439,908.53	9,920,861.37
Others	28,630,714.57	25,001,774.07
	<u>978,681,223.85</u>	<u>949,003,830.60</u>
Less: provision for bad debts	5,758,319.18	5,486,732.34
	<u>972,922,904.67</u>	<u>943,517,098.26</u>

(a) The aging of other receivables is analysed as follows:

	30 June 2014	31 December 2013
Within 1 year	948,267,087.91	915,634,204.22
1 to 2 years	4,385,615.03	1,659,638.75
2 to 3 years	1,211,633.21	469,716.94
3 to 4 years	406,120.90	314,295.00
4 to 5 years	103,618.56	42,873.00
Over 5 years	24,307,148.24	30,883,102.69
	<u>978,681,223.85</u>	<u>949,003,830.60</u>

(b) Other receivables by categories are analysed as follows:

	30 June 2014			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	932,121.11	0.10%	932,121.11	100.00%
Subject to provision by groups:				
Group 1	13,179,691.05	1.34%	1,893,800.55	14.37%
Group 2	11,586,504.89	1.18%	–	0.00%
Group 3	935,610,600.75	95.60%	–	0.00%
Group 4	14,439,908.53	1.48%	–	0.00%
Individually insignificant but subject to separate provision	2,932,397.52	0.30%	2,932,397.52	100.00%
	<u>978,681,223.85</u>	100.00%	<u>5,758,319.18</u>	0.59%
	31 December 2013			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	932,121.11	0.10%	932,121.11	100.00%
Subject to provision by groups:				
Group 1	12,368,675.07	1.30%	1,622,213.71	13.12%
Group 2	8,768,580.37	0.92%	–	0.00%
Group 3	914,081,195.16	96.32%	–	0.00%
Group 4	9,920,861.37	1.05%	–	0.00%
Individually insignificant but subject to separate provision	2,932,397.52	0.31%	2,932,397.52	100.00%
	<u>949,003,830.60</u>	100.00%	<u>5,486,732.34</u>	0.58%

- (c) Other receivables that are individually significant and subject to separate provision are analysed as follows:

Name of entity	Ending balance	Provision for bad debts	Ratio	Reason
Other receivables 1	502,043.54	502,043.54	100.00%	it is expected that the amount would not be recoverable
Other receivables 2	430,077.57	430,077.57	100.00%	it is expected that the amount would not be recoverable
	<u>932,121.11</u>	<u>932,121.11</u>		

- (d) The groups of other receivables in which provisions are made using aging analysis method are analysed as follows:

	30 June 2014			31 December 2013		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	9,205,086.40	69.83%	92,052.84	9,044,507.10	73.13%	90,445.07
1 to 2 years	1,543,320.98	11.71%	154,332.10	1,613,891.17	13.05%	161,389.12
2 to 3 years	943,126.59	7.16%	282,937.98	402,893.11	3.26%	120,867.93
3 to 4 years	216,920.90	1.65%	108,460.45	110,595.00	0.89%	55,297.50
4 to 5 years	76,095.00	0.58%	60,876.00	12,873.00	0.10%	10,298.40
Over 5 years	1,195,141.18	9.07%	1,195,141.18	1,183,915.69	9.57%	1,183,915.69
	<u>13,179,691.05</u>	<u>100.00%</u>	<u>1,893,800.55</u>	<u>12,368,675.07</u>	<u>100.00%</u>	<u>1,622,213.71</u>

- (e) There are no receivables that are subject to fully provision or in large proportionate but are reversed or collected in full amount or in large proportionate in the current period.
- (f) There are no others receivables collected by restructuring or other manners in the current period.
- (g) As at 30 June 2014, other receivables due from shareholders who hold more than 5% (including 5%) of the voting rights of the Company was receivables due from GPHL amounted to RMB459 thousand. (31 December 2013: RMB331 thousand)

(h) As at 30 June 2014, the top five of other receivables are analysed as follows:

Name of entity	Relation of the Company	Amount	Aging	% of total balance
Cai Zhi Lin	Wholly-owned subsidiary	549,444,780.14	Within 1 year	56.14%
Pharmaceutical Import and Export	Wholly-owned subsidiary	127,589,027.88	Within 1 year	13.04%
Xing Qun	Subsidiary	69,075,990.39	Within 1 year	7.06%
Weiling	Wholly-owned subsidiary	56,902,937.60	Within 1 year	5.81%
Guangzhou Bai Di	Subsidiary	56,505,518.97	Within 1 year	5.77%
		<u>859,518,254.98</u>		<u>87.82%</u>

(i) Other receivables due from related parties are analysed as follows:

	Relation with the Company	Amount	% of total balance
GPHL	Parent company	458,880.00	0.05%
HWBYS	Jointly controlled entity	20,651,845.91	2.11%
GP Corp.	Jointly controlled entity	198.00	–
Wang Lao Ji	Jointly controlled entity	8,052,178.65	0.82%
Baxter Qiao Guang	Jointly controlled entity	1,303,454.77	0.13%
Xing Qun	Subsidiary	69,075,990.39	7.06%
Zhong Yi	Wholly-owned subsidiary	244,728.96	0.03%
Chen Li Ji	Wholly-owned subsidiary	20,828.81	–
Guangzhou Han Fan	Subsidiary	8,257,570.33	0.84%
Qi Xing	Indirect subsidiary	3,044,184.92	0.31%
Jingyuxian Guangyao Chinese Raw Medicine Development Co., Ltd	Indirect subsidiary	29,699.72	–
Jing Xiu Tang	Subsidiary	93,202.46	0.01%
Pan Gao Shou	Subsidiary	90,572.60	0.01%
Cai Zhi Lin	Wholly-owned subsidiary	549,444,780.14	56.14%
Pharmaceutical Import and Export	Wholly-owned subsidiary	127,589,027.88	13.04%
Guangzhou Bai Di.	Subsidiary	56,505,518.97	5.77%
WLJ Great Health	Wholly-owned subsidiary	24,988,523.24	2.55%
Guangxi Ying Kang	Subsidiary	6,013,184.44	0.61%
Weiling	Wholly-owned subsidiary	56,902,937.60	5.81%
Baiyunshan Pharmaceutical Technology	Subsidiary	1,519,964.08	0.16%
Tian Xin	Subsidiary	288,158.25	0.03%
Guang Hua	Subsidiary	663,910.31	0.07%
Ming Xing	Wholly-owned subsidiary	177,974.19	0.02%
Guangyao Baiyunshan (Hong Kong) Limited	Wholly-owned subsidiary	193,286.13	0.02%
		<u>935,610,600.75</u>	<u>95.59%</u>

(j) As at 30 June 2014, there are no other receivables that are derecognised.

(k) As at 30 June 2014, there are no securitizations that targeted at other receivables.

(3) Long-term equity investments

(a) Details of long-term equity investments

Name of entity	Investment cost	31 December 2013	Current period movement	30 June 2014	% Equity interest held	% Voting rights held	Provision for impairment	Impairment losses recognised in current period	Cash dividend in current period
Equity method:									
Jointly-controlled entities:									
GP Corp.	396,589,139.78	947,446,195.12	40,542,242.48	987,988,437.60	50.00%	50.00%	-	-	-
Wang Lao Ji	102,035,124.44	449,804,869.99	16,125,247.28	465,930,117.27	48.05%	48.05%	-	-	-
HWBYS	100,000,000.00	296,917,655.20	31,059,196.67	327,976,851.87	50.00%	50.00%	-	-	20,000,000.00
BaxterQiao Guang	37,000,000.00	23,051,837.53	(3,580,403.57)	19,471,433.96	50.00%	50.00%	-	-	-
Associates:									
Guangzhou Jinshe Pharmaceutical Technology Co., Ltd.	765,000.00	-	-	-	38.25%	38.25%	-	-	-
Golden Eagle Asset Management Co., Ltd.	50,000,000.00	28,565,457.47	949,568.30	29,515,025.77	20.00%	20.00%	-	-	-
Wei Yi Co., Ltd.	2,020,000.00	2,020,000.00	(72,751.23)	1,947,248.77	50.50%	41.00%	-	-	-
Sub-total of equity method	688,409,264.22	1,747,806,015.31	85,023,097.93	1,832,829,113.24	N/A	N/A	-	-	20,000,000.00
Cost method:									
Subsidiaries:									
Xing Qin	125,322,300.00	125,322,300.00	-	125,322,300.00	88.99%	88.99%	-	-	-
Zhong Yi	324,320,391.34	324,320,391.34	-	324,320,391.34	100.00%	100.00%	-	-	60,530,209.67
Chen Li Ji	142,310,800.00	142,310,800.00	-	142,310,800.00	100.00%	100.00%	-	-	-
Guangzhou Han Fan	249,017,109.58	249,017,109.58	-	249,017,109.58	97.97%	97.97%	55,000,000.00	-	-
Guangzhou Qi Xing Factory Co., Ltd	126,775,500.00	126,775,500.00	-	126,775,500.00	100.00%	100.00%	-	-	9,945,380.60
Jing Xin Tang	101,489,800.00	101,489,800.00	-	101,489,800.00	88.40%	88.40%	-	-	-
Pan Gao Shou	144,298,200.00	144,298,200.00	-	144,298,200.00	87.77%	87.77%	-	-	12,494,613.04
Cai Zhi Lin	89,078,900.00	89,078,900.00	-	89,078,900.00	100.00%	100.00%	69,000,000.00	-	-
Pharmaceutical Import & Export	18,557,303.24	18,557,303.24	-	18,557,303.24	100.00%	100.00%	-	-	7,076,474.23
Guangzhou Bai Di	129,145,812.38	129,145,812.38	-	129,145,812.38	98.48%	98.48%	47,000,000.00	-	-
Guangxi Ying Kang	21,536,540.49	21,536,540.49	-	21,536,540.49	51.00%	51.00%	-	-	-
WLI Great Health	10,000,000.00	10,000,000.00	-	10,000,000.00	100.00%	100.00%	-	-	182,150,646.65

