



廣州白雲山醫葯集團股份有限公司

GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS CO., LTD.

(Stock code: 874)



Interim Report
2016

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IMPORTANT NOTICE

- I. The Board, the Supervisory Committee and the directors, supervisors and senior management of the Company collectively and individually accept full responsibility for the authenticity, accuracy and completeness of the information contained in this interim report and confirmed that there is no false information, misleading statements or material omissions in this interim report.
- II. The directors of the Company were present at the 25th meeting of the sixth session of the Board of the Company, among whom, Mr. Ni Yidong, an executive director, was unable to attend the meeting due to business reason and had appointed Ms. Cheng Ning, an executive director, to attend the meeting and vote on his behalf; Mr. Patrick Wong Lung Tak, a non-executive director, was attended the meeting by telephone ways; Mr. Chu Xiaoping and Mr. Jiang Wenqi, non-executive directors, were unable to attend the meeting due to business reason and had appointed Mr. Qiu Hongzhong, a non-executive director, to attend the meeting and vote on their behalf.
- III. Mr. Li Chuyuan (chairman of the Board), Mr. Wu Changhai (an executive director) and deputy general manager and Ms. Yao Zhizhi (head of the finance department) individually accept responsibility for ensuring the authenticity and completeness of the financial reports contained in this interim report.
- IV. After consideration, the Board did not recommend payment of interim dividends for the six months ended 30 June 2016 nor propose any increase in share capital from the capitalization of capital reserve.
- V. The financial reports of the Group and the Company for the Reporting Period are prepared in accordance with the China Accounting Standards for Business Enterprises, which are unaudited.
- VI. Forward-looking statements such as plans for the future and development strategy described in this report do not constitute any actual commitment of the Company to investors. Investors are advised to pay attention to any investment risk.
- VII. There was no non-operational appropriation of funds of the Company by its connected parties.
- VIII. The Company had not provided any external guarantee in violation of the decision-making procedures stipulated by the Company or relevant authorities.
- IX. This interim report is prepared in both English and Chinese. In the event of discrepancy in interpretation, the Chinese version shall prevail.

Definitions

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

The Company/Company/GYBYS	Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited
PRC or China	the People's Republic of China
Reporting Period	the six months ended 30 June 2016
After the Reporting Period	From the end of the Reporting Period up to the date of this interim report, being 1 July 2016 to 17 August 2016
Group	the Company and its subsidiaries
Board	the board of directors of the Company
Supervisory Committee	the supervisory committee of the Company
CSRC	China Securities Regulatory Commission
SSE	The Shanghai Stock Exchange
HKEx	The Stock Exchange of Hong Kong Limited
CSRC Guangdong Bureau	Guangdong Bureau of CSRC
Depository Corporation	the Shanghai Office of China Securities Depository and Clearing Corporation Limited
Articles of Association	the Articles of Association of the Company
Listing Rules of HKEx	the Rules Governing the Listing of Securities on the HKEx
Listing Rules of SSE	the Listing Rules of the Shanghai Stock Exchange
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Model Code	the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules of HKEx
GPHL	Guangzhou Pharmaceutical Holdings Limited (廣州醫藥集團有限公司)

Definitions

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

Definitions

Nuo Cheng	Guangzhou Promise Biological Products Co., Ltd. (廣州諾誠生物製品股份有限公司)
Baiyunshan	Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (廣州白雲山製藥股份有限公司)
Baiyunshan General Factory	Guangzhou Baiyunshan Pharmaceutical General Factory of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (廣州白雲山醫藥集團股份有限公司廣州白雲山製藥總廠)
Chemical Pharmaceutical Factory	Guangzhou Baiyunshan Chemical Pharmaceutical Factory of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (廣州白雲山醫藥集團股份有限公司廣州白雲山化學製藥廠)
He Ji Gong	Guangzhou Baiyunshan He Ji Gong Pharmaceutical Factory of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (廣州白雲山醫藥集團股份有限公司白雲山何濟公製藥廠)
Tian Xin	Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. (廣州白雲山天心製藥股份有限公司)
Guang Hua	Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd., (廣州白雲山光華製藥股份有限公司)
Ming Xing	Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. (廣州白雲山明興製藥有限公司)
HWBYS	Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited (廣州白雲山和記黃埔中藥有限公司)
Baxter Qiaoguang	Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. (廣州百特僑光醫療用品有限公司)
Pharmaceutical Technology	Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd. (廣州白雲山醫藥科技發展有限公司)
Medical and Healthcare Industry Company	Guangzhou Baiyunshan Medical and Healthcare Industry Investment Co., Ltd. (廣州白雲山醫療健康產業投資有限公司)
Baiyunshan Great Health Hotel	Guangzhou Guangyao Baiyunshan Great Health Hotel Co., Ltd. (廣州廣藥白雲山大健康酒店有限公司)
Innovation Center	Guangzhou Baiyunshan Chemical Pharmaceutical Innovation Center (廣州白雲山化學藥創新中心)

Definitions

Weiling Pharmaceutical	Baiyuanshan Weiling Pharmaceutical Co., Ltd. (白雲山威靈藥業有限公司)
Wei Yi Co., Ltd	Guangzhou Baiyunshan Wei Yi Medical Investment Management Co., Ltd. (廣州白雲山維醫醫療投資管理有限公司)
Baxter Healthcare	Baxter Healthcare (Guang Zhou) Co., Ltd. (廣州百特醫療用品有限公司)
Bozhou Baiyunshan	Bozhou Baiyunshan Pharmaceutical Co., Ltd. (亳州白雲山製藥有限公司)
General Institute	Guangzhou General Pharmaceutical Research Institute Co., Ltd. (廣州醫藥研究總院有限公司)
Baiyunshan Pharmaceutical Marketing Company	Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd (廣州白雲山醫藥銷售公司)
Golden Eagle Fund	Golden Eagle Asset Management Co., Ltd. (金鷹基金管理有限公司)
Chong Qing Medicines	Chongqing Pharmaceutical (Group) Company Limited (重慶醫藥(集團)股份有限公司)
Chuang Mei Pharmaceutical	Chuang Mei Pharmaceutical Company Limited (創美藥業股份有限公司)
Elim Biotech	Guangzhou Elim Biotech Industrial Venture Capital Management Company
Sino-Israel Fund	Guangzhou Sino-Israel Bio-industry Investment Fund (LLP)

Company Profile

I. GENERAL INFORMATION

1. Legal Chinese Name: 廣州白雲山醫藥集團股份有限公司
Chinese Name Abbreviation: 廣藥白雲山
English Name: GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS COMPANY LIMITED
English Name Abbreviation.: GYBYS
2. Legal Representative: Li Chuyuan
3. Secretary to the Board: Chen Jing
Representative of securities affairs: Huang Xuezheng
Address: 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC
Telephone: (8620) 6628 1219 / 6628 1216
Fax: (8620) 6628 1229
E-mail: chenjing@gybys.com.cn / huangxz@gybys.com.cn
4. Registered address and office: 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC
Postal code: 510130
Internet website: <http://www.gybys.com.cn>
E-mail: sec@gybys.com.cn
Principal place of business in Hong Kong: Room 2005, 20th Floor, Tower Two Lippo Center, 89 Queensway, Hong Kong
5. Designated newspapers for information disclosure: Mainland China: Shanghai Securities News, Securities Times, China Securities Journal, Securities Daily
Internet website designated by the CSRC for publishing this interim report: <http://www.sse.com.cn>
Internet website for publishing this interim report: <http://www.hkex.com.hk>
Place where this interim report is available for inspection: The Secretariat of the Board of the Company
6. Stock exchange and codes of the Company's shares: A Shares: The Shanghai Stock Exchange
Stock Code: 600332
Stock Abbreviation: BAIYUNSHAN
H Shares: The Stock Exchange of Hong Kong Limited
Stock Code: 0874
Stock Abbreviation: BAIYUNSHAN PH

Company Profile

7. First registration date: 1 September 1997
First place of registration: 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC
Date of alteration of registration: 25 January 2016
Place of alteration of registration: 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC

Financial Data and Financial Highlights

I. PRINCIPAL FINANCIAL DATA AND INDICATORS

Principal accounting data	The Reporting Period (unaudited)	The corresponding period of 2015		Changes as compared with the corresponding period of 2015 (%)
		After restatement (unaudited)	Before restatement (unaudited)	
Income from operations (RMB'000)	10,857,269	10,479,664	10,472,156	3.60
Net profit attributable to the shareholders of the Company (RMB'000)	831,807	775,238	775,023	7.30
Net profit attributable to the shareholders of the Company after deducting non-recurring items (RMB'000)	697,330	768,271	769,795	(9.23)
Net cash flow from operating activities (RMB'000)	1,712,991	1,277,382	1,273,322	34.10
Net cash flow from operating activities per share (RMB)	1.33	0.99	0.99	34.10
Total profit (RMB'000)	1,059,136	963,195	962,981	9.96

Principal accounting data	As at 30 June 2016 (unaudited)	As at 31 December 2015 (audited)	Changes as compared with 31 December 2015 (%)
Total assets (RMB'000)	17,812,149	15,870,577	12.23
Equity per share attributable to the shareholders of the Company (RMB)	7.20	6.55	9.96

Principal financial indicators	The Reporting Period (unaudited)	The corresponding period of 2015		Changes as compared with the corresponding period of 2015 (%)
		After restatement (unaudited)	Before restatement (unaudited)	
Basic earnings per share (RMB)	0.644	0.600	0.600	7.33
Diluted earnings per share (RMB)	0.644	0.600	0.600	7.33
Basic earnings per share after deducting non-recurring items (RMB)	0.540	0.595	0.596	(9.24)
Ratio of weighted average return on net assets (%)	9.38	9.58	9.54	A decrease of 0.20 percentage point
Ratio of weighted average return on net assets after deducting non-operating items (%)	7.86	9.49	9.47	A decrease of 1.63 percentage points

Notes:

- (1) The above financial data and indicators are computed based on the consolidated financial statements.
- (2) The Company acquired 100% equity interest in Guangyao General Institute under the same parent company in the third quarter of 2015, and restated the financial statements for the first half of 2015 in accordance with the accounting standards.

Financial Data and Financial Highlights

II. NON-RECURRING ITEMS INCLUDE

Items	The Reporting Period Amount (RMB'000)	Explanation
Gain/(Loss) on disposal of non-current assets	(385)	
Government subsidies recognized as gain/(loss)	188,530	This is the amount of government subsidies received by the Company's subsidiaries which were transferred to non-operating income in the Reporting Period
Gain/(Loss) on changes in fair value arising from trading financial assets and trading financial liabilities held (excluding the valid hedging business related to normal operating activities of the Company), as well as investment gains received from disposal of trading financial assets, trading financial liabilities and financial assets available for sale	(984)	
Gain/(Loss) from entrusted loans	1,577	
Other non-operating income and expenses excluding the above items	(14,681)	
Income tax effect	(38,881)	
Effect on minority interest	(699)	
Total	134,477	

Report of the Board of Directors

I. DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS

The Group is principally engaged in: (1) Chinese and Western medicine, chemical raw materials, natural medicine, biological medicine, research and development, manufacturing and sales of chemical raw materials intermediates; (2) wholesale, retail and import and export business of Western medicine, Chinese medicine and medical equipment; (3) the research and development, production and sales of great health product; (4) the health industry investment in medical services, health management, health maintenance and elderly care, etc..

During the Reporting Period, in accordance with the development concept of “Year of enhancement in corporate quality”, the Group adopted “capitalization and going-out” strategy to achieve its aim, focuses on three main lines including scientific management, risk control and innovation drive, the Group further promoted “Three Upgrades”, i.e. industrial upgrade, asset upgrade and talent upgrade, created “Four Great Sectors”, i.e. Great Southern TCM, Great Health, Great Commerce and Great Medical Care, nurtured “Three New Business Forms”, i.e. e-commerce, capital finance and medical devices, actively improved the industry structure, enhanced industrial quality, improved industrial efficiency, responded effectively to the challenges and maintained steady and rapid growing momentum.

During the Reporting Period, the Group’s revenue amounted to RMB10,857,269,000, increased by 3.60% as compared with the corresponding period of 2015; the total profit was RMB1,059,136,000, increased by 9.96% as compared with the corresponding period of 2015; and the net profit attributable to shareholders of the Company was RMB831,807,000, increased by 7.30% as compared with the corresponding period of 2015.

During the Reporting Period:

Firstly, the Group took active measures to revive the sector of Great Southern TCM. (1) Vigorously promoted the healthy development of its subordinate pharmaceutical manufacturing enterprises by improving the assessment and incentive mechanism and establishing a list of negative work. (2) Further promoted the resources’ integration of its subordinate enterprises. During the Reporting Period, the Group utilized Baiyunshan Pharmaceutical Marketing Company as the marketing integration platform to initially integrate marketing of Baiyunshan General Factory, Guang Hua and Jing Xiu Tang. (3) Strengthened marketing innovation and focused on nurturing star products, achieving initial results. During the Reporting Period, Zishen Yutai Pills and Angong Niu Huang Pills of Zhong Yi, and Sildenafil Citrate Tablets (“Jin Ge”) of Baiyunshan General Factory, and Shujin Jianyao Pills of Chen Li Ji all have achieved a relatively rapid growth of over 60% as compared with the same period of 2015.

Report of the Board of Directors

I. DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS *(Continued)*

Secondly, in accordance with the development concept of Great Health with “one core, multiple elements”, the Group consolidated and enhanced the brand influence and market position of Wanglaoji herbal tea, actively promoted multiple developments of Great Health product categories and established a Great Health product system. (1) With focus on the theme of “Year of food and beverage marketing”, vigorously expanded catering channels and promoted the new development of the food and beverage market by coordinating with large-scale catering enterprises. (2) Seized the consumption season and created the gift market to win the largest market share of Wanglaoji herbal tea. (3) Consolidated the brand influence and market position of Wanglaoji herbal tea through a number of means including the initiation of China Time-honored Brand Union, development of campus football, establishment of Wanglaoji Scholarship with Tsinghua University, implementation of the activity of “Let Love Return Home in Time”, cooperation with the flagship program of Zhejiang TV, the Challenger League, tying-up with the popular IP “Yes, Boss! Season 2” and promoting cross-field marketing partnership with Taobao and mobile games. (4) Promoted the diversification of Great Health products, seized the opportunity of the Summer Davos Forum to launch low-sugar and sugar-free Wanglaoji herbal tea products and cooperate in exploring and developing the walnut drinks market in order to achieve diversified development of Great Health product categories.

Thirdly, the Group kept up with the pharmaceutical business transformation trends, focused on expanding the sales network with innovative ideas and developed new business to realize the transformation of Great Business. (1) Thoroughly promoted the extension of pharmaceutical services. During the Reporting Period, the GP Corp. cooperated with Jiangmen Wuyi Hospital of Traditional Chinese Medicine, First Affiliated Hospital of Guangzhou University of Chinese Medicine, People’s Hospital of Huadu District, Zhujiang Hospital of Southern Medical University, Jinshazhou Hospital of Guangzhou University of Chinese Medicine, Guangdong No.2 Provincial People’s Hospital, Zhuhai and Shenzhen Luohu Hospital Group (that administers 1 level-B hospital and 22 community health care institutions) in the extension of pharmaceutical logistics services. The GP Corp. has implemented cooperation in extension of pharmaceutical logistics services with a total of 12 level-C hospitals, 7 level-B hospitals and 40 primary-level health care institutions. (2) Promoted the development of innovative business. In terms of online e-commerce, Guangzhou Baiyunshan Pharmaceutical’s e-shop in Tmall was put into operation in March this year and the Jianmin Chain-stores of GP Corp. explored O2O operation with daojia.jd.com; on offline retail, GP Corp. established the 4th new-concept Jianmin Chain-store in Hengfu Road in the end of April this year, which is well welcomed by consumers. Jianmin Chain-stores also have been included in the Top 50 Most Valuable Chinese Drugstores.