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

Name of entity	Investment cost	31 December 2013	Current period movement	30 June 2014	% Equity interest held	% Voting rights held	Provision for impairment	Impairment losses recognised in current period	Cash dividend in current period
Guangzhou Yi Gan Xingzhou	12,600,000.00	12,600,000.00	-	12,600,000.00	60.00%	60.00%	-	-	-
Guangyao Baiyunshan (Hong Kong) Limited	64,860,000.00	-	64,860,000.00	64,860,000.00	75.00%	75.00%	-	-	-
Tian Xin	35,410,006.87	35,410,006.87	-	35,410,006.87	100.00%	100.00%	-	-	-
Guang Hua	96,192,658.47	96,192,658.47	-	96,192,658.47	82.49%	82.49%	-	-	-
Ming Xing	53,659,963.75	53,659,963.75	-	53,659,963.75	84.48%	84.48%	-	-	-
Wetling	12,581,294.18	12,581,294.18	-	12,581,294.18	100.00%	100.00%	-	-	-
Guangzhou Baiyunshan Pharmacy	10,444,783.48	10,444,783.48	-	10,444,783.48	100.00%	100.00%	-	-	-
Pharmaceutical Technology	1,000,000.00	1,000,000.00	-	1,000,000.00	100.00%	100.00%	-	-	-
Great Health Hotel	1,020,000.00	1,020,000.00	-	1,020,000.00	51.00%	51.00%	-	-	627,300.00
	500,000.00	500,000.00	-	500,000.00	100.00%	100.00%	-	-	-
Other long-term equity investments:									
Beijing Imperial Court Cultural Development Company Ltd	200,000.00	200,000.00	-	200,000.00	10.00%	10.00%	-	-	-
Guangdong Southern China Advanced Pharmaceutical Co., Ltd.	10,000,000.00	10,000,000.00	-	10,000,000.00	11.12%	11.12%	-	-	-
Shenzhen Zhonglian Guangshen Pharmaceutical Co., Ltd.	312,077.00	312,077.00	-	312,077.00	-	-	-	-	-
Guangzhou Zhongying Cambridge Technology Co., Ltd.	300,000.00	300,000.00	-	300,000.00	9.97%	9.97%	300,000.00	-	-
Dongbei Pharmaceutical General Factory	750,000.00	750,000.00	-	750,000.00	-	-	750,000.00	-	-
Wuhan Pharmaceutical Co., Ltd.	2,000,000.00	2,000,000.00	-	2,000,000.00	2.80%	2.80%	2,000,000.00	-	-
Baxter Healthcare	82,338,800.00	82,338,800.00	-	82,338,800.00	12.50%	12.50%	-	-	-
Stock of enterprises activities center	50,000.00	50,000.00	-	50,000.00	-	-	50,000.00	-	-
Guangzhou Dongying Pharmaceutical Co., Ltd.	275,000.00	275,000.00	-	275,000.00	5.00%	5.00%	275,000.00	-	-
Guangzhou Nanxin Pharmaceutical Co., Ltd.	7,677,876.51	7,677,876.51	-	7,677,876.51	13.00%	13.00%	-	-	-
Sub-total of cost method	1,874,025,117.29	1,809,165,117.29	64,860,000.00	1,874,025,117.29	N/A	N/A	174,375,000.00	-	272,844,624.19
Total	2,562,434,381.51	3,556,971,132.60	149,883,097.93	3,706,854,230.53	N/A	N/A	174,375,000.00	-	292,844,624.19

(b) There are no limitation on fund transfer between the Group and its investing entities.

(4) Revenue and cost of sales

	For the six months ended 30 June 2014		
	Main operations	Other operations	Subtotal
Revenue	1,372,198,379.78	222,297,074.20	1,594,495,453.98
Cost of operation	815,190,466.19	114,259,782.09	929,450,248.28
Gross profit	557,007,913.59	108,037,292.11	665,045,205.70

	For the six months ended 30 June 2013		
	Main operations	Other operations	Subtotal
Revenue	207,756,256.08	87,846,831.17	295,603,087.25
Cost of operation	125,726,240.48	17,937,154.28	143,663,394.76
Gross profit	82,030,015.60	69,909,676.89	151,939,692.49

(a) Revenue and cost of main operations by natures are summarised as follows:

	Revenue from main operations		Cost of main operations	
	For the six months ended 30 June 2014	For the six months ended 30 June 2013	For the six months ended 30 June 2014	For the six months ended 30 June 2013
	Manufacturing	1,371,824,628.91	207,043,037.31	814,833,430.54
Trading	373,750.87	713,218.77	357,035.65	679,407.76
	<u>1,372,198,379.78</u>	<u>207,756,256.08</u>	<u>815,190,466.19</u>	<u>125,726,240.48</u>

(b) Revenue and cost of main operations by regions are summarised as follows:

	Revenue from main operations		Cost of main operations	
	For the six months ended 30 June 2014	For the six months ended 30 June 2013	For the six months ended 30 June 2014	For the six months ended 30 June 2013
	Southern China	1,125,354,889.51	155,804,858.75	698,205,479.00
Eastern China	129,676,871.80	25,521,602.83	47,435,834.54	10,378,230.07
Northern China	41,966,921.87	8,453,434.32	24,427,906.07	5,030,611.44
North east China	9,136,984.59	2,704,326.70	6,769,184.22	1,957,527.26
South west China	58,137,741.25	14,798,969.51	32,605,594.95	8,956,292.21
North west China	4,432,637.43	473,063.97	2,925,688.24	261,934.81
Other countries	3,492,333.33	–	2,820,779.17	–
	<u>1,372,198,379.78</u>	<u>207,756,256.08</u>	<u>815,190,466.19</u>	<u>125,726,240.48</u>

- (c) The total top five of customer sales is RMB 1,110,606 thousand, which is 80.94% of revenue from main operations this year.

	Revenue from main operations	% of revenue from main operations of the company
Customer 1	871,654,137.73	63.52%
Customer 2	116,658,466.56	8.50%
Customer 3	69,668,803.42	5.08%
Customer 4	27,512,820.56	2.01%
Customer 5	25,112,117.03	1.83%
	<u>1,110,606,345.30</u>	<u>80.94%</u>

(5) Investment income

- (a) Details of Investment income:

	For the six months ended 30 June 2014	For the six months ended 30 June 2013
Income from financial assets:		
Income from financial assets held for trading	–	9,249.60
Income from available-for-sale financial assets	–	350,900.00
Income from entrusted loans	8,097,525.82	8,070,934.78
Income from long-term equity investments under cost method	272,844,624.19	134,945,650.35
Income from long-term equity investments under equity method	107,385,434.91	91,515,906.01
Income from disposal long-term equity investments	–	–
	<u>388,327,584.92</u>	<u>234,892,640.74</u>

- (b) Investment income from long-term equity investments under cost method which is more than 5% of total profit are as follows:

	For the six months ended 30 June 2014	For the six months ended 30 June 2013
Zhong Yi	60,530,209.67	42,398,072.66
Chen Li Ji Factory	–	24,739,246.79
Pan Gao Shou	12,494,613.04	17,079,709.78
WLJ Great Health	182,150,646.65	24,769,410.51
	<u>255,175,469.36</u>	<u>108,986,439.74</u>

- (c) Investment income from long-term equity investments under equity method which is more than 5% of total profit are as follow:

	For the six months ended 30 June 2014	For the six months ended 30 June 2013
Wang Lao Ji	16,125,247.28	35,585,057.44
GP Corp.	42,904,579.46	40,520,712.75
HWBYS	51,059,196.67	18,777,756.73
	<u>110,089,023.41</u>	<u>94,883,526.92</u>