Report of the Board of Directors

I. DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS *(Continued)*

Fourthly, the Group continued to expand the Great Health Care and medical device industries and endeavored to completing major projects. (1) In terms of Great Health Care industry, during the Reporting Period, the Linzhi Baiyunshan Tibetan-style Health Castle Project in Tibet has been completed basically and the internal decoration is in progress now, and it is expected to be completed at the same time with other projects of Lulang International Tourist Town in October this year; in April 2016, Guangzhou Baiyunshan Medical and Health Industry Company Limited signed a cooperation framework agreement with Capital Bio Med Lab, which is a domestically-leading independent third-party medical lab, to make full use of respective advantages to jointly develop the third-party medical testing based on operations mainly about gene testing and so on. (2) In terms of the medical device industry, the Company has reached cooperation intentions with Time Medical Holdings Co., Ltd. and Guangzhou OSMUNDA Medical Device Technology Inc., Ltd., and would work with Time Medical Holdings Co., Ltd. to jointly build a high-end medical device research and production base with independent intellectual property rights in the Development Zone of Guangzhou, and would jointly build an “international medical device R&D incubation industry platform” with Guangzhou OSMUNDA Medical Device Technology Inc. Ltd., aiming the establishment of strategic emerging medical device industry clusters.

Fifthly, the Group promoted integration of scientific research and quality management resources and improved the scientific research and management system. Through the building of a scientific research integration platform based on Guangyao General Institute, the Group basically achieved centralized management of group-wide scientific research projects. Meanwhile, the Group had established the Guangzhou Wanglaoji Great Health Research Institute to carry out the Group’s Great Health research. During the Reporting Period, the Group has obtained 10 clinical approvals, 4 production approvals, 30 authorized domestic invention patents, 2 utility models and 9 appearance designs and two newly added 2 provincial key laboratories and 4 technological innovation alliances. The invention patents of the “Application of Sarcandra Glabra Extract in Reducing Susceptibility to Influenza Viruses” of Jing Xiu Tang and the “Xiasangju Preparation Making Method” of Xing Qun have won the 17th China Patent Award of Excellence; the “Research and Application of Online Blending and Other Key Technologies of Wanglaoji Herbal Drinks” of Wang Lao Ji won the Third-class Award of Technological Progress granted by China National Light Industry Council; the “R&D of Key Fine Powder Making Technology and Its Application in Cephalosporin Powder for Injection” of Tian Xin has won the Third-class Science & Technology Award of Guangdong Province; Chen Li Ji has been certified as “Pilot Innovative Enterprise of Guangdong Province”. In addition, by strengthening internal quality inspections, carrying out QC activities, implementing standardized technical transformation and promoting the construction of standardized Chinese herbal medicine plating bases, the Group have enhanced its quality management level.

As at 30 June 2016, the Group and its jointly controlled entities had 61 retail chain pharmacy outlets, including 30 “Cai Zhi Lin” pharmacy outlets which specialized in traditional Chinese medicines, 30 “Jian Min” pharmacy outlets which specialized in western medicine, medical apparatus and instruments, and one pharmacy named Ying Bang.

Report of the Board of Directors

I. DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS (Continued)

(I) Analysis of principal operations

A. Analysis of changes in the financial statement related subjects:

Items	The Reporting Period (RMB'000)	The corresponding period of 2015 (RMB'000)	Increase/ (Decrease) over the corresponding period of 2015 (%)
Revenue	10,857,269	10,479,664	3.60
Include: income from principal operations	10,779,757	10,406,013	3.59
Cost of sales	6,735,240	6,611,675	1.87
Include: cost from principal operations	6,715,930	6,594,721	1.84
Selling and distribution expenses	2,628,681	2,240,812	17.31
General and administrative expenses	694,103	679,772	2.11
Financial expenses ^(note i)	(29,833)	(17,964)	(66.07)
Net cash flow from operating activities ^(note ii)	1,762,991	1,277,382	34.10
Net cash flow from investing activities ^(note iii)	(160,548)	(366,625)	56.21
Net cash flow from financing activities ^(note iv)	(173,287)	106,115	(263.30)
Research and development expenses	153,050	157,628	(2.90)

Notes:

- (i) The finance expenses decreased as compared with the corresponding period of last year, which was mainly because: on the one hand, the Company's subsidiaries reasonably allocated funds, made full use of idle funds, optimized the deposit types to make sharp increase in interest income during the Reporting Period; on the other hand, interest expenses decreased as compared with the corresponding period of last year, owing to decrease in bank borrowings of the Group and interest rate fall during the Reporting Period.
- (ii) Net cash flow from operating activities for the Reporting Period increased as compared with the corresponding period of last year, which was mainly due to the increase in demolition compensation and government subsidies received by the Company's subsidiaries for the Reporting Period as compared with the corresponding period of 2015.
- (iii) Net cash flow from investing activities for the Reporting Period increased as compared with the corresponding period of last year, which was mainly due to the decrease in the Company's capital payment for the investment projects for the Reporting Period as compared with the corresponding period of last year.
- (iv) Net cash flow from financing activities for the Reporting Period decreased as compared with the corresponding period of last year, which was mainly because the Group's bank borrowings fell compared with the corresponding period of last year, as it gradually repaid bank borrowings during the Reporting Period.

Report of the Board of Directors

I. DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS *(Continued)*

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

B. Others

- (1) *Detail description on significant changes in the components of profit or sources of profit of the Company*

No

- (2) *Explanation for implementation progress of financing activities and material assets reorganisations launched in the previous period*

The Company started the major asset reorganization in November 2011 through acquisitions of Baiyunshan shares through stock swap and purchasing assets of GPLH by share was issuance, and this project was completed in 2013.

The Company's plans of non-public A shares offering and employee stock ownership have been reviewed and adopted at the 8th Meeting of the 6th session of the Board of Directors and the Company's 1st Extraordinary General Meeting, A Shareholders' Meeting and H Shareholders' Meeting in 2015. The 13th, 16th and 18th Meeting of the 6th session of the Board of Directors that held respectively on July 9, October 28 and November 26 of year 2015 have reviewed and adopted the plan for non-public A shares offering and other related matters. The 20th Meeting of the 6th session of the Board of Directors held on 15 January 2016 has reviewed and adopted the Proposal to Extend the Validity Period of the Shareholders' Resolution on Non-public A Shares Offering, which was then reviewed and adopted by the Company's 1st Extraordinary General Meeting, A Shareholders' Meeting and H Shareholders' Meeting in 2016. On 3 May 2016, the Company received the Approval on the Non-public Offering of Shares by Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (CSRC Approval [2016]No.826) from the CSRC. The Company has raised a total of RMB7,885,807,628.44 from the non-public A shares offering. After deduction of the issuance expenses of RMB22,361,100.11, the actual net amount of RMB7,863,446,528.33 has been raised and has been transferred to the account of the Company. The share registration procedure regarding the issue of new shares is currently under way. An announcement will be made by the Company after completion of the share registration procedure.

Report of the Board of Directors

I. DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS *(Continued)*

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

B. Others *(Continued)*

(3) Explanation on the progress of the operating plan

During the Reporting Period, the Company has orderly implemented business activities in accordance with the operation plan developed at the beginning of the year and has basically completed the progress as planned. In the second half of the year, the Company will continue to implement various work step by step in accordance with the plan, so as to achieve the operating targets for the year.

(II) Industry, product and regional analysis of operation results

A. Breakdown of the operational results of the principal operations of the Group during the Reporting Period is set out as follows:

Operations	Income from principal operations		Principal operations by industry Cost from principal operations		Profit margin of principal operations	
	Income from principal operations (RMB'000)	Increase/(Decrease) compared with the corresponding period of 2015 (%)	Cost from principal operations (RMB'000)	Increase/(Decrease) compared with the corresponding period of 2015 (%)	Profit margin of principal operation (%)	Increase/(Decrease) compared with the corresponding period of 2015 (Percentage point)
Great Southern TCM	3,526,248	(7.92)	1,926,960	(8.38)	45.35	An increase of 0.27 percentage point
Great Health	4,701,483	7.62	2,404,490	(1.78)	48.86	An increase of 4.90 percentage points
Great Commerce	2,535,696	14.86	2,372,547	16.13	6.43	A decrease of 1.03 percentage points
Other	16,330	4,877.24	11,933	3,383.18	26.93	An increase of 31.35 percentage points
Total	10,779,757	3.59	6,715,930	1.84	37.70	An increase of 1.07 percentage points

Report of the Board of Directors

I. DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS (Continued)

(II) Industry, product and regional analysis of operation results (Continued)

A. Breakdown of the operational results of the principal operations of the Group during the Reporting Period is set out as follows: (Continued)

Types of products	Results of principal operations on products					
	Income from principal operations		Cost from principal operations		Profit margin of principal operations	
	Income from principal operations	Increase/(Decrease) compared with the corresponding period of 2015	Cost from principal operations	Increase/(Decrease) compared with the corresponding period of 2015	Profit margin of principal operation	Increase/(Decrease) compared with the corresponding period of 2015
	(RMB'000)	(%)	(RMB'000)	(%)	(%)	(Percentage point)
Chinese patent medicine	1,450,157	(10.75)	785,462	(7.83)	45.84	A decrease of 1.71 percentage points
Chemical medicine	2,076,091	(5.84)	1,141,498	(8.76)	45.02	An increase of 1.77 percentage points
Total of Great Southern TCM	3,526,248	(7.92)	1,926,960	(8.38)	45.35	An increase of 0.27 percentage point

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

B. Analysis of regional sales of the Group for the first half of 2016 is set out as follows:

Regions	Income from principal operations (RMB'000)	Increase/(Decrease) over the corresponding period of 2015 (%)
Southern China	5,690,766	1.11
Eastern China	1,931,021	8.91
Northern China	1,266,962	(3.31)
North-Eastern China	169,925	(4.50)
South-Western China	1,321,186	26.63
North-Western China	358,853	16.03
Exports	41,044	(74.92)
Total	10,779,757	3.59

Report of the Board of Directors

I. DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS *(Continued)*

(III) Analysis of financial conditions

A. *Liquidity*

As at 30 June 2016, the current ratio of the Group was 1.57 (31 December 2015: 1.44), and its quick ratio was 1.26 (31 December 2015: 1.06). Accounts receivable turnover rate was 17.87 times, representing a decrease of 4.60% as compared with the corresponding period of 2015. Inventory turnover rate was 5.56 times, representing an increase of 6.69% as compared with the corresponding period of 2015.

B. *Financial resources*

As at 30 June 2016, cash and cash equivalents of the Group amounted to RMB5,216,578,000 (31 December 2015: RMB3,837,604,000), out of which approximately 99.72% and 0.28% were denominated in Renminbi and foreign currencies, like Hong Kong dollars, respectively.

As at 30 June 2016, the Group had bank borrowings of RMB517,942,000 (31 December 2015: RMB669,439,000), including short-term borrowings of RMB485,932,000 (31 December 2015: RMB629,684,000) and long-term borrowings of RMB32,010,000 (31 December 2015: RMB39,755,000).

C. *Capital structure*

As at 30 June 2016, the Group's current liabilities amounted to RMB7,356,229,000 (31 December 2015: RMB6,828,500,000), representing an increase of 7.73% as compared with the corresponding period of 2015, and its long-term liabilities was RMB862,971,000 (31 December 2015: RMB358,144,000), with an increase of 140.96% as compared with the corresponding period of 2015. The shareholders' equity attributable to the shareholders of the Company amounted to RMB9,292,321,000 (31 December 2015: RMB8,450,814,000), with an increase of 9.96% as compared with the corresponding period of 2015.

D. *Capital expenditure*

The Group expects the capital expenditure for 2016 to be approximately RMB907 million, among which the expenditure in the first half of 2016 amounted to RMB135 million (in the first half of 2015: RMB150 million), which would be mainly applied in the construction of factories and infrastructure and the information system, etc. The Group will raise funds to meet the capital requirements of capital expenditure by resorting to its internal funds, bank loans, etc..

Report of the Board of Directors

I. DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS *(Continued)*

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

E. Exposure to fluctuations in exchange rates

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

F. Contingent liabilities

As at 30 June 2016, the Group has no significant contingent liabilities.

G. Charge on the Group's assets

As at 30 June 2016, Guangyao Baiyunshan Hong Kong Company Limited, a wholly-owned subsidiary of the Company, acquired the comprehensive credit loan amounted to HKD300,000, letter of credit and the total amount of trust letter amounted to HKD100,000,000 from Bank of China (Hong Kong) Co Ltd, by the original value amounted to HKD8,893,000, the net value HKD6,453,000 of the buildings of fixed assets and the original value amounted to HKD6,843,000, the net value HKD3,935,000 of investment properties as a pledge, and Trust Certificate and USD52,000, JPY200,971,000 Letter of Credit issued and undue respectively.

H. Bank loans, overdraft and other borrowings

As at 30 June 2016, the bank loans of the Group amounted to RMB517,942,000 (31 December 2015: RMB669,439,000), with a decrease of RMB151,497,000 as compared with the beginning of 2016. The above bank loans included short-term loans of RMB485,932,000 and long-term loans of RMB32,010,000.

I. Gearing ratio

As at 30 June 2016, the Group's gearing ratio (total liabilities/total assets ×100%) was 46.14% (31 December 2015: 45.28%).

J. Material investment

As at 30 June 2016, the Group did not have any other material additional investment.

Report of the Board of Directors

I. DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS *(Continued)*

(IV) Core competition capacity analysis

(a) *The Group possesses rich products and brand resources:*

- (i) Products: The Group has formed complete series in areas such as diabetes, cardiovascular and cerebrovascular diseases, anti-bacteria and anti-infection, heat clearing and detox, parenteral nutrition, coughing, bone-setting and pain relief, rheumatism and bone pain, gynaecological and paediatric medication, and nurturing and health. The Group has more than 30 dosage forms and nearly 2,200 specifications and over 100 exclusive products.
- (ii) Brands: Currently, the Group has trademarks of 9 nationally famous brands, 20 famous brands of Guangdong Province and 26 famous brands in Guangzhou City. Among which, the brand awareness and reputation of “Baiyunshan” have a greater impact and appeal among consumers in the country, and “Baiyunshan” is one of the most valuable pharmaceutical brands in the country. After completion of the major assets reorganization comprising the absorption and merger of Baiyunshan through share swap and the asset acquisition through issuance of shares to GPLH, the Group promoted the grand brand strategy on the basis of integrating brand resources, implementing the changes in brand marketing model from developing individual brands to grouping brands under one umbrella with collective strategy. On the basis of reviving the Grand Southern TCM, the Group developed the Grand Health business, expanding the brand value from traditional pharmaceutical products to the new grand health products.