(6) Supplementary information to the Company's cash flow statement

	For the six months ended 30 June 2014	For the six months ended 30 June 2013
(a) Reconciliation from net profit to cash flows from operating activities		
Net profit	558,093,398.99	288,053,432.14
Add: Provisions for asset impairment	1,276,338.08	922,408.44
Depreciation and amortisation of fixed assets and investment property	24,913,726.32	4,713,438.20
Amortisation of intangible assets	2,547,608.76	442,658.92
Amortisation of long-term prepaid expenses	112,240.94	49,060.71
Gains on disposal of fixed assets, intangible assets and other long-term assets	330,406.49	1,686.55
Losses on scrapping of fixed assets	–	–
Loss (less: gains) on change in fair value	(45,693.30)	(138,681.60)
Financial expenses	13,501,071.28	7,367,734.62
Investment income	(401,211,472.07)	(234,892,640.74)
Decrease in deferred tax assets	1,485,469.69	(62,969,777.08)
Increase (less: decrease) in deferred tax liabilities	–	2,823,247.28
Decrease (less: increase) in inventories	21,431,228.44	(363,273,338.29)
Decrease in operating receivables	(192,991,955.88)	(968,894,873.70)
Increase in operating payables	36,650,405.73	1,329,217,404.28
Others	–	–
Net cash flows from operating activities	<u>66,092,773.47</u>	<u>3,421,759.73</u>
(b) Investing and financing activities that do not involve cash receipts and payments		
Conversion of debt into capital	–	–
Convertible company bonds due within one year	–	–
Fixed assets held under finance leases	–	–
(c) Net movement in cash and cash equivalents		
Cash at end of period	549,213,250.72	381,018,548.95
Less: cash at beginning of year	462,902,261.84	141,232,654.49
Add: cash equivalents at end of period	–	–
Less: cash equivalents at beginning of year	–	–
Net movement in cash and cash equivalents	<u>86,310,988.88</u>	<u>239,785,894.46</u>

16 NET CURRENT ASSETS

	The Group	
	30 June 2014	31 December 2013
Current assets	8,721,317,254.36	7,298,788,281.51
Less: Current liabilities	<u>6,178,790,807.05</u>	<u>5,050,078,080.31</u>
Net current assets	<u><u>2,542,526,447.31</u></u>	<u><u>2,248,710,201.20</u></u>

	The Company	
	30 June 2014	31 December 2013
Current assets	3,076,417,317.13	2,659,050,589.48
Less: Current liabilities	<u>1,523,057,206.90</u>	<u>1,207,339,131.68</u>
Net current assets	<u><u>1,553,360,110.23</u></u>	<u><u>1,451,711,457.80</u></u>

17 TOTAL ASSETS LESS CURRENT LIABILITIES

	The Group	
	30 June 2014	31 December 2013
Total assets	13,799,090,163.41	12,249,123,151.39
Less: Current liabilities	<u>6,178,790,807.05</u>	<u>5,050,078,080.31</u>
Total assets less current liabilities	<u><u>7,620,299,356.36</u></u>	<u><u>7,199,045,071.08</u></u>

	The Company	
	30 June 2014	31 December 2013
Total assets	7,688,277,656.10	7,112,046,675.67
Less: Current liabilities	<u>1,523,057,206.90</u>	<u>1,207,339,131.68</u>
Total assets less current liabilities	<u><u>6,165,220,449.20</u></u>	<u><u>5,904,707,543.99</u></u>

SUPPLEMENTARY INFORMATION

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

1 SUMMARY OF NON-RECURRING PROFIT OR LOSS

Item	For the six months ended 30 June 2014	For the six months ended 30 June 2013
Losses on disposal of non-current assets	(697,635.78)	(1,092,167.67)
Tax return or exemption without proper authorization	-	-
Government grants recognised in profits or losses(excluding those government grants that are closely relevant to the Group's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government)	15,026,828.43	10,873,889.82
Interests received from entities other than financial institutions recognised in profits or losses	-	-
Gains arising from the difference between Investment cost on subsidiaries, associates and jointly controlled entities and the fair value of the net assets attributable to the Group	-	-
Gains or losses arising from non-monetary assets exchange	-	-
Gains or losses arising from entrusted investments or entrusted asset management	-	-
Asset impairment provided in current year due to forced majeure (e.g. natural disasters)	-	-
Gains or losses arising from debt restructuring	-	-
Corporate restructuring costs (e.g. staff replacement costs and costs during the course of integration)	-	-
Gains or losses arising from the difference between the fair value and transaction price in obviously unfair transactions	-	-
Net profit of subsidiaries acquired under common control from beginning of year to the merger date	-	-
Gains or losses arising from contingencies irrelevant to the Group's normal business	-	-
Gains or losses from changes in fair value of financial assets and liabilities held for trading except for hedging contracts and disposal of financial assets and liabilities held for trading and available-for-sale financial assets	45,693.30	138,681.60
Reversal of provision for bad-debts of accounts receivable subject to separate provision	-	222,456.83
Gains or losses arising from entrusted loan granted to other entities	(484,907.51)	(487,850.79)
Gains or losses arising from changes in fair value of investment properties under fair value model	-	-
One-off adjustments to profit or loss as required by taxation and accounting laws and regulations	-	-
Consignment fee income arising from entrusted operations	-	-
Other non-operating income and expenses other than the aforementioned items	1,630,730.47	731,509.67
Other profit or loss items meeting the definition of non-recurring profit or loss	-	-
Impact on income tax	(1,173,253.24)	(683,727.04)
Impact on minority interests (post-tax)	(380,935.19)	(31,639.44)
Total	<u>13,966,520.48</u>	<u>9,671,152.98</u>

2 RETURN ON NET ASSETS AND EARNINGS PER SHARE:

For the six months ended 30 June 2014	Weighted average return on net assets (%)	Earnings per share	
		Weighted average basic earnings per share	average return on net assets (%)
Net profit attributable to ordinary shareholders of the Company	9.73%	0.522	0.522
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	<u>9.53%</u>	<u>0.511</u>	<u>0.511</u>
		Earnings per share	
For the six months ended 30 June 2013	Weighted average return on net assets (%)	Weighted average basic earnings per share	average return on net assets (%)
Net profit attributable to ordinary shareholders of the Company	10.02%	0.466	0.466
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	<u>9.86%</u>	<u>0.458</u>	<u>0.458</u>

For the six months ended 30 June 2014	Overall diluted return on net assets (%)	Earnings per share	
		Overall diluted basic earnings per share	Overall diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	9.35%	0.522	0.522
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	<u>9.16%</u>	<u>0.511</u>	<u>0.511</u>

For the six months ended 30 June 2013	Overall diluted return on net assets (%)	Earnings per share	
		Overall diluted basic earnings per share	Overall diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	9.02%	0.455	0.455
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	<u>8.87%</u>	<u>0.447</u>	<u>0.447</u>

3 REASONS FOR EXCEPTIONAL ITEMS IN FINANCIAL STATEMENTS

Items	At at 30 June 2014 (RMB'000)	At at 1 January 2014 (RMB'000)	Fluctuation (%)	Reasons of fluctuation
Cash at bank and on hand	2,845,246	1,935,682	46.99	The Group's sales increased in current period.
Other current assets	5,729	19,348	(70.39)	As at 30 June 2014, the Group's VAT input tax which is not deductible increased.
Development expenditures	12,502	3,717	236.35	The Group's expenses of research and development which were capitalized increased constantly in current period.
Deferred tax assets	182,609	266,950	(31.59)	As at 30 June 2014, the Company's temporary differences arisen from accrued expenses decreased in current period.
Accounts payables	2,432,651	1,470,361	65.45	The Company's trading subsidiaries developed high-quality suppliers actively for better credit terms in current period.
Taxes payables	175,501	403,384	(56.74)	As at 30 June 2014, the group's VAT payable and enterprise income tax reduced.
Interest payables	280	675	(58.52)	As at 30 June 2014, the Group's external borrowings from the bank decreased.
Dividends payables	337,031	113,513	196.91	The Group distributed dividends 2013 in the first half year of 2014.
Other payables	1,680,220	1,211,713	38.66	As at 30 June 2014, the Group's accrued expenses of advertising and transport increased.
Financial expenses	(3,043)	18,723	(116.25)	The Group actively tapped the potential of internal funds, raised the capital operation efficiency, gradually repay the external borrowings from the bank; subsidiaries increased interest income as a result of reasonable allocation of funds and improvement of efficiency on funds operations.
Profit arising from changes in fair value	46	139	(67.05)	Comparing with previous period, the rising range for the share price of financial assets for trading has reduced in current period.
Revenue from non-operation	21,111	16,056	31.48%	The Group's government grants increased in current period.
Income tax	158,319	83,657	89.25%	Subsidiaries' profit increased and the movement of income tax incidence as a result of recombination of applicable income tax.

4. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE NINE MONTHS ENDED 30 SEPTEMBER 2014

Balance Sheet

As at 30 September 2014

Items	Consolidated		The Company	
	At the end of the Reporting Period (RMB)	At the beginning of 2014 (RMB) (restated)	At the end of the Reporting Period (RMB)	At the beginning of 2014 (RMB) (restated)
Current assets:				
Cash	3,253,281,386.55	1,935,681,740.06	708,073,008.11	462,902,261.84
Settlement provisions	–	–	–	–
Placements	–	–	–	–
Trading financial assets	4,485,367.70	3,362,667.20	4,485,367.70	3,362,667.20
Notes receivable	1,245,271,108.56	1,326,353,755.90	556,962,704.95	491,846,637.36
Accounts receivable	1,095,080,731.95	973,184,749.11	125,617,276.33	134,987,242.57
Prepayment	574,681,362.44	613,882,321.78	27,713,003.03	35,096,096.56
Premiums receivable	–	–	–	–
Receivables from reinsurers	–	–	–	–
Reinsurance contract reserve	–	–	–	–
Interest receivable	–	–	–	–
Dividend receivable	–	–	157,939,207.59	213,565,667.45
Other receivables	183,799,581.73	181,145,718.26	1,119,139,451.39	943,517,098.26
Financial assets purchased under resale agreements	–	–	–	–
Stock	2,713,449,785.70	2,245,829,748.05	382,877,628.98	372,106,673.49
Non-current assets due within 1 year	–	–	–	–
Other current assets	10,462,446.98	19,347,581.15	666,080.94	1,666,244.75
Total current assets	9,080,511,771.61	7,298,788,281.51	3,083,473,729.02	2,659,050,589.48

Items	Consolidated		The Company	
	At the end of the Reporting Period (RMB)	At the beginning of 2014 (RMB) (restated)	At the end of the Reporting Period (RMB)	At the beginning of 2014 (RMB) (restated)
Non-currents assets:				
Entrusted loans and advances	–	–	–	–
Available-for-sale financial assets	120,208,365.08	119,365,279.93	117,287,253.51	116,621,753.51
The held-to-maturity	–	–	–	–
Long-term receivables	–	–	–	–
Long-term equity investment	1,984,641,699.02	1,870,733,119.39	3,447,298,691.77	3,282,067,379.09
Investments properties	238,293,569.42	246,309,245.37	222,432,743.83	228,088,909.74
Fixed assets	1,773,837,107.21	1,731,881,945.85	478,853,848.50	458,451,623.08
Construction in progress	464,692,530.81	335,422,694.18	47,956,081.32	61,761,556.59
Construction supplies	–	–	–	–
Disposal of fixed assets	–	–	–	–
Production of biological assets	–	–	–	–
Oil and gas assets	–	–	–	–
Intangible assets	384,104,645.63	368,856,694.63	263,260,823.02	266,747,080.35
Development expenses	18,293,119.65	3,716,517.68	16,781,067.96	2,200,000.00
Goodwill	–	–	–	–
Long-term deferred expenses	6,017,962.38	7,099,055.93	293,822.46	448,929.68
Deferred income tax assets	178,738,161.63	266,950,316.92	35,123,384.46	36,608,854.15
Other non-current assets	–	–	–	–
Total non-current assets	5,168,827,160.83	4,950,334,869.88	4,629,287,716.83	4,452,996,086.19
Total assets	14,249,338,932.44	12,249,123,151.39	7,712,761,445.85	7,112,046,675.67
Current liabilities:				
Short-term borrowings	605,899,037.27	509,651,500.77	220,000,000.00	250,000,000.00
Borrowings from central banks	–	–	–	–
Deposits and deposits by banks	–	–	–	–
Funds borrowed	–	–	–	–
Trading financial liabilities	–	–	–	–
Notes payable	146,537,075.41	130,773,655.25	–	–
Accounts payable	2,771,410,066.55	1,470,360,537.61	241,575,527.86	210,276,551.36
Advances payable	544,172,130.76	875,579,547.32	15,361,427.51	73,149,096.14
Financial assets sold under repurchase agreements	–	–	–	–
Fee and commission payable	–	–	–	–
Salary payable	352,707,017.59	334,427,927.83	91,640,625.75	60,386,689.87
Taxes payable	64,744,302.31	403,383,688.38	66,205,508.52	59,481,082.89
Interests payable	280,000.01	675,414.98	280,000.01	675,414.98
Dividend payable	36,686,027.34	113,513,301.13	90,193.02	77,540,856.01
Other payables	1,893,894,017.45	1,211,712,507.04	807,883,372.56	475,829,440.43
Payables to reinsurers	–	–	–	–

Items	Consolidated		The Company	
	At the end of the Reporting Period (RMB)	At the beginning of 2014 (RMB) (restated)	At the end of the Reporting Period (RMB)	At the beginning of 2014 (RMB) (restated)
Insurance contract	–	–	–	–
Brokerage deposits	–	–	–	–
Acting underwriting securities	–	–	–	–
Non-current liabilities due within 1 year	–	–	–	–
Other current liabilities	–	–	–	–
Total current liabilities	6,416,329,674.69	5,050,078,080.31	1,443,036,655.23	1,207,339,131.68
Non-current liabilities:				
Long-term borrowings	–	8,627,419.10	–	8,627,419.10
Bonds payable	–	–	–	–
Long-term payable	22,415,752.40	22,215,752.40	7,802,224.39	7,802,224.39
Special payables	58,410,462.80	19,058,160.00	–	–
Estimated liabilities	500,191.19	500,191.19	500,191.19	500,191.19
Deferral income tax liabilities	3,603,998.98	3,475,327.44	3,401,471.15	3,301,646.15
Other non-current liabilities	135,491,236.06	122,931,526.01	43,497,955.62	37,507,212.17
Total non-current liabilities	220,421,641.43	176,808,376.14	55,201,842.35	57,738,693.00
Total liabilities	6,636,751,316.12	5,226,886,456.45	1,498,238,497.58	1,265,077,824.68
Shareholders' equity:				
Share capital	1,291,340,650.00	1,291,340,650.00	1,291,340,650.00	1,291,340,650.00
Capital reserves	2,492,137,048.99	2,493,788,078.69	2,455,144,420.93	2,456,941,082.91
Less: Treasury shares	–	–	–	–
Special reserves	–	–	–	–
Surplus reserves	723,819,753.76	723,819,753.76	351,211,319.16	351,211,319.16
General risk reserve	–	–	–	–
Retained profits	2,890,348,554.47	2,330,514,583.35	2,116,826,558.18	1,747,475,798.92
Exchange difference on foreign currency capital	(7,395,660.67)	(7,695,173.92)	–	–
Shareholders' equity attributable to the Shareholders of the Company	7,390,250,346.55	6,831,767,891.88	–	–
Minority interests	222,337,269.77	190,468,803.06	–	–
Total shareholders' equity	7,612,587,616.32	7,022,236,694.94	6,214,522,948.27	5,846,968,850.99
Total liabilities and shareholders' equity	14,249,338,932.44	12,249,123,151.39	7,712,761,445.85	7,112,046,675.67

Consolidated Income Statement

Items	1 July- 30 September 2014 (RMB)	1 July- 30 September 2013 (RMB)	1 January- 30 September 2014 (RMB)	1 January- 30 September 2013 (RMB)
1. Total income from operations	4,615,051,851.34	4,132,348,626.80	14,635,342,188.97	13,204,821,420.31
Including: Income from operations	4,615,051,851.34	4,132,348,626.80	14,635,342,188.97	13,204,821,420.31
Interest Income	-	-	-	-
Premiums earned	-	-	-	-
Fee and commission income	-	-	-	-
2. Total cost from operations	4,436,492,784.76	3,993,130,591.65	13,758,465,074.26	12,517,420,987.51
Including: Cost of operations	3,000,593,991.68	2,858,861,839.08	9,454,203,849.64	8,682,105,241.99
Interest expense	-	-	-	-
Fee and commission expense	-	-	-	-
Surrenders	-	-	-	-
Net claims paid	-	-	-	-
Net reserves for insurance contracts	-	-	-	-
Policyholder dividends	-	-	-	-
Reinsurance expenses	-	-	-	-
Less: sales taxes and surcharges	37,610,920.56	28,364,580.50	127,146,184.91	111,232,746.34
Sales expenses	1,073,192,021.53	801,544,409.43	3,232,809,626.18	2,784,343,986.61
General and administrative expenses	316,813,524.25	297,707,816.83	932,959,623.99	908,649,671.94
Finance expenses	2,692,260.52	5,497,754.87	(350,926.69)	24,221,017.85
Asset impairment loss	5,590,066.22	1,154,190.94	11,696,716.23	6,868,322.78
Add: Gain from changes in fair value	1,077,007.20	356,835.90	1,122,700.50	495,517.50
Investment income	55,547,490.70	28,177,490.14	197,195,438.04	160,622,127.67
Including: Share of profits from associates and joint venture	54,710,621.27	23,675,693.98	196,825,231.07	153,198,475.94
Exchange gains	-	-	-	-

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

Items	1 July-	1 July-	1 January-	1 January-
	30 September 2014 (RMB)	30 September 2013 (RMB)	30 September 2014 (RMB)	30 September 2013 (RMB)
3. Operating profit	235,183,564.48	167,752,361.19	1,075,195,253.25	848,518,077.97
Add: Non-operating income	7,892,648.44	11,825,895.89	29,003,835.01	27,882,077.36
Less: Non-operating expenses	3,324,726.15	3,082,511.52	8,475,989.60	9,844,683.84
Including: Loss from disposal of non-current assets	130,491.30	663,398.40	927,311.50	1,770,278.42
4. Total profit	239,751,486.77	176,495,745.56	1,095,723,098.66	866,555,471.49
Less: Income tax expense	63,752,536.32	29,778,945.94	222,071,331.06	113,436,236.22
5. Net profit	175,998,950.45	146,716,799.62	873,651,767.60	753,119,235.27
Including: Pre-acquisition revenue of the acquired company	–	–	–	242,018,569.90
Net profit attributable to the shareholders of the Company	183,183,166.77	141,028,901.05	856,842,320.62	728,258,336.93
Minority interests	(7,184,216.32)	5,687,898.57	16,809,446.98	24,860,898.34
6. Earnings per share				
(1) Basic earnings per share	0.142	0.111	0.664	0.573
(2) Diluted earnings per share	0.142	0.111	0.664	0.573
7. Other comprehensive income	1,265,737.84	(270,885.61)	(1,348,410.12)	(1,935,224.67)
(1) Items will be classified into profit or loss when satisfied with certain conditions at following accounting period	1,265,737.84	(270,885.61)	(1,348,410.12)	(1,935,224.67)
(2) Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period	–	–	–	–