- (b) Long history in Chinese traditional medicine history and cultural soft power. The Group has more than 12 long lasting enterprises in Chinese pharmaceutical industry, 10 of which, namely Chen Li Ji, Wang Lao Ji, Pan Gao Shou, Jin Xiu Tang, Cai Zhi Lin, Zhong Yi, Xing Qun, Qi Xing, Guang Hua and Ming Xing have been established for over a hundred years. Also, the Group has 6 items admitted as the nation’s Intangible Cultural Heritage, namely “XiaSangJu” (夏桑菊) of Xing Qun, “Dashen Kouyanqing” (大神口焱清) of Baiyunshan, herbal tea of Wang Lao Ji, the traditional Chinese medicine culture of each of Chen Li Ji and Pan Gao Shou as well as the “Production Technology of Bao Zi Tang Bao Ying Dan” (保滋堂保嬰丹製作技藝) of Zhong Yi. The Group had established the Chen Li Ji Museum (陳李濟博物館), “Chen Li Ji Health Preservation Research Institute” (陳李濟健康養生研究院), “Lingnan Experience Centre of Chinese Medicine Culture” (嶺南中醫藥文化體驗館), Shen Nong Cottage (神農草堂), Wang Lao Ji Herbal Tea Museum and Cai Zhi Lin Chinese Medicine Culture Museum (采芝林中藥文化博物館) and had established a number of platforms for the promotion of the “Grand Southern TCM” culture and demonstration of the long history and splendid culture of Chinese medicine and rebuilding the famous brands of Chinese medicine.

Report of the Board of Directors

I. DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS *(Continued)*

(IV) Core competence analysis *(Continued)*

- (c) The Group possesses a relatively complete value chain system, including the existing major pharmaceutical assets. Through internal and external forward integration and backward integration, the Group has formed a thorough raw materials, research and development, production, circulation and terminal production chain. In respect of the supply of Chinese herbs, the Group has more than 60 GAP herbs bases nationwide, established a unified purchasing platform of raw materials, which effectively ensure the quality and supply of Chinese herbs and controls production costs. In respect of research and development of products, the Group continues to build a comprehensive technological innovation system. The Group has built an extensive collaboration network with renowned scientific research institutions at home and abroad to create a synergy effect between both sides for highly effective utilization of favorable resources from various parties, promoting development with the support of technology.
- (d) The Group has a large sales network and a broad and stable customer base with 60 in Guangdong Province retail chain pharmacy outlets. The Company is one of the first pharmaceutical trading enterprises that obtained the GSP certificate. The Group has also established the largest pharmaceutical retail network and medicine logistics center in southern China. With the advantages of its strong market position and marketing network, the Group has established a long-term and reliable business relationship with hundreds thousands of customers across the country, including medium to large-sized hospitals, pharmaceutical wholesalers, distributors and retailers.
- (e) The Group has an ever-improving technological innovation system. The Group has continuously strengthening the construction of the platform, improving the scientific research innovation system for many years. As at the date of this interim report, the Group has 7 state level research and development institutions, 6 provincial level corporate technical centers, 7 provincial-level key laboratories, 12 provincial level engineering technical centers, 12 municipal level corporate technical centers, 14 municipal level engineering technical research and development centers and 4 municipal level key laboratories. The Group has research and development of Chinese medicine and Chinese NHPs, Chinese medicine engineering technology including automatic control and online testing, Chinese preparation medicine, supercritical CO₂ extraction, reversal extraction, separation of macroporous resin adsorption, quality control for finger printing of Chinese medicine, synthesis and technology of cephalosporin antibiotic APIs and core technology in national leading position such as sterile powder production technology and preparation agent technology.

Report of the Board of Directors

I. DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS *(Continued)*

(IV) Core competence analysis *(Continued)*

(f) The Group has a forward-thinking, high quality, reasonably structured and extremely innovative team of talents. In recent years, the Group has insisted on attracting talents with competitive work environment and remuneration package, nurturing them with its excellent corporate culture and motivating them with promising corporate visions. Currently, the Group has a strong high-level talent team with 2 Nobel Prize winners, 8 domestic academicians, 7 foreign academicians, 2 State Council Special Allowance experts in-service, 24 chief expert (scientist), 50 doctor and post doctors. The Group also has nearly 5,000 technology personnel, 1,500 of which have intermediate professional title or above.

There was no significant change in the Group's core competition capacity during the Reporting Period.

(V) Issues and difficulties in operations and plans for the second half of 2016

In the first half of 2016, the Group faced with: (1) the global economy is expected to deliver sluggish performance, while the national economy will enter into the new normal state, which will be accompanied by the lack of activity of the capital market; (2) the overall growth rate of pharmaceutical and healthcare industry will see further slowdown due to a number of factors, such as more restriction on the spending on medical insurance, reform on tendering policies, more stringent regulation on the approval of new drugs, and the division of medical consultation and drug dispensary, etc.; (3) the over capacity and high level of inventory in the society lead to continuous fall in the prices of industrial products; (4) the growing tendency of deep integration of industrial capital and cross-sectional expansion, along with both the pharmaceutical companies and the non-pharmaceutical companies seeking to secure a greater share in the healthcare industry, has intensified the competition in the industry; (5) continuous decrease in the purchasing power of consumers, and the stalling of growth momentum in consumer products.

In the second half of 2016, the Group will continue to implement the 13th Five-year plan and various work of the "Year of enhancement in corporate quality":

1. Great Southern Medicinal Resources industry revitalization project: focus on promoting the sales integration and deepen the operating mode of "industrial operation + commercial platform" of industrial and commercial enterprises; actively implement approved acquisition and industrial merger to accelerate extended growth; create big product categories and stimulate the sleep category; strengthen the implementation of brand strategy, increase brand investment and promotion efforts in Chinese famous trademarks and time-honored brands to comprehensively raise the market recognition, reputation and loyalty of the Company.

Report of the Board of Directors

I. DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS *(Continued)*

(V) Issues and difficulties in operations and plans for the second half of 2016 *(Continued)*

2. Great Health industry development project: maintain the industry leadership of Wanglaoji and continue to strengthen the catering channel construction; strive for complete victory in protection of legal rights, which will provide powerful legal support for Wanglaoji marketing efforts; accelerate Wanglaoji's presence in the Southeast Asian market; develop Great Health product clusters, standardized Great Health brand and product licensing management to build Great Health product clusters with "one core, multiple elements".
3. Great Commerce industrial upgrading project: accelerate deep integration with "Internet +", strengthen cooperation with e-commerce platforms, upgrade the Guangyao Jianmin Website, establish a unified e-commerce platform; accelerate the coverage breadth of extended services of modern pharmaceutical logistics and continue to develop this extended services; accelerate the expansion of the width of the terminal network and speed up the multi-dimensional construction of modern logistics.
4. Great Health Care industry expansion project: plan scientifically to upgrade the Guangzhou Baiyunshan Hospital Co., Ltd.; with the leading of projects, constantly consolidate the sector development foundation, pragmatically promote the joint construction of the Chain Medical Diagnostic Center with Siemens and the third-party testing center with OSMUNDA; explore the development and gradually open up the health maintenance and senior care industry.
5. Medical device industry nurturing project: actively promote the projects of Time Medical large imaging equipment production base construction, etc. and vigorously expand the share in medical products.
6. Capital operation project: continue to promote the Four Great Sectors investment and merger project and explore the establishment of a scientific investment management system to attain scientific, standardized and systematic project operation management.
7. Science & technology upgrading project: according to the main task of "integration", establish a group scientific research integration and innovation platform; by means of "cooperation", promote the completion of a batch of major scientific research and innovation projects; with "management" as a lever, enhance the quality management level.
8. Management refinement project: strengthen standardized management, refined management, integrated management and information-based management to enhance corporate governance and reduce operating costs.

Report of the Board of Directors

I. DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS *(Continued)*

(V) Issues and difficulties in operations and plans for the second half of 2016 *(Continued)*

9. Internationalization project: promote industrial output, capital output and cultural output to drive industrial development.
10. Innovation and entrepreneurship project: rely on the “Internet +” to create the Group’s internal platform of crowd creating, crowd contracting, crowd supporting and crowd funding; explore innovation and entrepreneurship models to add new impetus to corporate development; accelerate the internal innovation and entrepreneurship systems and mechanisms establishment.

(VI) Analysis on investment

A. Overall analysis in external equity investment

At the end of the Reporting Period, the external equity investment of the Group amounted to RMB2,201,169,000, with a growth of RMB89,956,000 as compared with the end of last year. It is mainly due to the increase in the long-term equity investment by investment revenue calculated using the joint venture equity method as adopted by the Group, and no significant change occurred.

Invested units	Principal business	Shares equity directly held by the Company (%)
GP Corp.	Sales of western pharmaceutical products and medical apparatus	50.00
Wang Lao Ji	Manufacturing, processing and sales of Chinese patent medicine; food and medicine homologous drink and candy	48.05
Nuo Cheng	Production of Rabies bacterin; export of goods and technology	50.00
HWBYS	Production, constructing, research and development, and sales of medicine, NHPs, food and Chinese herbs	50.00
Baxter Qiao Guang	Production of large capacity injection, imports and wholesales of medicine	50.00
Hangzhou Zhe Da Han Fang Chinese Medicine Information Engineering Company Limited	Development of technology and technology service	44.00
Golden Eagle Fund	Fund management	20.00
Guangzhou Goldsum Pharmaceutical Technology Co., Ltd.	Research and development: NHPs, Chinese medicine and food	38.25
Wei Yi Co., Ltd.	Medical investment management	50.50

Report of the Board of Directors

I. DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS (Continued)

(VI) Analysis on investment (Continued)

A. Overall analysis in external equity investment (Continued)

(a) Stock investments

Number	Type of Stock	Stock Code	Stock name	Initial amount of investment (RMB'000)	Number of shares held as at the end of the Reporting Period (share)	Book value as at the end of the Reporting Period (RMB'000)	% of stock investment for the Reporting Period (%)	Gain/(Loss) during the Reporting Period (RMB'000)
1	A Shares of SSE	600038	AVIC Helicopter Co.,Ltd.	1,806	57,810	2,398	43.47	(650)
2	A Shares of SSE	600664	Harbin Pharmaceutical Group Co.,Ltd.	3,705	376,103	3,118	56.53	(334)
Other stock investments held as at the end of the Reporting Period				-				
Gain/(Loss) of stock investments sold for the Reporting Period				-				
Total				5,511		5,516	100.00	(984)

(b) Information on the Company's interests in the shares of other listed companies

Stock Code	Stock name	Initial investment amount (RMB'000)	% of shareholding	Book value as at the end of the Reporting Period (RMB'000)	Gain/(Loss) during the Reporting Period (RMB'000)	Changes in equity during the Reporting Period (RMB'000)	Accounting item	Sources of shares
601328	Bank of Communications	525	-	2,221	-	(260)	Available-for-sale financial assets	Purchase
601818	Everbright Bank	10,725	approximately 0.02	22,748	-	(2,468)	Available-for-sale financial assets	Purchase
02289	Chuangmei Pharmaceutical	57,540	7.30	59,466	-	11,243	Available-for-sale financial assets	Purchase

Report of the Board of Directors

I. DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS *(Continued)*

(VI) Analysis on investment *(Continued)*

A. Overall analysis in external equity investment *(Continued)*

(c) Information on the Company's interests in non-listed financial institutions

Names	Initial Investment amount (RMB'000)	Number of shares held (share)	% of shareholding	Book value as at the end of the Reporting Period (RMB'000)	Gain/(Loss) during the Reporting Period (RMB'000)	Changes in equity during the Reporting Period (RMB'000)	Accounting item	Sources of shares
Golden Eagle Fund	50,000	-	20.00	39,235	3,052	-	Long-term equity investment	Purchase
Bank of Guangzhou Co., Ltd.	100	-	-	100	-	-	Available-for-sale financial assets	Purchase
Shenzhen Zhong Lian Guangshen Pharmaceutical (Group) Co., Ltd.	312	-	0.30	312	-	-	Available-for-sale financial assets	Purchase
Guangzhou Nanxin Pharmaceutical Co., Ltd.	7,678	-	13.00	7,678	-	-	Available-for-sale financial assets	Purchase

B. During the Reporting Period, the Group did not have any entrusted investment activities.

Report of the Board of Directors

I. DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS (Continued)

(VI) Analysis on investment (Continued)

C. The Company's entrusted loans during the Reporting Period

Names of borrowers	Entrusted loan amount (RMB'000)	Term of loan	Lending rates (%)	Purpose	Mortgaged property or guarantor	Whether overdue	Whether connected transactions	Relationship with the Company
Cai Zhi Lin	40,000	One year	4.85	Corporate operation	-	No	No	Wholly owned subsidiary
Cai Zhi Lin	85,000	One year	4.60	Corporate operation	-	No	No	Wholly owned subsidiary
Cai Zhi Lin	293,000	One year	4.35	Corporate operation	-	No	No	Wholly owned subsidiary
Pharmaceutical Import & Export	115,000	One year	4.35	Corporate operation	-	No	No	Wholly owned subsidiary
Guangzhou Bai Di	60,000	One year	4.35	Corporate operation	-	No	No	Holding subsidiary
Guangzhou Han Fang	8,000	One year	5.60	Corporate operation	-	No	No	Holding subsidiary
Xing Qun	10,000	One year	4.60	Corporate operation	-	No	No	Holding subsidiary
Xing Qun	57,200	One year	4.35	Corporate operation	-	No	No	Holding subsidiary
Baiyunshan Pharmaceutical Marketing Company	8,080	One year	4.35	Corporate operation	-	No	No	Wholly owned subsidiary
Baiyunshan Pharmaceutical Marketing Company	9,920	One year	4.60	Corporate operation	-	No	No	Wholly owned subsidiary
Ming Xing	45,000	One year	4.35	Corporate operation	-	No	No	Wholly owned subsidiary
Total	731,200							

As at 30 June 2016, the Company provided entrusted loans totaling RMB731,200,000 to its subsidiaries.

D. Use of proceeds from the issue of A shares

Applicable Not applicable

E. The non fund-raising project

Applicable Not applicable

Report of the Board of Directors

I. DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS *(Continued)*

(VI) Analysis on investment *(Continued)*

F. *The principal subsidiaries and companies in which the Company has shareholding interest during the Reporting Period*

Name of enterprises	Business nature	Major products or services	Registered capital (RMB'000)	Shares equity directly held by the Company (%)	Total assets (RMB'000)	Net assets (RMB'000)	Net profit (RMB'000)
Subsidiary							
WLJ Great Health	Manufacturing	Production and sales of prepackaging food, dairy products, etc	100,000	100.00	4,432,987	913,632	305,161

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

During the Reporting Period, the Company did not engage in any other operations which had significant impact on the net profit of the Group.

Report of the Board of Directors

II. PLAN FOR PROFIT DISTRIBUTION AND INCREASE IN SHARE CAPITAL FROM CAPITAL RESERVE

(1) Implementation or adjustment of implementation of profit distribution scheme in the Reporting Period

In December 2014, the Company initiated the non-public A Shares offering and employee stock ownership scheme. The Company's application for non-public offering of A Shares was approved by the Issuance Audit Committee of CSRC on 9 December 2015, and the Company received the Approval on the Non-public Offering of Shares by Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. from the CSRC on 3 May 2016. To avoid the impact of distribution of dividend on the progress of the Company's non-public offering of A shares, the Board proposed: (1) not to distribute dividend for year 2015 or carrying over reserved funds to equity shares; and (2) after completion of the non-public offering of A shares, the Company will consider a special dividend.

The profit distribution plan has been approved at the 2015 annual general meeting of Shareholders of the Company.

(2) The Board did not recommend the payment of interim dividends for the six months ended 30 June 2016 nor propose any increase in share capital from the capitalization of capital reserve.

III. OTHER MATTERS

(1) The caution and explanation in respect of cumulative profit being anticipated the change to possible loss from the beginning of 2016 to the end of the next reporting period or substantial change as compared with the corresponding period of last year of the cumulative net profit

Applicable Not applicable

(2) Explanation given by the Board and the Supervisory Committee on the "Non Standard Auditor's Report" issued by the auditors

Applicable Not applicable

I. MATERIAL LITIGATION, ARBITRATION OR MATTERS SUBJECT TO DOUBT BY MEDIA

(1) The Group had neither been engaged in any material litigation or arbitration nor subject to any doubts by media during the Reporting Period.

(2) Litigation, arbitration or matters in respect of the Wang Lao Ji brand of the Group during the Reporting Period.

1. GPLH, the controller of the Company, and WLJ Great Health Company, a wholly-owned subsidiary of the Company received the second-instance verdict on the case of false propaganda and commercial defamation dispute from the Guangdong Provincial Higher People's Court ("GPHPC"). In accordance with the verdict, the GPHPC rejected the appeal and upheld the original verdict.

For details, please refer to the announcement dated 7 March 2016 published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and the announcement on the website of the SSE and the HKEx.

2. GPLH, the controller of the Company, and WLJ Great Health Company, a wholly-owned subsidiary of the Company received the Civil Ruling ([2015] Min Shen Zhi No.2802) from the Supreme People's Court of the People's Republic of China ("SPC"), which rejected the retrial application for the case of false propaganda dispute from Jiaduobao (China) Drink Co., Ltd. (JDB China) and Guangdong Jiaduobao Drink and Food Co., Ltd. (Guangdong JDB).

For details, please refer to the announcement dated 10 May 2016 published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and the announcement on the website of the SSE and the HKEx.

(3) Litigation, arbitration or matters in respect of the Wang Lao Ji brand of the Group after the Reporting Period.

GPLH, the controller of the Company, and WLJ Great Health Company, a wholly-owned subsidiary of the Company received the second-instance verdict on the case of false propaganda and commercial defamation dispute from the GPHPC. In accordance with the verdict, the GPHPC rejected the appeal and upheld the original verdict.

For details, please refer to the announcement dated 19 July 2016 published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and the announcement on the website of the SSE and the HKEx.

Major Events

II. THE GROUP'S PURCHASE AND DISPOSAL OF ASSETS MERGER OF ENTERPRISES, CONNECTED TRANSACTION AND OTHER TRANSACTIONS DURING THE REPORTING PERIOD

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

- (i) As approved at the 23rd meeting of the fifth session of the Board, WLJ Great Health, a wholly-owned subsidiary of the Company, proposed to establish Wang Lao Ji herbal tea production base in Ya'an, Si Chuan province to offer more jobs opportunities, the total investment of the project was expected to be RMB298 million for the construction of two canning production lines. The project had succeeded in production line debugging as planned on 20 April 2015 and entered the stage of quantity production. At present, the project is at the stage of auditing in relation to its completion and it's expected to complete before the end of October 2016.

For details, please refer to the announcement dated 17 July 2013 published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and on the website of the SSE and the announcement dated 16 July 2013 published in the HKEx.

- (ii) According to the arrangements of the industrial structure adjustment, 11 enterprises under the Company planned to relocate to the Baiyun base in the Biological Medicine Town of GPLH ("Baiyun base"), which covers a gross area of about 2,460 mu (of which an area of about 2,000 mu meets land planning requirements). The government of Baiyun district will provide integrated land plots for industrial use in four phases within the Guangzhou Pharmaceutical Industry Zone. A total land area of 474.41 mu (of which an area of 303.09 mu can be used for construction) will be provided in the first phase.

Ming Xing (98.8 mu), He Ji Gong (36 mu), HYBYS (99.7 mu) and GP Corp. (68.5 mu), which are under the Group, have obtained the land use rights of the land available for construction (303 mu) in the first phase, with a total land bidding price of about RMB221.29 million. The relevant work mentioned above is currently in progress.

- (iii) As approved at the 7th meeting of the Strategic Development and Investment Committee of the Company in 2015, the Company invested RMB150,000,000 to subscribe LP Shares in the Sino-Isreal Fund and contributed RMB500,000 (representing 10%) to the establishment of Elim Biotech. Elim Biotech has been established and the Company has paid the first contribution of RMB50 million for shares of the limited partnership fund in accordance with the agreement.

For more details, please refer to the announcement published by the Company in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and on the website of the SSE and HKEx on 29 October 2015.

II. THE GROUP'S PURCHASE AND DISPOSAL OF ASSETS MERGER OF ENTERPRISES, CONNECTED TRANSACTION AND OTHER TRANSACTIONS DURING THE REPORTING PERIOD *(Continued)*

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

- (iv) As approved at the 8th meeting of the Strategic Development and Investment Committee of the Company in 2015, Cai Zhi Lin, a wholly-owned subsidiary of the Company, increased capital of RMB19,199,000 in cash to its wholly-owned enterprise Guangzhou Medicine Company Chinese Herbal Pieces Factory. After the capital increase, the registration capital of Guangzhou Medicine Company Chinese Herbal Pieces Factory will increase to RMB20,000,000. At present, the above transaction is in progress.
- (v) As approved at the 11th meeting of the Strategic Development and Investment Committee of the Company in 2015, the capital of HK\$177,500,000 or the equivalent amount of RMB was injected to Guangyao Baiyunshan Hongkong Company by the Company, which could be paid by installment. The first phase of capital increase of RMB58,464,000 has completed on 23 December 2015.
- (vi) As approved at the 2nd Strategic Development and Investment Committee Meeting of the Company in 2016, the Company contributed addition capital of RMB20.4 million to its controlled subsidiary Guangzhou Yigan Biological Products Co., Ltd. ("Yi Gan"). After the capital increase, the registered capital of Yi Gan Company had been increased to RMB55 million. At present, the capital increase of RMB5.1 million in the first phase has been completed.
- (vii) As approved at the 3rd Strategic Development and Investment Committee Meeting of the Company in 2016, the Company's subsidiary, Xing Qun, participated in the publicly listed auction for 28 proprietary pharmaceutical production technologies of eight dosage forms from Guangzhou Zhujiang Pharmaceutical Company at a price of no more than RMB38 million. The Company obtained the aforementioned 28 proprietary pharmaceutical manufacturing technologies with RMB34.35 million.

Major Events

II. THE GROUP'S PURCHASE AND DISPOSAL OF ASSETS MERGER OF ENTERPRISES, CONNECTED TRANSACTION AND OTHER TRANSACTIONS DURING THE REPORTING PERIOD *(Continued)*

(2) The Group's purchase and disposal of assets merger of enterprises, connected transaction and other transactions after the Reporting Period.

- (i) As approved at the 5th Strategic Development and Investment Committee Meeting of the Company held in 2016, the Company and GPLH have signed an Office Lease Contract in relation with the lease of the office located on the 5th Floor, No. 45, North Shamian Street, Liwan District, Guangzhou (with an area of 531 square metres) to GPLH. The term for lease of the above property is three years, commenced from 1 July 2016 to 30 June 2019, and the rent for the lease for three years totals RMB1,240,800.
- (ii) As approved at the 5th Strategic Development and Investment Committee Meeting of the Company held in 2016, the Company's subsidiary, Xing Qun, intended to invest RMB3 million to establish a wholly-owned subsidiary Guangzhou Baiyunshan Xing Qun Health Technology Co., Ltd. ("Xing Qun Health Technology"), which will mainly focus on operating the Great Health products of Xing Qun. The above project is under way.
- (iii) As approved at the 5th Strategic Development and Investment Committee Meeting of the Company held in 2016, the Company's subsidiary, Guangzhou Baidi intended to participate in the establishment of Guangzhou Baiyunshan Southern Antitumor Biological Products Co., Ltd. (the "Project Company") for the development and application of novel anti-tumor vaccines. The Project Company's registered capital is expected to be RMB99.50 million and Guangzhou Baidi proposed to hold 50% equity interest in the Project Company through valuation of intangible assets. The above project is under way.
- (iv) As approve at the 5th Meeting of the Company's Strategic Development and Investment Committee in 2016, the Company intended to contribute additional capital of RMB15 million in cash to its wholly-owned subsidiary, Medical & Healthcare Industry Company will inject such amount of capital into Tibet Linzhi Baiyunshan Tibetan-style Health Castle Management Company Limited (the "Tibet Company"). Upon completion of the above capital increase, the registered capital of the Tibet Company will be RMB50 million. The above project is under way.

II. THE GROUP'S PURCHASE AND DISPOSAL OF ASSETS MERGER OF ENTERPRISES, CONNECTED TRANSACTION AND OTHER TRANSACTIONS DURING THE REPORTING PERIOD *(Continued)*

(2) The Group's purchase and disposal of assets merger of enterprises, connected transaction and other transactions after the Reporting Period. *(Continued)*

- (v) As approved by the 5th Meeting of the Company's Strategic Development and Investment Committee in 2016, Guangzhou Baiyunshan Chemical & Pharmaceutical Technology Co., Ltd. ("Chemical & Pharmaceutical Technology Company") and the Management Committee of Zhuhai Fushan Industrial Park ("Fushan Industrial Park") intended to sign the Investment Agreement between the Management Committee of Zhuhai Fushan Industrial Park and Guangzhou Baiyunshan Chemical & Pharmaceutical Technology Co., Ltd. In accordance with the Investment Agreement, upon the approval of the project environmental evaluation, the Fushan Industrial Park will transfer a piece of class-III industrial land of 133,340 square meters (200 mu) to Chemical & Pharmaceutical Technology Company for the construction of the relocated chemical and pharmaceutical plant which will involve a preliminary investment of RMB55 million. The above project is under way.

Major Events

II. THE GROUP'S PURCHASE AND DISPOSAL OF ASSETS MERGER OF ENTERPRISES, CONNECTED TRANSACTION AND OTHER TRANSACTIONS DURING THE REPORTING PERIOD (Continued)

(3) Assets acquisition of the Company during the Reporting Period

Counter party or the ultimate controlling party	Assets being acquired	Date	Assets price (RMB)	Net profit contribution to the Company during the Reporting Period (RMB)	Net profit contribution to the Company during the Reporting Period (Apply to the business merger under the same control) (RMB)	Whether connected transactions (if so, explain the pricing principle)	Pricing principle of assets acquisition	Whether the property of the assets had been assigned	Whether the debts had been transferred	Net profit contribution to the Company accounted for the proportion of total profit (%)	Connected relationship
Medical and Healthcare Industry Company	Guangzhou Baiyunshan Hospital Co., Ltd.	April 2016	46,500,000.00	1,634,234.39	Not applicable	No	Valuation agreement	Yes	Yes	0.10	Not applicable

Save as disclosed above, the Group did not engage in any material acquisitions or disposals.

III. EQUITY INCENTIVE AND THEIR IMPACT

Applicable Not applicable

IV. SIGNIFICANT CONNECTED TRANSACTIONS

(1) Daily connected transactions

Connected parties	Relationship with the Company	Type of connected transactions	Contents of connected transactions	Pricing principle of connected transactions	Amount of connected transactions (RMB'000)	% of similar transactions (%)	Settlement method of connected transactions
HWBYS	Joint venture	Purchase of goods	Medicine or Pharmaceutical products	Market price	9,894	0.16	Cash
GP Corp.	Joint venture	Purchase of goods	Medicine or Pharmaceutical products	Market price	413,393	6.71	Cash
Wang Lao Ji	Joint venture	Purchase of goods	Medicine or Pharmaceutical products	Market price	439,871	7.14	Cash
Subtotal					863,158	14.01	
GPHL	Parent company	Sales of products	Medicine or Pharmaceutical products	Market price	16	0.00	Cash
HWBYS	Joint venture	Sales of products	Medicine or Pharmaceutical products	Market price	90,670	0.85	Cash
GP Corp.	Joint venture	Sales of products	Medicine or Pharmaceutical products	Market price	543,768	5.07	Cash
Wang Lao Ji	Joint venture	Sales of products	Medicine or Pharmaceutical products	Market price	218,652	2.04	Cash
Nuo Cheng	Joint venture	Sales of products	Medicine or Pharmaceutical products	Market price	15	0.00	Cash
Baxter Qiaoguang	Joint venture	Sales of products	Medicine or Pharmaceutical products	Market price	514	0.00	Cash
Subtotal					853,635	7.96	

Major Events

IV. SIGNIFICANT CONNECTED TRANSACTIONS (Continued)

(1) Daily connected transactions (Continued)

Connected parties	Relationship with the Company	Type of connected transactions	Contents of connected transactions	Pricing principle of connected transactions	Amount of connected transactions (RMB'000)	% of similar transactions (%)	Settlement method of connected transactions
HWBYS	Joint venture	Provision of service	Advertising agency	Market price	13,604	37.56	Cash
GP Corp.	Joint venture	Provision of service	Advertising agency	Market price	282	0.78	Cash
Wang Lao Ji	Joint venture	Provision of service	Advertising agency	Market price	20,541	56.71	Cash
Baxter Qiaoguang	Joint venture	Provision of service	Advertising agency	Market price	1	0.00	Cash
Wang Lao Ji	Joint venture	Provision of service	Consigned processing	Market price	11,480	100.00	Cash
HWBYS	Joint venture	Provision of service	Research and development	Market price	33	0.93	Cash
Subtotal					45,941		
GPHL	Parent company	Acceptance of Patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	49,946	86.51	Cash
Wang Lao Ji	Joint venture	Acceptance of Patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	7,090	100.00	Cash
GPHL	Parent company	Others	Rental assets	Agreement price	622	1.49	Cash
GPHL	Parent company	Others	Leased assets	Agreement price	272	0.69	Cash
GP Corp.	Joint venture	Others	Leased assets	Agreement price	1,569	3.98	Cash
Baxter Qiaoguang	Joint venture	Others	Leased assets	Agreement price	1,000	2.54	Cash
Nuo Cheng	Joint venture	Others	Leased assets	Agreement price	1,104	2.80	Cash
HWBYS	Joint venture	Others	Leased assets	Agreement price	36	0.09	Cash
Total					1,824,373		

The above connected transactions were transactions carried out within the Group's ordinary operations, determined with reference to market prices, and were considered to have no negative impact on the Group's continuous operations.