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

Items	1 July- 30 September 2014 (RMB)	1 July- 30 September 2013 (RMB)	1 January- 30 September 2014 (RMB)	1 January- 30 September 2013 (RMB)
8. Total comprehensive income	177,264,688.29	146,445,914.01	872,303,357.48	751,184,010.60
Comprehensive income attributable to the shareholders of the Company	184,446,076.96	140,756,429.22	855,490,804.17	726,327,526.19
Comprehensive income attributable to the shareholders of minority interest	(7,181,388.67)	5,689,484.79	16,812,553.31	24,856,484.41

Income Statement of the Company

Items	1 July- 30 September 2014 (RMB)	1 July- 30 September 2013 (RMB)	1 January- 30 September 2014 (RMB)	1 January- 30 September 2013 (RMB)
1. Income from operations	664,631,436.73	751,777,291.55	2,259,126,890.71	1,047,380,378.80
Less: Cost of operations	381,819,948.39	465,159,092.66	1,311,270,196.67	608,822,487.42
Sales taxes and surcharges	7,566,306.97	7,306,218.95	25,662,249.59	12,080,970.31
Sales expenses	92,837,833.75	117,737,056.35	326,230,250.31	142,387,688.21
General and administrative expenses	86,258,463.57	89,386,175.04	258,461,854.13	137,274,552.94
Finance expenses	4,003,583.70	7,038,087.33	15,149,931.85	12,993,766.27
Asset impairment loss	(1,146,732.23)	(307,299.75)	129,605.85	615,108.69
Add: Gain from changes in fair value	1,077,007.20	356,835.90	1,122,700.50	495,517.50
Investment income	39,692,173.27	23,106,067.61	428,019,758.19	257,998,708.35
Including: Share of profits from associates and joint venture	34,348,214.75	14,355,670.38	141,733,649.66	105,871,576.39
2. Operating profit	134,061,213.05	88,920,864.48	751,365,261.00	391,700,030.81
Add: Non-operating income	1,460,130.52	761,011.88	3,907,275.44	1,407,000.38
Less: Non-operating expenses	2,068,435.39	610,700.33	4,161,825.19	1,356,209.47
Including: Loss from disposal of non-current assets	361,720.24	116,383.26	361,720.24	117,363.76
3. Total profit	133,452,908.18	89,071,176.03	751,110,711.25	391,750,821.72
Less: Income tax expenses	25,187,198.41	9,859,393.79	84,751,602.49	24,485,607.34
4. Net profit	108,265,709.77	79,211,782.24	666,359,108.76	367,265,214.38
5. Earnings per share				
(1) Basic earnings per share	-	-	-	-
(2) Diluted earnings per share	-	-	-	-

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

Items	1 July- 30 September 2014 (RMB)	1 July- 30 September 2013 (RMB)	1 January- 30 September 2014 (RMB)	1 January- 30 September 2013 (RMB)
6. Other comprehensive income	1,182,775.00	(156,981.45)	(1,796,661.98)	(901,554.00)
(1) Items will be classified into profit or loss when satisfied with certain conditions at following accounting period	1,182,775.00	(156,981.45)	(1,796,661.98)	(901,554.00)
(2) Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period	-	-	-	-
7. Total comprehensive income	109,448,484.77	79,054,800.79	664,562,446.78	366,363,660.38

Cash Flow Statement*1 January – 30 September 2014*

Items	Consolidated		The Company	
	1 January- 30 September 2014 (RMB)	1 January- 30 September 2013 (RMB)	1 January- 30 September 2014 (RMB)	1 January- 30 September 2013 (RMB)
1. Cash flows from operating activities				
Cash received from sale of goods and rendering of services	13,846,620,170.41	12,461,498,773.26	1,364,072,426.10	507,022,561.82
Customer deposits and interbank Net increase in deposits	-	-	-	-
Net increase in borrowings from central banks	-	-	-	-
Borrowing funds from other financial institutions Net increase	-	-	-	-
Receipt of the original insurance contract cash	-	-	-	-
Net cash received from reinsurance business	-	-	-	-
Net increase in policyholders' deposits and investments	-	-	-	-
Net increase of disposal of trading financial assets	-	-	-	-
Charge interest, fees and commissions	-	-	-	-
Net increase of capital borrowed	-	-	-	-
Net increase in repo operations funds	-	-	-	-
Refund of tax and levies	71,897,470.73	45,184,538.29	-	-
Other cash received relating to operating activities	240,719,091.18	170,742,563.10	136,467,494.62	89,264,371.22
Sub-total of cash inflows from operating activities	14,159,236,732.32	12,677,425,874.65	1,500,539,920.72	596,286,933.04
Cash paid for goods and services	7,213,895,890.97	6,918,680,335.67	370,147,326.53	97,053,516.79
Net increase in loans and advances to customers	-	-	-	-

Items	Consolidated		The Company	
	1 January- 30 September 2014 (RMB)	1 January- 30 September 2013 (RMB)	1 January- 30 September 2014 (RMB)	1 January- 30 September 2013 (RMB)
Central banks and interbank deposits Cash	-	-	-	-
Pay the original insurance contract paid in cash	-	-	-	-
Payment of interest, fees and commissions	-	-	-	-
Policyholder dividends paid in cash	-	-	-	-
Cash paid to and on behalf of employees	2,086,813,720.30	1,701,145,120.39	437,449,151.96	174,203,020.56
Taxes paid	1,487,566,903.71	1,178,102,324.17	258,912,663.75	107,233,187.18
Cash paid relating to other operating activities	1,510,773,545.65	1,591,581,411.08	207,159,410.05	88,395,438.56
Sub-total of cash outflows from operating activities	12,299,050,060.63	11,389,509,191.31	1,273,668,552.29	466,885,163.09
Net cash flows from operating activities	1,860,186,671.69	1,287,916,683.34	226,871,368.43	129,401,769.95
2. Cash flows from investing activities				
Cash received from investment	-	-	-	-
Cash received from investment income	42,712,076.62	23,329,607.68	539,749,711.51	101,025,548.31
Cash paid for disposal of fixed assets, intangible assets and other long-term assets	332,283.51	3,294,543.11	1,452.99	3,159,072.10
Cash received from sales of subsidiaries	-	-	-	-
Other cash received from investing activities	4,101.50	257,916.74	300,258,059.58	523,857,143.45
Sub-total of cash inflows from investing activities	43,048,461.63	26,882,067.53	840,009,224.08	628,041,763.86
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	291,930,410.55	316,383,596.16	36,026,882.61	45,140,513.00
Cash paid for purchase of investments	-	4,500,000.00	65,860,000.00	-
Net increase in loans	-	-	-	-

Items	Consolidated		The Company	
	1 January- 30 September 2014 (RMB)	1 January- 30 September 2013 (RMB)	1 January- 30 September 2014 (RMB)	1 January- 30 September 2013 (RMB)
Cash paid for purchasing subsidiaries	-	-	-	-
Other cash paid in relation to investing activities	1,759,262.18	2,311,125.07	421,759,262.18	249,651,476.76
Sub-total of cash outflows from investing activities	293,689,672.73	323,194,721.23	523,646,144.79	294,791,989.76
Net cash flows from investing activities	(250,641,211.10)	(296,312,653.70)	316,363,079.29	333,249,774.10
3. Cash flows from financing activities				
Proceeds from absorbing investments	4,665,919.00	2,542,300.00	-	1,342,300.00
Including: Cash received from minority shareholders from subsidiaries	4,665,919.00	1,200,000.00	-	-
Cash received from borrowings	663,446,358.31	508,056,914.48	220,000,000.00	6,567,656.20
Cash received from issuance of bonds	-	-	-	-
Other proceeds relating to financing activities	-	-	210,000,000.00	100,000,000.00
Sub-total of cash inflows from financing activities	668,112,277.31	510,599,214.48	430,000,000.00	107,909,956.20
Repayment of borrowings	575,826,240.91	653,267,807.78	258,627,418.40	187,000,000.00
Cash paid for distribution of dividends, profits or interests	402,978,388.86	44,015,208.21	385,582,949.67	8,031,992.47
Including: Dividend and profit payable to minority shareholders from subsidiaries	5,573,049.72	14,667,821.11	-	-
Other cash paid in relating to financing activities	-	-	103,853,333.38	14,014,288.88
Sub-total of cash outflows from financing activities	978,804,629.77	697,283,015.99	748,063,701.45	209,046,281.35
Net cash flows from financing activities	(310,692,352.46)	(186,683,801.51)	(318,063,701.45)	(101,136,325.15)

Items	Consolidated		The Company	
	1 January- 30 September 2014 (RMB)	1 January- 30 September 2013 (RMB)	1 January- 30 September 2014 (RMB)	1 January- 30 September 2013 (RMB)
4. Effects of foreign exchange rate changes on cash and cash equivalents	594,555.69	552,529.82	-	(138.51)
5. Net increase in cash and cash equivalents	1,299,447,663.82	805,472,757.95	225,170,746.27	361,515,080.39
Add: Cash and cash equivalents at the beginning of the period	1,918,952,286.86	1,114,346,524.75	462,902,261.84	141,232,654.49
6. Cash and cash equivalents at the end of the period	3,218,399,950.68	1,919,819,282.70	688,073,008.11	502,747,734.88

5. INDEBTEDNESS STATEMENT

As at the close of business on 31 December 2014, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding borrowings of approximately RMB560.53 million. Such borrowings included (i) the Group's pledged bank loans of approximately RMB283.30 million; (ii) the Group's unsecured bank loans of approximately RMB272.73 million; and (iii) the Group's commercial acceptances of approximately RMB4.50 million. The Group provided guarantees of approximately RMB60 million for external parties, whose related actual borrowings were approximately RMB18.70 million.