IV. SIGNIFICANT CONNECTED TRANSACTIONS (Continued)

(2) Debts of related parties

Related party	Relationship to related parties	Funds provided to related parties			Funds provided by related parties to listed company		
		Balance at the beginning of the Reporting Period (RMB'000)	Amount (RMB'000)	Ending balance (RMB'000)	Balance at the beginning of the Reporting Period (RMB'000)	Amount (RMB'000)	Ending balance (RMB'000)
Bozhou Baiyunshan	Subsidiary of Joint venture	18,139	-	18,139	-	-	-
Total		18,139	-	18,139	-	-	-
Amount of funds provided by the Company to its controlling shareholder and its subsidiaries during the Reporting Period (RMB'000)							-
Balance of funds provided by the Company to its controlling shareholder and its subsidiaries during the Reporting Period (RMB'000)							-
Reasons for the funds provided to/from related parties	The Company's other receivables from HWBYS for the Reporting Period included receivables of RMB18,139,000 from HWBYS' subsidiary, namely Bozhou Baiyunshan. HWBYS was originally a joint venture with 50% equity interest held by Baiyunshan, and Bozhou Baiyunshan was originally 80% and 20% equity interest held by Baiyunshan and HWBYS respectively. On 30 March 2013, Baiyunshan and HWBYS entered into "Equity Transfer Agreement of Bozhou Baiyunshan Pharmaceutical Co., Ltd", according to which Baiyunshan agreed to transfer its equity interest and all the associated rights and obligations in Bozhou Baiyunshan to HWBYS.						
Repayment of the funds provided to/from related parties	Because the absorption and merger of Baiyunshan by the Company was completed in May 2013, HWBYS is a joint venture as well as a related party of the Company. The receivables emerged after share transfer of Bozhou Baiyunshan was completed. At the end of 2014, the Company and Bozhou Baiyunshan entered into an agreement on Liabilities Relief and Compensation. Both sides agreed to exempt and compensate the liabilities of Bozhou Baiyunshan amounted to RMB1,909,330 as at the completion date of equity transfer (30 April 2013) in accordance with the agreement.						
Commitment in relation to the funds provided to/from related parties	The Company negotiated with Bozhou Baiyunshan in an agreement, Bozhou Baiyunshan will repay the principal and interest of loans on 31 December 2015, while both parties are communicating on the issue.						
Impact of the funds provided to/from related parties on the Company's operating results and financial position	No significant impact						

Major Events

V. PROJECTS UNDER DEVELOPMENT AND FOR SALE

During the Reporting Period, the Group did not have any investment properties the contribution of which accounted for more than 5% of the Group's operating profit before tax as provided under Rule 23 of Appendix 16 to the Listing Rules of HKEx.

VI. MATERIAL CONTRACTS AND THEIR PERFORMANCE

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

Save as the aforementioned, the Company was not involved in other major contracts during the Reporting Period.

VII. GUARANTEES

Applicable Not applicable

VIII. PERFORMANCE OF UNDERTAKINGS

(1) Equity incentive implemented by listed companies

Item	Content
Background of undertaking	Undertakings in connection with equity division reform
Party given the undertaking	Controlling shareholder
Details of undertaking	<ol style="list-style-type: none"> In order to improve the value of the listed company, after the reform, the controlling shareholder of the Company, GPLH will, to the extent permitted by laws and regulations and subject to the approval of the supervision authority, the Company to set up an equity incentive mechanism as the perquisite for management to fulfill their rights of options based on the performance growth of the listed company. Upon the original undertakings, GPLH made further undertaking: In order to fully mobilize the initiative and creativity of the management team of the listed company, realize the sustainable development and improve the value of the listed company, GPLH undertakes that it will, to the extent permitted by laws and regulations and subject to the approvals of the supervisory authorities, urge and support Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited to set up incentive scheme for long and medium term within three years from the date of this undertaking letter, which scheme shall stipulate the growth in profits of the Company as a condition and link to market value.
Time and period of undertaking	The original undertaking was given in March 2006. On 25 June 2014, GPLH supplemented the original undertaking. The undertaking remains valid until it has been fully performed.
Valid period for performance	Up to 25 June 2017
Whether strictly and timely performed	Being performed
Specification	Yes

Major Events

VIII. PERFORMANCE OF UNDERTAKINGS *(Continued)*

(2) Maintain the independence of listed company committed by Controlling shareholder

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

VIII. PERFORMANCE OF UNDERTAKINGS *(Continued)*

(3) Avoiding competition

Item	Content
Background of undertakings Party given the undertaking Undertakings	<p>Undertakings related to Major Assets Reorganization Controlling shareholder</p> <ol style="list-style-type: none"> 1. After completion of the Major Assets Reorganization, GPLH and its controlled subsidiaries should avoid engaging in business and operations which substantially compete with those of the subsisting the Company after completion of the Major Assets Reorganization, and avoid increasing investment in companies and enterprises, other than GYBYS and its subsidiaries, which engages in business and operations which substantially compete with those of GYBYS. GPLH will not and will procure its subsidiaries not engage in the same or similar business of GYBYS to avoid direct or indirect competition with the operation and business of GYBYS. In addition, GPLH will voluntarily and will vigorously procure its subsidiaries to give up competition with GYBYS if GPLH and its subsidiaries will bring unfair impact on GYBYS in respect of market shares, business opportunities and allocation of resources. 2. GPLH is willing to bear the economic losses and/or additional costs directly and/or indirectly suffered or incurred by GYBYS due to any breach of the above undertakings. 3. The undertaking letter will remain effective so long as the Company legally and validly exists and GPLH owns controlling interest in the Company.
Time and period of undertaking	The undertaking was given on 29 February 2012 and is valid permanently.
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Specification	Yes

Major Events

VIII. PERFORMANCE OF UNDERTAKINGS *(Continued)*

(4) Regulating connected transactions

Item	Content
Background of undertakings Party given the undertaking Undertakings	Undertakings related to Major Assets Reorganization Controlling shareholder 1. After completion of the Major Assets Reorganization, GPLH and its subsidiaries should minimize and regulate connected transactions with the Company. If there is any unavoidable connected transaction, GPLH and its controlled subsidiaries will sign agreement with the Company in accordance with laws and perform legal procedures. They will also fulfill the information disclosure obligations and pursue the reporting and approval procedures according to the requirements of relevant laws and regulations, the listing Rules of SSE and the listing Rules of HKEx and the Articles of Association of Guangzhou Pharmaceutical Company Limited, and warrant that it will not harm the legitimate rights and interests of the subsisting GYBYS after completion of the Major Assets Reorganization and its other shareholders. 2. The undertaking letter will remain effective so long as the Company legally and validly exists and GPLH owns controlling interest in the Company. The undertaking was given on 29 February 2012 and is valid permanently.
Time and period of the undertaking	
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Specification	Yes

VIII. PERFORMANCE OF UNDERTAKINGS *(Continued)*

(5) Restricting shares committed by Controlling shareholder

Item	Content
Background of the undertakings	Undertakings related to Major Assets Reorganization
Party given the undertaking	Controlling shareholder
Undertakings	Within 36 months from the registration date of such shares, GPLH and its associate companies will not transfer the shares they acquired as a result of GYBYS's acquisition of assets from GPLH through issue of shares. After such period, any transfer of the shares will be made according to relevant requirements of CSRC and SSE.
Time and period of the undertaking	The undertaking was given on 29 February 2012 and remains valid until it has been fully performed.
Valid period for performance	GYBYS completed the registration of its newly issued shares on 5 July 2013 with its share registrar, and the performing period is up to 5 July 2016.
Whether timely and strictly performed	Being performed
Specification	Yes

Major Events

VIII. PERFORMANCE OF UNDERTAKINGS (Continued)

(6) Undertakings related to trademark

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

VIII. PERFORMANCE OF UNDERTAKINGS (Continued)

(7) Undertakings related to properties with legal defects

Item	Content
Background of the undertakings	Undertakings related to Major Assets Reorganization
Party given the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none"> 1. GPLH will promote the development of the subsisting listed company, protect the interests of minority investors, and proactively take measures to solve the issue of Baiyunshan properties with legal defects in titles to ensure that the interests of the subsisting listed company and investors are not jeopardised. 2. Guaranteeing that the subsisting listed company will be able to continue occupying and using such properties after completion of the merger and that it will not incur any additional cost nor suffer any material adverse impact due to such issue. 3. After completion of the merger, GPLH will fully compensate the Company within 2 months from the date of incurring of the actual losses (not including the tax normally incurred in respect of changing the registration name and transfer in relation to the properties and the land premium in relation to the changes from non-granted land use rights to granted land-use rights) in case there are any penalties imposed on or losses incurred by the Company due to the legal defects in the building ownership or land use rights of the Baiyunshan properties to be acquired by the Company, and such losses include but not limited to all economic losses in connection with any civil, administration and criminal liabilities, to ensure that the Company and minority investors will not suffer any damage thereunder.
Time and period of the undertaking	The undertaking was given on 29 February 2012 and is valid permanently.
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Specification	Yes

Major Events

VIII. PERFORMANCE OF UNDERTAKINGS (Continued)

(8) Undertakings related to trademarks which did not complete the transfer procedures

Item	Content
Background of the undertakings	Undertakings related to Major Assets Reorganization
Party given the undertaking	Controlling shareholder
Undertakings	<p>As of 28 June 2013, the registration formalities for the transfer of 388 trademarks within the assets to be acquired to the Company were not yet completed. The consideration for these trademarks was RMB51.1416 million, mainly including two categories: GPLH's grant of use of 54 major trademarks under its six major series namely "Chen Li Ji", "Pan Gao Shou", "Xing Qun", "Zhong Yi", "Qi Xing" and "Jing Xiu Tang" to the Company and its subsidiaries, and GPLH's 334 trademarks which are registered domestically and overseas for joint or defensive purpose(including 277 domestic trademarks and 57 overseas trademarks).</p> <p>With respect to the trademarks being acquired under the Major Assets Reorganization but still pending for registration of transfer, GPLH undertook to:</p> <ol style="list-style-type: none">1. process the transfer of those trademarks to the Company as soon as possible;2. ensure that the Company can use these trademarks without having to pay consideration before the transfer of those assets;3. to fully indemnify the Company and other third parties (including but not limited to the share registrar and SSE) in cash in respect of the losses incurred by the Company and other third parties within two days from the date on which such losses actually incurred, if due to any reasons, the Company cannot use the above trademarks without paying any consideration or if those trademarks cannot be transferred to the Company, including but not limited to all economic losses incurred from any civil, administrative and criminal liabilities.

VIII. PERFORMANCE OF UNDERTAKINGS *(Continued)*

(8) Undertakings related to trademarks which did not complete the transfer procedures *(Continued)*

Item	Content
	<p>Upon the original undertakings, GPLH made further undertaking:</p> <ol style="list-style-type: none"> 1. The transfer of all those trademarks to GYBYS will be completed within 3 years from the date of this undertaking letter was issued. GPLH ensures that GYBYS can use these trademarks without having to pay consideration before the transfer of those trademarks; 2. If the transfer of those trademarks has not been completed by the end of the above mentioned undertaking period, GPLH will pay compensation to GYBYS in cash within 10 working days according to the valuation of the trademarks which has not been transferred(in accordance with the Asset valuation on the properties and trademarks held by GPLH intended to be acquired through private placement of additional shares by Guangzhou Pharmaceutical Company Limited (Zhong Tian Heng Ping Ping Zi [2012] No. 26) issued by China Valuer International Co., Ltd.)."; 3. to fully indemnify the Company and other third parties in cash in respect of the losses incurred by the Company and other third parties within two days from the date on which such losses actually incurred, if due to any reasons, the Company cannot use the above trademarks without paying any consideration or if those trademarks cannot be transferred to the Company, including but not limited to all economic losses incurred from any civil, administrative and criminal liabilities.
Time and period of the undertaking	The original undertaking was given on 28 June 2012. GPLH gave a supplemental undertaking in respect of the relevant contents on 23 April 2014. The undertaking remains valid until it has been fully performed.
Valid period for performance	performing period is up to 23 April 2017
Whether timely and strictly performed	Basically Fully performed
Specification	Yes

Major Events

VIII. PERFORMANCE OF UNDERTAKINGS (Continued)

(9) Undertakings related to trademarks

Item	Content
Background of the undertakings	Undertakings related to Major Assets Reorganization
Party given the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none">1. GPLH undertakes that, within two years from the date of satisfaction of any one of the conditions set out below, it will legally transfer the trademarks in Wang Lao Ji series (25 in total) and 4 other trademarks (comprising trademarks with registration numbers of 125321, 214168, 538308 and 5466324) to the Company according to the requirements of laws and regulations then in force: (i) Upon the expiry on 1 May 2020, or earlier when the license agreement and its supplemental agreement were invalidated/ void/terminated as determined by the arbitration institution, or earlier when the agreement was terminated or released as agreed between the parties; or (ii) Hung To (Holdings) Company Limited (鴻道(集團)有限公司) legally ceases to own the right of pre-emption2. On the basis of the original undertaking letter, GPLH has further made the promise as follows: After all of the legal disputes regarding the trademark of Wang Lao Ji have been resolved and within two years commencing from the transferable day, GPLH shall, pursuant to the provisions of the effective laws and regulations then and after the relevant procedures regarding the reporting for approval have been processed, legally transfer to the Company such 29 trademarks of the series of "Wang Lao Ji" together with such other trademarks related to Wang Lao Ji and 4 trademarks obtained and owned in legal manner by GPLH after the Execution Day (inclusive of today) for the "Supplementary Agreement to the Agreement of Trademark Custody". The Company may obtain such by cash or by issuing shares for purchasing assets wherein the transfer price shall be legally confirmed based on such appraisal value as issued by an appraisal institute possessing the professional qualification of engaging in securities and as confirmed in the asset appraisal report verified by the State-owned assets authority.

VIII. PERFORMANCE OF UNDERTAKINGS *(Continued)*

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

Item	Content
Time and period of the undertaking	The original undertaking was given on 29 February 2012. GPLH gave a supplemental undertaking in respect of the relevant contents on 15 June 2012. The undertaking remains valid until it has been fully performed.
Valid period for performance	No
Whether timely and strictly performed	In December 2014, the Company received the Letter of Amendment to the Undertakings of Injection of Wang Lao Ji Trademark Series from GPLH, which proposed to amend the performance period of the former undertakings to "two years since the commencing date of the judgment on the law case of red can decoration", due to the disputes of red can decoration. As approved at the 8th meeting of the sixth session of the Board of the Company, the resolution on the amendment to the performance period of injection of Wang Lao Ji trademark series was submitted to the first extraordinary general meeting in 2015 held on 13 March 2015 for consideration and was approved.
Specification	Yes

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

IX. AUDITORS

- (1) BDO China Shu Lun Pan CPAs LLP had been re-appointed as the auditor of the Company for year 2016 as approved at the 2nd meeting of the Audit Committee of the Company in 2016.
- (2) The 22nd meeting of the sixth session of the Board approved the re-appointment of BDO China Shu Lun Pan CPAs LLP as the auditor of the Company for year 2016.
- (3) BDO China Shu Lun Pan CPAs LLP had been re-appointment as the auditor of the Company for year 2016 as approved at the 2015 annual general meeting.

X. NO PENALTY WAS IMPOSED AND NO CORRECTION REQUIREMENTS WERE MADE BY CSRC, STOCK EXCHANGES OR RELEVANT REGULATORY AUTHORITIES ON THE LISTED COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS HOLDING MORE THAN 5% OF THE SHARES OF THE COMPANY, ACTUAL CONTROLLER OR THE ACQUIRER.

Major Events

XI. DURING THE REPORTING PERIOD, THERE WAS NO CONVERTIBLE BONDS OF THE COMPANY.

XII. CORPORATE GOVERNANCE

The Company has been strictly complying with the Company Law of the PRC, the Securities Law of the PRC, Corporate Governance Guidelines for the Listed Companies, related laws and regulations of the CSRC and the Listing Rules of the SSE and the HKEx to continuously improving the management structure and regulating the operations of the Company.

As at the end of the Reporting Period, the corporate governance of the Company was in compliance with the Corporate Governance Guidelines, and there were no material discrepancies against the requirements of CSRC.

For the six months of the Reporting Period ended 30 June 2016, the Company complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (“CG Code”) and the code provisions of the CG Code except that (i) Ms. Liu Juyan and Mr. Wang Wenchu, executive directors of the Company, were unable to attend the 2015 annual general meeting due to business matters which constituted a deviation from code provision A.6.7, and (ii) executive directors of the Company, namely Mr. Chen Mao and Mr. Wang Wenchu, independent non-executive directors of the Company, namely Mr. Wong Lun Tak Patrick and Mr. Qiu Hongzhong, were unable to attend the first extraordinary general meeting in 2016, the first class meeting of holders of domestic shares in 2016 and the first class meeting of holders of overseas listed shares in 2016 due to business matters which constituted a deviation from code provision A.6.7.

The Board kept monitoring and reviewed the Company's corporate governance practices to ensure compliance with the provisions in the corporate governance code.

The Group is committed to: (1) Chinese and Western medicine, chemical raw materials, natural medicine, biological medicine, research and development, manufacturing and sales of chemical raw materials inter mediates; (2) wholesale, retail and import and export business of Western medicine, Chinese medicine and medical equipment; (3) the research and development, production and sales of great health product; (4) the health industry investment in medical services, health management, health maintenance and elderly care, etc., adopted relatively flexible business model and strategies and prudent risk and capital management structure; the Group is committed to strengthening the internal control publicity and guidance and the establishment of systems related to the internal control, and established a relatively standardized internal control management and risk prevention system; formulated the strategic objectives and detailed work plans and measures of the Group, so as to ensure the accomplishment of the strategic objectives.

The review of the business and financial position of the Company for the first half of 2016 is set out in the section headed “Report of the Board” in the interim report of this year.

XII. CORPORATE GOVERNANCE *(Continued)*

The work related to corporate governance of the Company during the Reporting Period are as follow:

- (1) The Company performed review on its internal control and fulfillment of social obligations for the year 2015 pursuant to the requirements of the “Notice on Proper Preparation of the 2015 Annual Report by Listed Companies” issued by the SSE. Accordingly, the Company prepared the “Self-assessment Report of the board of directors of the Company on Internal Control for 2015” and the “Report on Corporate Social Responsibilities for 2015”, both of which were disclosed after being considered and duly passed at the Board meeting of the Company on 18 March 2016.
- (2) During the Reporting Period, the Company kept improving the internal control system and enhanced risk control, the work conducted by the Company included:
 - A. Continue to promote the internal control system improvement and optimization after major asset restructuring and, according to changes in operating environment and management needs, make supplement and amendment to partial internal control management system.
 - B. Correct defects found in the 2015 internal control evaluation process; organize specific activities of the internal control inspection and communication between company subsidiaries and inspect the establishment and implementation of internal control in key modules of company subsidiaries.
 - C. Develop the 2016 Plan for the Implementation of Internal Control System in Relevant Subsidiaries of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. to implement the internal control system construction in newly-added or newly-incorporated enterprises.
 - D. Develop the 2016 Semi-annual Internal Control Evaluation Plan of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. to determine priorities in semi-annual internal control evaluation and organize subsidiaries to implement semi-annual internal control evaluation from July to September of 2016.

Major Events

XII. CORPORATE GOVERNANCE *(Continued)*

(2) During the Reporting Period, the Company kept improving the internal control system and enhanced risk control, the work conducted by the Company included: *(Continued)*

E. Strengthen comprehensive risk management of the Company and its subsidiaries:

- (a) Promote the comprehensive risk management system construction of the Company headquarters;
- (b) Promote the major risk management of subsidiaries. According to high-risk events identified and evaluated, develop corresponding risk solutions and risk management measures to control major risks;
- (c) Continue to strengthen risk management of major economic contracts, accounts receivable and credit;
- (d) Carry out project-related risk research to analyze existing risks and urge relevant enterprises to make corrections.

(3) In order to improve the company governance structure, the Company made amendments to the relevant provisions of the Articles of Association, the Rules of Proceedings of the Meetings of Shareholders, the Rules of Proceedings of the Meetings of the Board and the Rules of Proceedings of the Meetings of the Supervisor, which were approved at the Board meeting held on 24 April 2016 and the annual general meeting in 2015 held on 23 June 2016. For details of the amendments, please refer to the circular of the Company dated 9 May 2016.

(4) In order to improve the company governance structure, the Company made amendments to the Procedures on the Nomination of Directors by Shareholders, Insider Information Insider Registration System and the Working Rules to the Secretary of the board of directors, which were approved at the Board meeting held on 27 April 2016.

XIII. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company adopted the Model Code and “Measures for the Administration of Trading Shares of the Company by directors, supervisors and senior management” as stipulated by the Company as the code and criteria for securities transactions by directors and supervisors of the Company. After making specific inquiry to all the directors and supervisors, the Company confirmed that its directors and supervisors had fully complied with the standards relating to directors’ and supervisors’ dealing in securities as set out in the above code and criteria during the Reporting Period.

XIV. THE AUDIT COMMITTEE OF THE SIXTH SESSION OF THE BOARD COMPRISES FOUR INDEPENDENT NON-EXECUTIVE DIRECTORS AND ONE OF THEM POSSESSED APPROPRIATE PROFESSIONAL QUALIFICATIONS. THE AUDIT COMMITTEE HAD REVIEWED THE GROUP’S ACCOUNTING PRINCIPLES, ACCOUNTING STANDARD AND METHOD AS WELL AS DISCUSSED THE AUDIT AFFAIRS, INTERNAL CONTROL AND FINANCIAL REPORT WITH THE MANAGEMENT, INCLUDING THE UNAUDITED INTERIM REPORT FOR THE PERIOD ENDED AT 30 JUNE 2016.

XV. OTHER MAJOR EVENTS

(1) Analysis on the reasons of the changes of accounting policies, accounting estimates or accounting method by the Board

applicable Not applicable

(2) Analysis on the reasons for corrections of the prior period errors by the Board

applicable Not applicable

Changes in Share Capital and Shareholders

I. CHANGES IN SHARE CAPITAL

(1) Changes in share capital

During the Reporting Period, the Company's share capital has not changed.

(2) Change in shares with selling restrictions

Name of holder	Number of shares with selling restrictions at the beginning of the Reporting Period (share)	Number of listed shares released from selling restrictions (share)	Number of additional shares with selling restrictions for the Reporting Period (share)	Number of shares with selling restrictions at the end of the Reporting Period (share)	Reasons for selling restrictions	The date on which shares will be released from selling restorations
GPHL	34,839,645	0	0	34,839,645	-	-

Notes:

- According to "Agreement on Purchase of Assets by Issue of Shares" and the relevant supplementary agreements, the 34,839,645 shares held by GPHL shall not be listed for trading or transferred within the 36 months from 5 July 2013, being the date on which those shares were listed and circulated.
- As the formalities in relation to the trading of 34,839,645 shares subject to selling restriction held by GPHL have not been completed yet, the above shares are still untradable.

Changes in Share Capital and Shareholders

II. INFORMATION ON SHAREHOLDERS

- (1) As at 30 June 2016, there were 61,833 shareholders in total, out of which 61,806 were holders of domestically listed Reminbi-denominated ordinary shares (A shares) and 27 were holders of overseas listed foreign capital share (H shares).
- (2) Shareholdings of the top ten shareholders of the Company as at 30 June 2016 are set out as follows:

Shareholders	Increase/ (Decrease) During the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Approximate percentage of the total issued share capital (%)	Number of shares subject to selling restrictions (share)	Number of shares pledged or locked shares (share)	Nature of shares
GPHL	0	583,966,636	45.23	34,839,645	Nil	Domestic shares
HKSCC Nominees Limited	0	219,599,479	17.01	Nil	Unknown	H shares
China Securities Finance Corporation Limited	(3,028,649)	33,378,285	2.59	Nil	Unknown	Domestic shares
China Merchants Bank Company Limited–Hui Tian Fu Medical Service Flexible Configured Mixed Securities Investment Fund	4,526,102	19,587,867	1.52	Nil	Unknown	Domestic shares
Central Huijin Assets Management Co., Ltd.	0	15,260,700	1.18	Nil	Unknown	Domestic shares
The Industrial and Commercial Bank of China Co.,Ltd.–Southern Consumption Vitality Flexibly Configured Mixed Initiate Securities Investment Funds	0	9,945,228	0.77	Nil	Unknown	Domestic shares
New China Life Insurance Co., Ltd – Dividend – Group Dividend – 018L – FH001 Hu	0	6,380,585	0.49	Nil	Unknown	Domestic shares
Agricultural Bank of China Co., Ltd – Fu Guo Zhong Zheng State-owned Enterprises Reform Index Hierarchical Securities Investment Fund	96,400	6,273,521	0.49	Nil	Unknown	Domestic shares
The National Social Security Fund – One Two Portfolio	0	5,000,000	0.39	Nil	Unknown	Domestic shares
Bank of China Co., Ltd – Hua Xia New Economic Flexible Configuration Hybrid Launched Securities Investment Fund	0	4,940,150	0.38	Nil	Unknown	Domestic shares

Notes:

- (a) According to the information provided by HKSCC Nominees Limited, the H shares held by it were held on behalf of several clients.
- (b) The Company was not aware of whether there is any connection among the above shareholders, or whether they were parties acting in concert as provided under the “Rules Governing the Disclosure of Change in Shareholders’ Shareholding in Listed Companies”.

Changes in Share Capital and Shareholders

II. INFORMATION ON SHAREHOLDERS *(Continued)*

(3) The top ten shareholders with selling restrictions of the Company and the condition of no selling restrictions

Name of holders whose shares with selling restrictions	Number of shares with selling restrictions (share)	Circumstances under which restricted shares can be traded		Selling restrictions undertaken
		Permissible trading time	New number of shares permitted to be traded (share)	
GPHL	34,839,645	–	0	Notes

Notes:

- (a) According to "Agreement on Purchase of Assets by Issue of Shares" and the relevant supplementary agreements, the 34,839,645 shares held by GPHL shall not be listed for trading or transferred within the 36 months from 5 July 2013, being the date on which those shares were listed and circulated.
- (b) As the formalities in relation to the trading of 34,839,645 A shares subject to selling restriction held by GPHL have not been completed yet, the above shares are still untradeable.

(4) As at 30 June 2016, the interests and short positions held by the persons (not being the directors, supervisors and senior management of the Company) in the shares and underlying shares of the Company which were notified to the Company and the HKEx pursuant to Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be maintained by the Company under Section 336 of the SFO were as follows:

Shareholder	Nature of shares	Long Positions		Approximate % of the total issued domestic shares (%)	Approximate % of the total issued H shares (%)
		Number of shares held (share)	Capacity		
GPHL	Domestic shares	583,966,636	Beneficial owner	54.52	–

As far as the Directors are aware, as at 30 June 2016, other than those listed above, there was no other person or corporation having an interest or short position in the shares and underlying shares of the Company which were required to be notified to the Company and the HKEx pursuant to Divisions 2 and 3 Part XV of the SFO and entered into the register required to be maintained by the Company under Section 336 of the SFO.

(5) During the Reporting Period, there was no change in the controlling shareholder of the Company.

Changes in Share Capital and Shareholders

III. PUBLIC FLOAT

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

IV. PRE-EMPTIVE RIGHTS

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

V. THERE WAS NO PURCHASE, DISPOSAL AND REDEMPTION OR CANCELLATION OF THE LISTED SHARES OF THE COMPANY BY THE COMPANY OR ITS SUBSIDIARIES DURING THE REPORTING PERIOD.

Relevant Information on Preferred Shares

During the Reporting Period, the Company did not have any preferred shares.



Directors, Supervisors, Senior Management

I. CHANGES IN SHAREHOLDINGS

(1) As at the end of the Reporting Period, the interest of Directors', Supervisors' and senior managements in shares (A shares) of the Company were as follows.

Name	Position	Shares held		Reason for changes
		as at the beginning of the Reporting Period (share)	Shares held as at the end of the Reporting Period (share)	
Li Chuyuan	Chairman	Nil	Nil	/
Chen Mao	Vice Chairman	Nil	Nil	/
Liu Juyan	Executive director	Nil	Nil	/
Cheng Ning	Executive director	Nil	Nil	/
Ni Yidong	Executive director	Nil	Nil	/
Wu Changhai	Executive director, deputy general manager	Nil	Nil	/
Wang Wenchu	Executive director, deputy general manager	Nil	Nil	/
Wong Lung Tak Patrick	Independent non-executive director	Nil	Nil	/
Qiu Hongzhong	Independent non-executive director	Nil	Nil	/
Chu Xiaoping	Independent non-executive director	Nil	Nil	/
Jiang Wenqi	Independent non-executive director	Nil	Nil	/
Xian Jiaxiong	Chairman of the Supervisory Committee	Nil	Nil	/
Wu Quan	Supervisor	Nil	Nil	/
Wu Yan	Supervisor	Nil	Nil	/
Zhang Chunbo	Deputy general manager	Nil	Nil	/
Chen Jing	Secretary to the Board	Nil	Nil	/

(2) Situations in respect of the grant of incentive mechanism of the Directors, supervisors and senior management during the Reporting Period.

Applicable Not applicable

Directors, Supervisors, Senior Management

I. CHANGES IN SHAREHOLDINGS *(Continued)*

(3) Interests and short positions of Directors, supervisors and senior management, underlying shares and debentures of the Company.

As at 30 June 2016, none of the directors, supervisors, senior management and their associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which were required, pursuant to the Model Code, to be notified to the Company and the HKEx.

II. THE APPOINTMENT OR RESIGNATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING AND AFTER THE REPORTING PERIOD

The Supervisory Committee of the Company had received the written resignation tendered by Ms. Wu Yan, a supervisor of the Company. Ms. Wu Yan tendered her resignation as a supervisor of the Company in order to comply with the requirements of the organization in which she is employed as a full-time employee.

As the number of members of the Supervisory Committee of the Company will be less than three (being the minimum number prescribed by the Articles of Association of the Company) upon the resignation of Ms. Wu Yan, the resignation of Ms. Wu Yan will become effective after the new supervisor has been elected at the general meeting of the Company to be held to fill the vacancy. Ms. Wu Yan shall continue to perform her duties as a supervisor in accordance with the applicable laws, regulations and the Articles of Association of the Company until her successor is elected. The Supervisory Committee of the Company will complete the election of the new supervisor as soon as practicable in accordance with the relevant requirements.