Material contingent liabilities

1. On 29 September 2014, Guangdong Rising Investment Group Company Limited (廣東廣晟投資集團能源有限公司) has filed a lawsuit with the court suing Guangzhou Baiyunshan Chemical Pharmaceutical Factory* (廣州白雲山化學製藥廠) (the "Factory"), the branch of the Company, for failing to pay the outstanding amount of RMB58.9 million for goods sold to the Factory according to the contract, and applied to seize the bank account of the Factory. In this connection, the Factory has filed a lawsuit with the court suing the relevant parties and applied to seize their relevant assets. The Factory has also reported the case to the Guangzhou Municipal Public Security Bureau ("the Bureau") to pursue the criminal liabilities of the relevant parties. The financial impact of the aforesaid lawsuit on the Group cannot be determined as at the Latest Practicable Date since the aforesaid lawsuit is being processed by the court and is being investigated.
2. On 24 December 2014, Guangdong Rising Investment Group Company Limited (廣東廣晟投資集團能源有限公司) has filed a lawsuit with the court suing Guangzhou Pharmaceutical Import & Export Co., Ltd. (廣州醫藥進出口有限公司) ("Export Company"), a subsidiary of the Company, for failing to pay the outstanding amount of RMB47.4 million for goods sold to the Export Company according to the contract, and applied to seize the bank account of the Export Company. In this connection, the Export Company has filed a lawsuit with the court suing the relevant parties and applied to seize their relevant assets. The Export Company has also reported the case to the Bureau to pursue the criminal liabilities of the relevant parties. The financial impact of the aforesaid lawsuit on the Group cannot be determined as at the Latest Practicable Date since the aforesaid lawsuit is being processed by the court and is being investigated.

Save as disclosed above or elsewhere in this circular, and apart from intra-group liabilities, as at the close of business on 31 December 2014, the Group did not have any loan capital (whether issued and outstanding or agreed to be issued), bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

6. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, after taking into consideration the financial resources presently available to the Group, including banking facilities and other internal resources, and the estimated net proceeds from the Proposed Placing, the Group has sufficient working capital for its present requirements, that is for at least the next twelve months from the date of this circular in the absence of unforeseeable circumstances.

7. MATERIAL CHANGE

The Directors confirm that save and except for the change in financial position and business updates as disclosed in the third quarterly report of the Company for the nine months ended 30 September 2014, there has been no material change in the financial or trading position or outlook of the Group since 31 December 2013, being the date to which the latest published audited consolidated financial statements of the Company were made up, up to and including the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong 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.

This circular includes particulars given in compliance with the Hong Kong Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. MARKET PRICE

- (a) The table below shows the closing price of the H Shares as recorded on the Hong Kong Stock Exchange (i) at the end of each of the six months immediately preceding the trading day of the Announcement up to and including the Latest Practicable Date; (ii) on 3 December 2014 (being the last trading day immediately preceding the Announcement); and (iii) on the Latest Practicable Date.

Date	Closing price per H Share HK\$
31 July 2014	24.80
29 August 2014	27.00
30 September 2014	26.60
31 October 2014	26.50
28 November 2014	23.50
3 December 2014	23.45
31 December 2014	N/A (suspended)
30 January 2015	27.60
Latest Practicable Date	26.60

The highest and lowest closing prices of the H Shares as quoted on the Hong Kong Stock Exchange during the period between the beginning of the six months preceding the date of the Announcement and the Latest Practicable Date were HK\$29.05 per H Share on 16 January 2015 and HK\$23.10 per H Share on 1 December 2014 respectively.

- (b) The table below shows the closing price of the A Shares as recorded on the Shanghai Stock Exchange (i) at the end of each of the six months immediately preceding the trading day of the Announcement up to and including the Last

Shanghai Trading Date; (ii) on 3 December 2014 (being the last trading day immediately preceding the Announcement); and (iii) the Last Shanghai Trading Date.

Date	Closing price per A Share RMB
31 July 2014	25.64
29 August 2014	26.81
30 September 2014	27.86
31 October 2014	27.25
28 November 2014	26.36
3 December 2014	27.11
31 December 2014	N/A (suspended)
30 January 2015	29.95
Last Shanghai Trading Date	30.65

The highest and lowest closing prices of the A Shares as quoted on the Shanghai Stock Exchange during the period between the beginning of the six months preceding the date of the Announcement and the Last Shanghai Trading Date were RMB32.21 per A Share on 20 January 2015 and RMB23.04 per A Share on 17 July 2014 respectively.

3. SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE SECURITIES

The registered capital and issued shares of the Company as at the Latest Practicable Date are set out below:

	<i>RMB</i>
Registered capital	
1,071,440,650 A Shares of RMB1.00 each	1,071,440,650
219,900,000 H Shares of RMB1.00 each	<u>219,900,000</u>
 Shares in issue and fully paid or credited as fully paid	
1,071,440,650 A Shares of RMB1.00 each	1,071,440,650
219,900,000 H Shares of RMB1.00 each	<u>219,900,000</u>

There has been no alternation to the registered capital of the Company since 31 December 2013 (being the date to which the latest published audited consolidated financial statements of the Company were made up).

All the A Shares and H Shares in issue as at the Latest Practicable Date are ordinary shares in the registered capital of the Company. Save for that (a) the dividends paid to the A Share Shareholders shall be in Renminbi and that to the H Share Shareholders shall be in Hong Kong dollars; and (b) holders of A Shares shall be investors located in the PRC and those of H Shares shall be investors located outside the PRC, including but not limited to Hong Kong, Macau, Taiwan and all other foreign countries, all existing A Shares and H

Shares rank pari passu in all respects with each other, including capital, dividends and voting rights. The H Shares and A Shares in issue are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively.

Since 31 December 2013 (being the date to which the latest published audited consolidated financial statements of the Company were made up), the Company has not issued any new Shares or agreed to issue any new Shares (other than the A Shares proposed to be issued under the Proposed Placing).

The holders of the A Shares to be issued under the Proposed Placing will be entitled to receive all future dividends and distribution which are declared, made or paid after the date of the issue of such A Shares. The A Shares to be issued under the Proposed Placing will, when issued and fully paid, rank pari passu in all respects with the existing A Shares.

As at the Latest Practicable Date, the Company has no outstanding options, warrants, derivatives or securities convertible into Shares.

4. DIRECTORS' AND SUPERVISORS' INTERESTS

As at the Latest Practicable Date, none of the Directors, supervisors or chief executive of the Company had any interest or short position 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), that was 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 or short positions which were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept under section 352 of the SFO, or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) exists between the Concert Group and any Director, recent Director, Shareholder or recent Shareholder having any connection with or dependence upon the Proposed Placing or the Whitewash Waiver.

As at the Latest Practicable Date, there was no benefit given or agreed to be given to any Director as compensation for loss of office or otherwise in connection with the Proposed Placing or the Whitewash Waiver.

As at the Latest Practicable Date, there was no agreement, arrangement or understanding between any Director or any other person which is conditional on or dependent upon the outcome of the Proposed Placing or the Whitewash Waiver or otherwise connected with the Proposed Placing or the Whitewash Waiver.

As at the Latest Practicable Date, no material contacts were entered into by any of the Concert Group in which any Director, supervisor or the chief executive of the Company has a material personal interest.

5. SUBSTANTIAL SHAREHOLDERS' INTERESTS

Save as disclosed below, 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, the supervisors and senior management of the Company) had interests or short positions in the Shares and underlying shares or debentures of the Company which would be required 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.

Long Position:

Shareholder	Number of shares held <i>(No. of shares)</i>	Approximate percentage of the total issued share capital <i>(%)</i>	Class of shares
GPHL	584,228,036	45.24	A Shares

Note: Upon completion of the Proposed Placing and the GPHL Subscription, the number of A Shares held by GPHL will increase to 730,824,272, representing approximately 42.72% of the enlarged total issued share capital of the Company (assuming GPHL is not required to take up any additional A Shares pursuant to the GPHL Undertaking) or 752,013,272, representing approximately 43.96% of the enlarged total issued share capital of the Company (assuming GPHL is required to take up all the additional A Shares pursuant to the GPHL Undertaking).

Set out below is the information on the Directors who are also directors or employees of GPHL:

Directors	Positions in GPHL
Mr. Li Chuyuan	Chairman and director
Mr. Chen Mao	Vice chairman, director and general manager
Ms. Liu Juyan	Vice general manager and chief engineer
Ms. Cheng Ning	Vice general manager and director of finance
Mr. Ni Yidong	Vice general manager
Mr. Wang Wenchu	Director of the Office of Grand Southern TCM

6. SHAREHOLDINGS OF AND DEALINGS IN THE SECURITIES OF THE COMPANY AND THE CONCERT GROUP

As at the Latest Practicable Date:

- (a) the Company did not hold, control or have direction over any relevant securities (as defined in Note 4 to Rule 22 of the Hong Kong Takeovers Code) in any member of the Concert Group and it has not dealt for value in any such securities of any member of the Concert Group during the Relevant Period;

- (b) none of the Directors, supervisors or chief executive of the Company held, controlled or had direction over any relevant securities (as defined in Note 4 to Rule 22 of the Hong Kong Takeovers Code) in any member of the Concert Group and none of them has dealt for value in any such securities of any member of the Concert Group during the Relevant Period;
- (c) save for the H Shares held and dealt for the accounts of the respective non-discretionary clients by the brokerage division of a fellow subsidiary of Celestial Capital Limited, the financial adviser to the Company, none of the advisers to the Company as specified in class (2) of the definition of “associates” under the Hong Kong Takeovers Code, held, controlled or had direction over any Shares, options, warrants, derivatives or convertible securities of the Company and none of them has dealt for value in any such securities of the Company during the Relevant Period;
- (d) no arrangement of the kind referred to in Note 8 to Rule 22 of the Hong Kong Takeovers Code existed between any person and the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of an associate under the Hong Kong Takeovers Code during the Relevant Period;
- (e) none of the subsidiaries of the Company and none of the pension funds of the Company and/or its subsidiaries, nor any fund managed on a discretionary basis by any fund manager connected with the Company owned or controlled any Shares, warrants, options or derivatives of the Company or had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Hong Kong Takeovers Code) of the Company during the Relevant Period;
- (f) none of the Directors and their respective associates owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company, and therefore, none of the Directors intends, in respect of his own beneficial shareholding, to vote for or against the resolutions with respect to the Proposed Placing and the Whitewash Waiver, and none of them has dealt for value in any such securities of the Company during the Relevant Period; and
- (g) neither the Company nor any of the Directors has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Hong Kong Takeovers Code) of the Company.

As at the Latest Practicable Date, save as disclosed under the sub-section headed “Letter from the Board – (B) Matters relating to the Proposed Placing and the Employee Stock Ownership Scheme (2015) – V. Effects on the shareholding structure of the Company” and the paragraph headed “5. Substantial Shareholders’ interests” in this appendix:

- (a) the Concert Group and parties acting in concert with any of them did not hold, control or have direction over any relevant securities (as defined in Note 4 to Rule 22 of the Hong Kong Takeovers Code) of the Company and none of them has dealt for value in any such securities of the Company during the Relevant Period;
- (b) the Concert Group and parties acting in concert with any of them did not hold, control or have direction over any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of securities in the Company, or hold, control or have direction over any relevant securities (as defined in Note 4 to Rule 22 of the Hong Kong Takeovers Code) in the Company and none of them has dealt for value in any such securities of the Company during the Relevant Period;
- (c) the Concert Group and parties acting in concert with any of them did not borrow or lend any relevant securities (as defined in Note 4 to Rule 22 of the Hong Kong Takeovers Code) in the Company;
- (d) save for the Subscription Agreements, there is no arrangement of the kind referred to in Note 8 to Rule 22 of the Hong Kong Takeovers Code existed between any person and the Concert Group during the Relevant Period;
- (e) none of the members of the Concert Group have received any irrevocable commitment to vote for or against the Proposed Placing, including the Concert Group Subscription or the Whitewash Waiver; and
- (f) none of the directors or investment committee of the manager (where applicable) of the Concert Group owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company, and none of them has dealt for value in any such securities of the Company during the Relevant Period.

As at the Latest Practicable Date, no Shares acquired by the Concert Group pursuant to the Proposed Placing will be transferred, charged or pledged to any other persons.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries or associated companies:

- (a) which (including both continuous and fixed term contracts) have been entered into or amended within 6 months prior to the date of the Announcement;
- (b) which are continuous contracts with a notice period of 12 months or more;
- (c) which are fixed term contracts with more than 12 months to run irrespective of the notice period; or

- (d) which is not expiring or determinable by the employer within one year without payment of compensation other than statutory compensation.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group) have been entered into by the Company or any member of the Group within two years immediately preceding the date of the Announcement and up to the Latest Practicable Date and are material:

- (a) the Concert Party Subscription Agreements;
- (b) the Employee Scheme Subscription Agreement;
- (c) the Fund Subscription Agreement; and
- (d) the GPLH Subscription Agreement.

9. COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or supervisors nor their respective associates had any interests in other business, which competes or may compete, either directly or indirectly, with the business of the Group.

10. DIRECTORS' AND SUPERVISORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date:

- (a) none of the Directors or supervisors are materially interested in any contract or arrangement, which was significant in relation to the business of the Group; and
- (b) so far as the Directors are aware, none of the Directors or supervisors nor their respective associates had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2013, being the date to which the latest published audited consolidated financial statements of the Company were made up.

11. MATERIAL LITIGATIONS

- (a) Pursuant to the lawsuit filed by Guangdong Jia Duo Bao Beverage and Food Company Limited* (廣東加多寶飲料食品有限公司) (“GD Jia Duo Bao”) to the First Intermediate People’s Court of Chongqing City* (重慶市第一中級人民法院) (“Chongqing 1st Intermediate Court”) in September 2012, GD Jia Duo Bao (as plaintiff) sued a Mr. He and Guangzhou Wang Lao Ji Great Health Industry Co., Ltd.* (廣州王老吉大健康產業有限公司) (“WLJ Great Health”), a wholly-owned subsidiary of the Company (as defendants) for improper competition. On 24 December 2013, the Chongqing 1st Intermediate Court made a public judgement on the case, pursuant to which the claims made by the plaintiff were dismissed and the costs and expenses for this first instance trial shall be borne by the plaintiff. The second instance trial of the case has been commenced on 13 March 2014. As at the Latest Practicable Date, the case is still pending judgement.
- (b) On 11 July 2014, Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.* (廣州王老吉藥業股份有限公司) (“Wang Lao Ji”), a joint venture of the Company, received a subpoena in respect of “(2014) Sui Zhong Fa Min Si Chu Zi No. 57* ((2014) 穗中法民四初字第57號)” (“No. 57 Proceedings”) from the Intermediate People’s Court of Guangzhou City, Guangdong Province* (廣東省廣州市中級人民法院) (“Guangzhou Intermediate Court”) regarding the dissolution of Wang Lao Ji with Golden Force Pharmaceutical Co., Ltd.* (同興藥業有限公司) (“Golden Force”). The Guangzhou Intermediate Court held the trial regarding this case on 23 October 2014. According to the announcement of the Company dated 14 January 2015, the Company received a civil judgement in December 2014 relating to the No. 57 Proceedings in which it was set out, among other things, that the Company, being one of the shareholders of the Wang Lao Ji, had applied to South China International Economic and Trade Arbitration Commission (Shenzhen Court of International Arbitration)* (華南國際經濟貿易仲裁委員會(深圳國際仲裁院)) (“Arbitration Commission”) for arbitration, requiring Golden Force to perform its responsibilities under the shareholders agreement of Wang Lao Ji to transfer its 48.0465% equity interests in Wang Lao Ji to the Company. The Arbitration Commission has accepted the case and, accordingly, the No. 57 Proceedings was suspended pursuant to the Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》).
- (c) On 4 August 2014, WLJ Great Health received two civil judgements from the Fifth Intermediate People’s Court of Chongqing City* (重慶市第五中級人民法院) relating to the two proceedings of “(2013) Yu Wu Zhong Fa Min Chu Zi No. 00345* ((2013) 渝五中法民初字第00345號)” and “(2013) Yu Wu Zhong Fa Min Chu Zi No. 00346* (2013) 渝五中法民初字第00346號)” respectively in relation to the dispute between WLJ Great Health and Jia Duo Bao (China) Beverage and Food Company Limited* (加多寶(中國)飲料有限公司) (“Jia Duo Bao (China)”) for false advertising, both in favour of WLJ Great Health. In the proceedings, WLJ Great Health (as plaintiff) sued Jia Duo Bao (China) (as defendant) for launching false advertising through products packaging, leaflets, print media, television advertising and internet videos. Pursuant to the above civil judgements, the defendant shall, among other things, compensate the plaintiff for economic loss

and reasonable expenses in an aggregate amount of RMB800,000 within 10 days of the coming into effect of the judgements and the costs and expenses for this first instance trial shall be borne by the defendant. The second instance trial of the case has been commenced on 31 October 2014. As at the Latest Practicable Date, the case is still pending judgement.

- (d) Around 5 August 2014, the Company received the notification of case acceptance relating to the proceedings of “(2014) Sui Yue Fa Min Si Chu Zi No. 100* ((2014)穗越法民四初字第100號)” filed by the Company from the People’s Court of Yuexiu District, Guangzhou City* (廣州市越秀區人民法院). The People’s Court of Yuexiu District, Guangzhou City had decided to hold a trial of this case, which the Company and 10 other natural person shareholders of Wang Lao Ji sued Mr. Wang Jianyi* (王健儀先生) for damaging the interests of Wang Lao Ji. As at the Latest Practicable Date, the trial of the case has not yet commenced.
- (e) In September 2014, the Company received an arbitration notification “(2014) Zhong Guo Mao Zhong Jing Zi No. 024104 ((2014)中國貿仲京字第024104號)” (the “Arbitration Notification”) from the China International Economic and Trade Arbitration Commission* (中國國際經濟貿易仲裁委員會) relating to the dispute of shareholders agreement (No. V20140834). According to the Arbitration Notification, Golden Force (the applicant) alleged that the setting up of WLJ Great Health as a wholly-owned subsidiary of the Company (the respondent) and the use of the “Wang Lao Ji” trademarks by WLJ Great Health were in breach of the shareholders agreement and the articles of association of Wang Lao Ji and the sales of herbal tea with the “Wang Lao Ji” trademarks caused economic loss to Wang Lao Ji, and requested the Company to compensate the economic loss suffered from 28 May 2012 to 14 July 2014 in the amount of approximately RMB130 million. As at the Latest Practicable Date, the trial of the case has not yet commenced.
- (f) On 17 November 2014, GPLH and WLJ Great Health received a civil judgement in favour of GPLH and WLJ Great Health from the Guangzhou Intermediate Court relating to the proceedings of “(2013) Sui Zhong Fa Zhi Min Chu Zi No. 499* ((2013)穗中法知民初字第499號)” in relation to the dispute of GPLH and WLJ Great Health with GD Jia Duo Bao, Guangdong Shengjia Supermarket Co., Ltd.* (廣東勝佳超市有限公司) (“Shengjia Supermarket”) and its Shipaidong branch* (石牌東分店) on false advertising and reputation damage. In the proceedings, GPLH and WLJ Great Health (as plaintiffs) sued GD Jia Duo Bao, Shengjia Supermarket and its Shipaidong branch (as defendants) for launching false advertising through products packaging, leaflets, print media, television advertising and internet videos. Pursuant to the above civil judgement, GD Jia Duo Bao shall, among other things, compensate the plaintiffs for economic loss in the amount of RMB5 million within 10 days of the coming into effect of the judgement and the costs and expenses for this first instance trial shall be borne by GD Jia Duo Bao. As at the Latest Practicable Date, so far as known by the Company, the defendants have submitted an appeal but the Company did not receive any further decision or judgement made by the court.

- (g) On 3 December 2014, GPHL and WLJ Great Health received a civil judgement in favour of GPHL and WLJ Great Health from the Third Intermediate People's Court of Beijing City* (北京市第三中級人民法院) relating to the proceedings of “(2014) San Zhong Min Chu Zi No. 08077* ((2014)三中民初字第08077號)” in relation to the dispute of GPHL and WLJ Great Health with GD Jia Duo Bao and Jia Duo Bao (China) on false advertising. In the proceedings, GPHL and WLJ Great Health (as plaintiffs) sued GD Jia Duo Bao and Jia Duo Bao (China) (as defendants) for launching false advertising on their official websites and print media. Pursuant to the above civil judgement, Jia Duo Bao (China) shall, among other things, compensate the plaintiffs for economic loss and reasonable expenses in the amount of RMB3 million within 10 days of the coming into effect of the judgement and all the costs and expenses for this first instance trial shall be borne by the plaintiffs and the defendants respectively. As at the Latest Practicable Date, so far as known by the Company, the defendants have submitted an appeal but the Company did not receive any further decision or judgement made by the court.
- (h) On 19 December 2014, WLJ Great Health received a civil judgement from the Higher People's Court of Guangdong Province* (廣東省高級人民法院) relating to the proceedings of “(2013) Yue Gao Fa Min San Chu Zi No. 1* ((2013) 粵高法民三初字第1號)” in relation to the dispute between GD Jia Duo Bao and WLJ Great Health on unauthorized use of packaging and decoration of well-known products. In the proceedings, GD Jia Duo Bao (as plaintiff) sued WLJ Great Health (as defendant) for the unauthorized uses of specific name, packaging and decoration of the well-known products. Pursuant to the above civil judgement, all the claims made by the plaintiff were dismissed, all the costs and expenses for the trial, evidence custody and audit for this first instance trial shall be borne by the plaintiff. For further information, please refer to the announcement of the Company dated 19 December 2014. As at the Latest Practicable Date, the plaintiff has submitted an appeal, but the Company has not received any further decision or judgement made by the court.

Save as disclosed above, as at the Latest Practicable Date, the Group had neither been engaged in any significant 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 any member of the Group.

12. EXPERTS AND CONSENTS

- (a) The following is the qualifications of the experts who have been named in this circular or have given opinions, letters or advice contained in this circular:

Name	Qualifications
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
Proton 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
BDO China Shu Lun Pan Certified Public Accountants LLP	Certified public accountants
Grandall Law Firm	PRC legal advisers

- (b) As at the Latest Practicable Date, none of the above experts have any shareholding, directly or indirectly, in the Company or any other member of the Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in the Company or any other member of the Group.
- (c) As at the Latest Practicable Date, none of the above experts have any direct or indirect interests in any assets which has been acquired or disposed of by or leased to any member of the Group since 31 December 2013 (the date to which the latest published audited consolidated financial statements of the Company were made up) or proposed to be so acquired, disposed of or leased.
- (d) Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its advice, letters, reports and/or summary of its opinions (as the case may be) and references to its name and logo in the form and context in which they respectively appear.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available (i) for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. on any business day (except Saturdays, Sundays and public holidays) at the Company's principal place of business in Hong Kong at Room 2005, 20th Floor, Tower Two Lippo Center, 89 Queensway, Hong Kong; (ii) on the website of the Hong Kong Securities and Futures Commission at www.sfc.hk; and (iii) on the website of the Company at www.equitynet.com.hk/0874 from the date of this circular up to and including the date of the EGM:

- (a) this circular;
- (b) the Articles of Association;
- (c) the respective articles of association of GPLH and GZ SOA Development;
- (d) the rules of procedures of the general meetings of the partners of GZ Chengfa;
- (e) the annual reports of the Company containing the audited consolidated financial statements of the Company for the two financial years ended 31 December 2012 and 2013 respectively;
- (f) the interim report of the Company containing the unaudited consolidated financial statements of the Company for the six months ended 30 June 2014;
- (g) the quarterly report of the Company containing the unaudited consolidated financial statements of the Company for the nine months ended 30 September 2014;
- (h) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;
- (i) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;
- (j) the letter from Proton Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from Proton Capital" in this circular;
- (k) the material contracts referred to in the paragraph headed "8. Material contracts" in this appendix; and
- (l) the written consents referred to in the paragraph headed "12. Experts and consents" in this appendix.

14. MISCELLANEOUS

- (a) The registered office and principal place of business of the Company is located at 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC. The Company's principal place of business in Hong Kong is Room 2005, 20th Floor, Tower Two Lippo Center, 89 Queensway, Hong Kong.
- (b) The registered address of GPHL is 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC.
- (c) The registered address of GZ SOA Development is 33/F, Development Center, No. 3 Linjiang Road, Tianhe District, Guangzhou City, Guangdong Province, the PRC.
- (d) The registered address of GZ Chengfa is Room 5202, 52/F, Guangzhou International Financial Center (IFC), No. 5 Zhujiang West Road, Tianhe District, Guangzhou City, Guangdong Province, the PRC.
- (e) The registered office of Celestial Capital Limited is 28/F, Manhattan Place, 23 Wang Tai Road, Kowloon Bay, Hong Kong.
- (f) The registered office of Proton Capital is Unit 1001, 10/F, Chuang's Tower, 30-32 Connaught Road Central, Hong Kong.
- (g) The company secretary of the Company is 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.
- (h) The Company's H Share Registrar in Hong Kong is Hong Kong Registrars Limited at Shops 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (i) The Board is consisted of (i) Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong, Mr. Wu Changhai and Mr. Wang Wenchu as executive Directors and (ii) Mr. Wong Lung Tak Patrick, Mr. Qiu Hongzhong, Mr. Fang Shuting and Mr. Chu Xiaoping as independent non-executive Directors.
- (j) The directors of GPHL are Mr. Li Chuyuan, Mr. Chen Mao, Mr. Lai Xiaoping, Mr. Liu Heng and Mr. Zhang Depeng.
- (k) The directors of GZ SOA Development are Mr. Wu Zhulin, Mr. Wu Xu, Mr. Lu Jinwen and Mr. Yang Rongming.
- (l) The authorized person of the general partner of GZ Chengfa is Mr. Lin Xuchu.
- (m) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text save and except the following where the Chinese text shall prevail over the English text:

- (i) the existing provisions and the proposed amended and new provisions of the Articles of Association described in the sub-section headed “Letter from the Board – (C) Other Matters – II. Proposed amendments to the Articles of Association pursuant to the PRC laws”; and

- (ii) the existing provisions and the proposed amended provisions of the rules of procedures of the general meetings of Shareholders described in the sub-section headed “Letter from the Board – (C) Other Matters – V. Proposed amendments to the rules of procedures of the general meetings of Shareholders”.