For details, please refer to the announcement of the Company published in in Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報), and on the website of the SSE and on the website of the HKEx (www.hkex.com.hk) on 4 February 2016.

Directors, Supervisors, Senior Management

II. THE APPOINTMENT OR RESIGNATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING AND AFTER THE REPORTING PERIOD

(Continued)

In accordance with Rule 13.51(B) of the Listing Rules of HKEx, the change in information of directors after the publication of the annual report of the Company for the year ended on 31 December 2015 is as follows:

Name of director	Details of change
Patrick Wong Lung Tak	Appointed as an independent non-executive director of Li Bao Ge Group Limited from 16 June 2016.

III. AT THE END OF THE REPORTING PERIOD, THE NUMBER OF EMPLOYEES ON THE PAYROLL REGISTER OF THE GROUP WAS 21,116. THE REMUNERATION OF THE EMPLOYEES HAD NO SIGNIFICANT CHANGE COMPARED WITH THE PREVIOUS REPORTING PERIOD. THE TOTAL SALARY PAYMENT FOR THE FIRST HALF OF 2016 WAS APPROXIMATELY RMB948 MILLION.

Relevant Information of Company Bonds

There was no information of bonds of the Company during the Reporting Period.



CONSOLIDATED BALANCE SHEET

As at 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	30 June 2016 (unaudited)	31 December 2015 (audited)
Current assets			
Cash at bank and on hand	5(1)	5,545,882,814.27	4,118,291,426.52
Financial assets based on fair value to confirm profit or loss	5(2)	5,515,852.67	6,499,789.60
Notes receivable	5(3)	1,625,767,798.24	1,450,035,581.39
Accounts receivable	5(5)	1,623,866,963.31	1,051,642,996.39
Advances to suppliers	5(7)	184,399,442.80	316,795,764.49
Interest receivable		–	–
Dividends receivable	5(4)	52,938,523.45	–
Other receivables	5(6)	216,924,034.35	209,264,412.47
Inventories	5(8)	2,244,008,810.61	2,543,866,145.35
Current portion of non-current assets		–	–
Other current assets	5(9)	22,919,645.64	108,317,835.73
Total current assets		11,522,223,885.34	9,804,713,951.94
Non-current assets			
Available-for-sale financial assets	5(10)	386,392,130.38	328,372,231.24
Held-to-maturity investments		–	–
Long-term receivables		–	–
Long-term equity investments	5(11)	2,201,169,000.53	2,111,212,976.44
Investment properties	5(12)	235,501,227.74	234,615,086.24
Fixed assets	5(13)	1,953,246,023.12	1,933,901,738.15
Construction in progress	5(14)	507,062,476.39	555,906,380.17
Construction materials		–	–
Fixed assets pending for disposal		–	–
Intangible assets	5(15)	534,419,017.69	540,174,651.69
Development costs	5(16)	3,017,046.84	5,509,098.53
Goodwill	5(17)	11,499,562.74	2,282,952.18
Long-term prepaid expenses	5(18)	57,600,238.74	24,112,146.30
Deferred tax assets	5(19)	363,951,240.90	329,776,054.32
Other non-current assets	5(20)	36,067,500.00	–
Total non-current assets		6,289,925,465.07	6,065,863,315.26
TOTAL ASSETS		17,812,149,350.41	15,870,577,267.20

CONSOLIDATED BALANCE SHEET

As at 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	30 June 2016 (unaudited)	31 December 2015 (audited)
Current liabilities			
Short-term borrowings	5(22)	485,932,527.99	629,683,464.69
Financial liabilities based on fair value to confirm profit or loss		-	-
Notes payable	5(23)	152,783,759.23	292,607,099.65
Accounts payable	5(24)	2,773,310,037.08	2,636,474,108.05
Advances from customers	5(25)	824,944,774.42	974,514,210.30
Employee benefits payable	5(26)	368,387,330.72	413,029,738.15
Taxes payable	4(27)	162,297,046.27	74,514,458.11
Interest payable	5(28)	272,598.80	359,628.56
Dividends payable	5(29)	41,481,958.61	52,066,098.91
Other payables	5(30)	2,546,818,880.77	1,755,251,103.41
Current portion of non-current liabilities		-	-
Other current liabilities		-	-
Total current liabilities		7,356,228,913.89	6,828,499,909.83
Non-current liabilities			
Long-term borrowings	5(31)	32,009,955.51	39,755,174.34
Debentures payable		-	-
Long-term payables	5(32)	20,707,855.59	22,219,899.34
Payables for specific projects	5(33)	19,058,160.00	19,058,160.00
Provisions	5(34)	61,740,266.73	64,162,534.32
Deferred income	5(35)	693,915,906.69	183,587,858.83
Deferred tax liabilities	5(19)	35,236,493.97	29,063,935.23
Long-term Employee benefits payable	5(36)	302,626.92	296,646.40
Total non-current liabilities		862,971,265.41	358,144,208.46
Total liabilities		8,219,200,179.30	7,186,644,118.29

CONSOLIDATED BALANCE SHEET

As at 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	30 June 2016 (unaudited)	31 December 2015 (audited)
Shareholders' equity			
Share capital	5(37)	1,291,079,250.00	1,291,079,250.00
Capital surplus	5(38)	2,346,435,108.64	2,346,435,108.64
Less: Treasury share		–	–
Other comprehensive Income	5(39)	8,967,408.80	(732,678.19)
Surplus reserves	5(40)	930,522,262.36	930,522,262.36
Undistributed profits	5(41)	4,715,317,012.37	3,883,510,490.48
Total equity attributable to shareholders of parent Company		9,292,321,042.17	8,450,814,433.29
Equities of minority shareholders	5(42)	300,628,128.94	233,118,715.62
Total shareholders' equity		9,592,949,171.11	8,683,933,148.91
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		17,812,149,350.41	15,870,577,267.20

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Wu Changhai

Person in charge of
accounting department:

Yao Zhizhi

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	The six months ended 30 June 2016 (unaudited)	The six months ended 30 June 2015 (unaudited)
1. Revenue	5(43)	10,857,269,320.09	10,479,663,522.22
Less: Cost of sales	5(43)	6,735,239,535.84	6,611,675,061.29
Taxes and surcharges	5(44)	85,932,181.25	100,589,514.32
Selling and distribution expenses	5(45)	2,628,680,980.38	2,240,812,249.73
General and administrative expenses	5(46)	694,102,526.60	679,771,800.20
Financial expenses	5(47)	(29,832,547.34)	(17,964,117.49)
Asset impairment losses	5(48)	1,775,639.95	12,110,561.98
Add: Profit arising from the changes in fair value	5(49)	(983,936.93)	2,378,598.90
Investment income	5(50)	145,285,375.91	100,411,767.69
Including: Share of profit of associates and jointly controlled entities		145,271,601.20	100,028,397.14
2. Operating profit		885,672,442.39	955,458,818.78
Add: Non-operating income	5(51)	203,668,662.82	58,934,935.76
Including: Gains on disposal of non-current assets		313,315.04	106,218.52
Less: Non-operating expenses	5(52)	30,205,246.28	51,198,436.73
Including: Losses on disposal of non-current assets		698,504.23	533,803.68
3. Total profit		1,059,135,858.93	963,195,317.81
Less: Income tax expenses	5(53)	196,007,762.41	170,512,932.11
4. Net profit		863,128,096.52	792,682,385.70
– Attributable to owners of the parent company		831,806,521.89	775,238,268.04
– Minority interests		31,321,574.63	17,444,117.66
5. Other comprehensive net income after tax	5(39)	9,695,211.21	2,960,699.55
Other comprehensive net income after tax attributable to shareholders' equity of the parent company		9,700,086.99	2,951,940.41
I. Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period		–	–
(1) Portion of items will not be classified into profit or loss when under equity method		–	–

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	The six months ended 30 June 2016 (unaudited)	The six months ended 30 June 2015 (unaudited)
II. Items will be classified into profit or loss when satisfied with certain conditions at following accounting period		9,700,086.99	2,951,940.41
(1) Portion of items will be classified into profit or loss when under equity method		76,864.68	(60,983.96)
(2) Profit or loss arising from changes in fair value of available for sale financial assets		7,360,090.00	2,921,615.11
(3) Differences arising from translation of foreign currency financial statements		2,263,132.31	91,309.26
Other comprehensive net income after tax attributable to minority shareholders' equity		(4,875.78)	8,759.14
6. Total comprehensive income		872,823,307.73	795,643,085.25
(1) Total comprehensive income attributable to shareholders' equity of parent company		841,506,608.88	778,190,208.45
(2) Total comprehensive income attributable to minority shareholders' equity		31,316,698.85	17,452,876.80
7. Earnings per share			
(1) Basic earnings per share	5(54)(a)	0.644	0.600
(2) Diluted earnings per share	5(54)(b)	0.644	0.600

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Wu Changhai

Person in charge of
accounting department:

Yao Zhizhi

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	The six months ended 30 June 2016 (unaudited)	The six months ended 30 June 2015 (unaudited)
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		8,748,923,614.83	10,331,200,676.19
Refund of taxes and surcharges		4,036,656.18	32,968,968.27
Cash received relating to other operating activities	5(55)(a)	822,342,867.15	197,721,819.14
Sub-total of cash inflows		9,575,303,138.16	10,561,891,463.60
Cash paid for goods and services		4,175,481,534.21	5,483,419,948.46
Cash paid to and on behalf of employees		1,596,366,880.50	1,571,192,147.61
Payments of taxes and surcharges		882,689,124.57	1,045,361,810.96
Cash paid relating to other operating activities	5(55)(b)	1,207,775,010.50	1,184,535,408.09
Sub-total of cash outflows		7,862,312,549.78	9,284,509,315.12
Net cash flows from operating activities	5(56)(a)	1,712,990,588.38	1,277,382,148.48
2. Cash flows from investing activities			
Cash received from disposal of investments		1,009,818.38	–
Net cash received from disposal of subsidiaries		–	–
Cash received from returns on investments		13,774.71	49,699,814.24
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		463,956.70	274,221.80
Cash received relating to other investing activities	5(55)(c)	5,391,663.23	8,518,714.65
Sub-total of cash inflows		6,879,213.02	58,492,750.69
Cash paid to acquire fixed assets, intangible assets and other long-term assets		115,436,346.77	190,899,968.19
Cash paid to acquire investments		50,000,000.00	290,089.67
Net cash paid to acquire subsidiaries		–	–
Cash paid relating to other investing activities	5(55)(d)	1,990,385.70	233,927,754.15
Sub-total of cash outflows		167,426,732.47	425,117,812.01
Net cash flows from investing activities		(160,547,519.45)	(366,625,061.32)

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	The six months ended 30 June 2016 (unaudited)	The six months ended 30 June 2015 (unaudited)
3. Cash flows from financing activities			
Cash received from capital contributions		100,000.00	2,940,000.00
Including: Cash received from capital contributions by minority shareholders to subsidiaries		100,000.00	2,940,000.00
Cash received from borrowings		224,243,267.41	336,273,179.50
Cash received relating to other financing activities		–	–
Sub-total of cash inflows		224,343,267.41	339,213,179.50
Cash repayments of borrowings		375,739,422.94	201,838,377.63
Cash payments for interest expenses and distribution of dividends or profits		21,642,387.88	26,321,420.94
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		8,931,341.57	9,362,058.36
Cash payments relating to other financing activities	5(55)(e)	248,927.11	4,937,971.82
Sub-total of cash outflows from financing activities		397,630,737.93	233,097,770.39
Net cash flows from financing activities		(173,287,470.52)	106,115,409.11
4. Effect of foreign exchange rate changes on cash and cash equivalents		(181,407.87)	143,250.12
5. Net increase/(decrease) in cash and cash equivalents	5(56)(a)	1,378,974,190.54	1,017,015,746.39
Add: Cash and cash equivalents at beginning of year	5(56)(b)	3,837,603,553.98	3,049,528,750.47
6. Cash and cash equivalents at end of year	5(56)(b)	5,216,577,744.52	4,066,544,496.86

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Wu Changhai

Person in charge of
accounting department:

Yao Zhizhi

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

Item	Current period												Total shareholders' equity
	Attributable to shareholders of the Company											Minority Shareholders' equity	
	Other equity instruments				Capital surplus	Less: Treasury share	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profits		
Share capital	Preferred shares	Sustainable debts	Others										
1. Balance at 31 December 2015 (audited)	1,291,079,250.00	-	-	-	2,346,435,108.64	-	(732,678.19)	-	930,522,262.36	-	3,883,510,490.48	233,118,715.62	8,683,933,148.91
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Business combination involving enterprises under common control	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2016	1,291,079,250.00	-	-	-	2,346,435,108.64	-	(732,678.19)	-	930,522,262.36	-	3,883,510,490.48	233,118,715.62	8,683,933,148.91
3. Movements For the six months ended 30 June 2016 (less: "-")	-	-	-	-	-	-	9,700,086.99	-	-	-	831,806,521.89	67,509,413.32	909,016,022.20
(1) Total comprehensive income	-	-	-	-	-	-	9,700,086.99	-	-	-	831,806,521.89	31,316,698.85	872,823,307.73
(2) Capital contribution and withdrawal by shareholders	-	-	-	-	-	-	-	-	-	-	-	100,000.00	100,000.00
1. Common stock by shareholders	-	-	-	-	-	-	-	-	-	-	-	100,000.00	100,000.00
2. Capital contribution by owner of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment charged to equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	-	-	-	-	-	271,418.74	271,418.74
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Appropriation to general risk provision	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	-	-	271,418.74	271,418.74
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer within shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Current Appropriation	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Current apply	-	-	-	-	-	-	-	-	-	-	-	-	-
(6) Other	-	-	-	-	-	-	-	-	-	-	-	35,821,295.73	35,821,295.73
4. Balance at 30 June 2016 (unaudited)	1,291,079,250.00	-	-	-	2,346,435,108.64	-	8,967,408.80	-	930,522,262.36	-	4,715,317,012.37	300,628,128.94	9,592,949,171.11

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

Legal representative:

Li Chuyuan

Person in charge of accounting function:

Wu Changhai

Person in charge of accounting department:

Yao Zhizhi

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

Item	Prior period												
	Attributable to shareholders of the Company											Minority Shareholders equity	Total shareholders' equity
	Other equity instruments				Capital surplus	Less: Treasury share	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profits		
Share capital	Preferred shares	Sustainable debts	Others										
1. Balance at 31 December 2014 (audited)	1,291,340,650.00	-	-	-	2,526,638,830.11	-	11,900,689.68	-	815,487,206.38	-	3,059,769,635.87	216,857,577.07	7,921,994,589.11
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Business combination involving enterprises under common control	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2015	1,291,340,650.00	-	-	-	2,526,638,830.11	-	11,900,689.68	-	815,487,206.38	-	3,059,769,635.87	216,857,577.07	7,921,994,589.11
3. Movements For the six months ended 30 June 2015 (less: *)	(261,400.00)	-	-	-	(20,005,428.89)	-	2,951,940.41	-	-	-	413,662,886.04	(5,682,196.45)	390,665,801.11
(1) Total comprehensive income	-	-	-	-	-	-	2,951,940.41	-	-	-	775,238,268.04	17,452,876.80	795,643,085.25
(2) Capital contribution and withdrawal	(261,400.00)	-	-	-	261,399.00	-	-	-	-	-	-	2,940,000.00	2,939,999.00
1. Common stock by shareholders	(261,400.00)	-	-	-	261,399.00	-	-	-	-	-	-	2,940,000.00	2,939,999.00
2. Capital contribution by owner of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment charged to equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	-	-	-	-	(361,575,382.00)	(280,394.73)	(361,855,776.73)
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Appropriation to general risk provision	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	-	(361,575,382.00)	(280,394.73)	(361,855,776.73)
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer within shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Current Appropriation	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Current apply	-	-	-	-	-	-	-	-	-	-	-	-	-
(6) Other	-	-	-	-	(20,266,827.89)	-	-	-	-	-	-	(25,794,678.52)	(46,061,506.41)
4. Balance at 30 June 2015 (unaudited)	1,291,079,250.00	-	-	-	2,506,633,401.22	-	14,852,630.09	-	815,487,206.38	-	3,473,432,521.91	211,175,380.62	8,312,660,390.22

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Wu Changhai

Person in charge of
accounting department:

Yao Zhizhi

BALANCE SHEET

As at 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	30 June 2016 (unaudited)	31 December 2015 (audited)
Current assets			
Cash at bank and on hand		1,298,318,588.96	992,260,432.73
Financial assets based on fair value to confirm profit or loss		5,515,852.67	6,499,789.60
Notes receivable		725,482,178.60	432,494,330.23
Accounts receivable	18(1)	269,280,236.05	367,642,513.31
Advances to suppliers		6,148,120.80	10,283,339.24
Interest receivable		–	–
Dividends receivable		163,451,469.16	200,930,968.29
Other receivables	18(2)	1,200,688,380.52	1,099,573,150.44
Inventories		286,742,276.14	373,333,246.04
Current portion of non-current assets		–	–
Other current assets		291,692.65	349,406.68
Total current assets		3,955,918,795.55	3,483,367,176.56
Non-current assets			
Available-for-sale financial assets		323,476,753.51	276,380,753.51
Held-to-maturity investments		–	–
Long-term receivables		–	–
Long-term equity investments	18(3)	4,088,839,519.58	3,884,977,707.45
Investment properties		220,855,521.38	225,037,945.52
Fixed assets		494,296,940.85	475,499,950.79
Construction in progress		123,462,378.15	138,529,406.52
Construction materials		–	–
Fixed assets pending for disposal		–	–
Intangible assets		268,944,891.75	272,001,250.47
Development costs		2,217,046.84	3,997,046.84
Goodwill		–	–
Long-term prepaid expenses		1,991,172.33	578,686.87
Deferred tax assets		34,033,633.94	34,033,633.94
Other non-current assets		–	–
Total non-current assets		5,558,117,858.33	5,311,036,381.91
TOTAL ASSETS		9,514,036,653.88	8,794,403,558.47

BALANCE SHEET

As at 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	30 June 2016 (unaudited)	31 December 2015 (audited)
Current liabilities			
Short-term borrowings		134,431,644.92	80,000,000.00
Financial liabilities based on fair value to confirm profit or loss		-	-
Notes payable		-	-
Accounts payable		197,717,883.67	164,807,485.98
Advances from customers		11,694,152.86	113,379,962.09
Employee benefits payable		77,473,191.89	77,538,021.54
Taxes payable		49,642,477.15	48,847,537.91
Interest payable		32,625.00	73,458.32
Dividends payable		156,225.47	156,225.47
Other payables		1,381,959,353.72	1,085,613,978.86
Current portion of non-current liabilities		-	-
Other current liabilities		-	-
Total current liabilities		1,853,107,554.68	1,570,416,670.17
Non-current liabilities			
Long-term borrowings		-	-
Debentures payable		-	-
Long-term payables		7,876,324.33	7,876,324.33
Payables for specific projects		-	-
Provisions		72,915,621.19	46,244,031.19
Deferred income		80,053,785.62	62,576,138.23
Deferred tax liabilities		4,106,169.48	4,541,769.48
Long-term Employee benefits payable		-	-
Total non-current liabilities		164,951,900.62	121,238,263.23
Total liabilities		2,018,059,455.30	1,691,654,933.40

BALANCE SHEET

As at 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	30 June 2016 (unaudited)	31 December 2015 (audited)
Shareholders' equity			
Share capital		1,291,079,250.00	1,291,079,250.00
Capital surplus		2,291,438,019.85	2,291,438,019.85
Less: Treasury share		-	-
Other comprehensive income		10,711,347.25	13,102,882.57
Surplus reserve		557,913,827.76	557,913,827.76
Undistributed profits		3,344,834,753.72	2,949,214,644.89
Total shareholders' equity		7,495,977,198.58	7,102,748,625.07
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		9,514,036,653.88	8,794,403,558.47

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Wu Changhai

Person in charge of
accounting department:

Yao Zhizhi

INCOME STATEMENT

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	The six months ended 30 June 2016 (unaudited)	The six months ended 30 June 2015 (unaudited)
1. Revenue	18(4)	1,461,292,268.92	1,652,978,901.52
Less: Cost of sales	18(4)	677,551,338.65	835,400,664.98
Taxes and surcharges		22,912,202.94	21,518,729.97
Selling and distribution expenses		260,249,540.52	317,025,990.32
General and administrative expenses		195,477,003.66	206,838,556.41
Financial expenses		4,427,995.45	10,940,322.51
Asset impairment losses		1,550,604.58	681,567.28
Add: Profit arising from changes in fair value		(983,936.93)	2,378,598.90
Investment income	18(5)	128,942,185.23	137,115,446.31
Including: Share of profit of associates and jointly controlled entities		132,284,947.45	122,227,238.35
2. Operating profit		427,081,831.42	400,067,115.26
Add: Non-operating income		12,288,137.46	8,039,629.21
Including: Gain on disposal of non-current assets		16,230.48	46,025.15
Less: Non-operating expenses		720,220.76	532,914.41
Including: Losses on disposal of non-current assets		6,699.94	208,336.65
3. Total profit		438,649,748.12	407,573,830.06
Less: Income tax expenses		43,029,639.29	37,961,452.37
4. Net Profit		395,620,108.83	369,612,377.69
5. Other comprehensive income		(2,391,535.32)	2,407,416.04
(1) Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period		-	-
(2) Items will be classified into profit or loss when satisfied with certain conditions at following accounting period		(2,391,535.32)	2,407,416.04
(i). Portion of items will be classified into profit or loss when under equity method		76,864.68	(60,983.96)
(ii). Profit or loss arising from changes in fair value of available for sale financial assets		(2,468,400.00)	2,468,400.00
6. Total comprehensive income		393,228,573.51	372,019,793.73
7. Earnings per share			
(1) Basic earnings per share		-	-
(2) Diluted earnings per share		-	-

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Wu Changhai

Person in charge of
accounting department:

Yao Zhizhi

CASH FLOW STATEMENT

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	The six months ended 30 June 2016 (unaudited)	The six months ended 30 June 2015 (unaudited)
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		893,277,258.88	825,543,299.44
Refund of taxes and surcharges		-	-
Cash received relating to other operating activities		244,803,597.83	280,888,856.53
Sub-total of cash inflows		1,138,080,856.71	1,106,432,155.97
Cash paid for goods and services		160,044,181.56	191,231,624.21
Cash paid to and on behalf of employees		318,630,590.54	317,815,939.38
Payments of taxes and surcharges		211,966,402.59	181,748,094.29
Cash paid relating to other operating activities		95,861,727.51	124,059,853.74
Sub-total of cash outflows		786,502,902.20	814,855,511.62
Net cash flows from operating activities	18(6)	351,577,954.51	291,576,644.35
2. Cash flows from investing activities			
Cash received from disposal of investments		-	-
Net cash received from selling of subsidiaries		-	-
Cash received from returns on investments		69,555,661.46	96,654,775.37
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		58,800.00	-
Cash received relating to other investing activities		361,812,250.47	360,880,364.31
Sub-total of cash inflows		431,426,711.93	457,535,139.68
Cash paid to acquire fixed assets, intangible assets and other long-term assets		4,098,495.73	9,124,837.30
Cash paid to acquire investments		121,500,000.00	119,000,000.00
Net cash paid to acquire subsidiaries		-	-
Cash paid relating to other investing activities		395,554,929.69	537,816,754.15
Sub-total of cash outflows		521,153,425.42	665,941,591.45
Net cash flows from investing activities		(89,726,713.49)	(208,406,451.77)

CASH FLOW STATEMENT

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	The six months ended 30 June 2016 (unaudited)	The six months ended 30 June 2015 (unaudited)
3. Cash flows from financing activities			
Cash received from capital contributions		-	-
Including: Cash received from capital contributions by minority shareholders to subsidiaries		-	-
Cash received from borrowings		134,431,644.92	50,000,000.00
Cash received relating to other financing activities		-	115,000,000.00
Sub-total of cash inflows		134,431,644.92	165,000,000.00
Cash repayments of borrowings		80,000,000.00	130,000,000.00
Cash payments for interest expenses and distribution of dividends or profits		1,402,875.01	3,216,953.27
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		-	-
Cash payments relating to other financing activities		9,204,812.06	10,680,516.30
Sub-total of cash outflows		90,607,687.07	143,897,469.57
Net cash flows from financing activities		43,823,957.85	21,102,530.43
4. Effect of foreign exchange rate changes on cash and cash equivalents		-	-
5. Net increase/(decrease) in cash and cash equivalents	18(6)	305,675,198.87	104,272,723.01
Add: Balance of cash and cash equivalents at beginning of year		960,889,437.00	709,868,368.22
6. Cash and cash equivalents at end of year		1,266,564,635.87	814,141,091.23

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Wu Changhai

Person in charge of
accounting department:

Yao Zhizhi

STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

Item	Current period										Total shareholders' equity
	Other equity instruments				Capital surplus	Less: Treasury share	Other comprehensive income	Special reserves	Surplus reserve	Undistributed profits	
	Share capital	preferred shares	Sustainable debt	Others							
1. Balance at 31 December 2015 (audited)	1,291,079,250.00	-	-	-	2,291,438,019.85	-	13,102,882.57	-	557,913,827.76	2,949,214,644.89	7,102,748,625.07
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2016	1,291,079,250.00	-	-	-	2,291,438,019.85	-	13,102,882.57	-	557,913,827.76	2,949,214,644.89	7,102,748,625.07
3. Movements for the six months ended 30 June 2016	-	-	-	-	-	-	(2,391,535.32)	-	-	395,620,108.83	393,228,573.51
(1) Total comprehensive income	-	-	-	-	-	-	(2,391,535.32)	-	-	395,620,108.83	393,228,573.51
(2) Capital contribution and withdrawal by shareholders	-	-	-	-	-	-	-	-	-	-	-
1. Common stock by shareholders	-	-	-	-	-	-	-	-	-	-	-
2. Capital contribution by owner of other equity instruments	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment charged to equity	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	-	-	-
2. Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer within shareholders' equity	-	-	-	-	-	-	-	-	-	-	-
1. Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-
1. Current appropriation	-	-	-	-	-	-	-	-	-	-	-
2. Current apply	-	-	-	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-	-	-	-
4. Balance at 30 June 2016 (unaudited)	1,291,079,250.00	-	-	-	2,291,438,019.85	-	10,711,347.25	-	557,913,827.76	3,344,834,753.72	7,495,977,198.58

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

Legal representative:

Li Chuyuan

Person in charge of accounting function:

Wu Changhai

Person in charge of accounting department:

Yao Zhizhi

STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

Item	Other equity instruments				Prior period		Other comprehensive income	Special reserves	Surplus reserve	Undistributed profits	Total shareholders' equity
	Share capital	Preferred shares	Sustainable debts	Others	Capital surplus	Less: Treasury share					
1. Balance at 31 December 2014 (audited)	1,291,340,650.00	-	-	-	2,451,263,923.51	-	16,302,172.41	-	442,878,771.78	2,275,474,523.03	6,477,260,040.73
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2015	1,291,340,650.00	-	-	-	2,451,263,923.51	-	16,302,172.41	-	442,878,771.78	2,275,474,523.03	6,477,260,040.73
3. Movements For the six months ended 30 June 2015 (less: -*)	(261,400.00)	-	-	-	372,388.92	-	2,407,416.04	-	-	8,036,995.69	10,555,400.65
(1) Total comprehensive income	-	-	-	-	-	-	2,407,416.04	-	-	369,612,377.69	372,019,793.73
(2) Capital contribution and withdrawal by shareholders	(261,400.00)	-	-	-	261,399.00	-	-	-	-	-	(1.00)
1. Common stock by shareholders	(261,400.00)	-	-	-	261,399.00	-	-	-	-	-	(1.00)
2. Capital contribution by owner of other equity instruments	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment charged to equity	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	-	-	-	(361,575,382.00)	(361,575,382.00)
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	-	-	-
2. Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	(361,575,382.00)	(361,575,382.00)
3. Others	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer within shareholders' equity	-	-	-	-	-	-	-	-	-	-	-
1. Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-
1. Current appropriation	-	-	-	-	-	-	-	-	-	-	-
2. Current apply	-	-	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	110,989.92	-	-	-	-	-	110,989.92
4. Balance at 30 June 2015 (unaudited)	1,291,079,250.00	-	-	-	2,451,636,312.43	-	18,709,588.45	-	442,878,771.78	2,283,511,518.72	6,487,815,441.38

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Wu Changhai

Person in charge of
accounting department:

Yao Zhizhi

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

1 GENERAL INFORMATION

(1) Summarization of the Company

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 includes: (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, Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited ("Guangyao Baiyunshan Hong Kong Company") (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.

Pursuant to < Indemnification Agreement in Respect of the Difference Between Actual Number of Net Income of Assets to be Purchased and Forecast of Net Income > entered into between the Company and GPHL, the Company directly repurchased 261,400 A shares held by GPHL for RMB1, and cancelled it on 27 April 2015. The procedure of repurchase and cancel was completed on 7 May 2015. After the completion, general capital of the Company is 1,291,079,250 shares.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

1 GENERAL INFORMATION (Continued)

(1) Summarization of the Company (Continued)

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 (“華佗再造丸”) and Mi Lian Chuan Bei Pi Pa Jelly (“蜜煉川貝枇杷膏”), Qing Kai Ling Tonic (“清開靈口服液”), Xiao Chai Hu Chong Ji (“小柴胡沖劑”) etc. The major western medicine products of the Group include cefathiamidine, amoxicillin and ceftriaxone 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, 6 pharmaceutical trading companies, 1 advertising company and 1 pharmaceutical research company.

These financial statements were approved for issue by the Board on 17 August 2016.

(2) Scope of consolidated financial statements

As at 30 June 2016, subsidiaries in the scope of consolidated financial statements are as below:

<u>Name of subsidiary</u>	<u>Control</u>
Guangzhou Baiyunshan Xing Qun (Pharmaceutical) Holdings Co., Ltd. (Xing Qun)	Direct subsidiary
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. (Zhong Yi)	Direct subsidiary
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd. (Chen Li Ji)	Direct subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

1 GENERAL INFORMATION *(Continued)*

(2) Scope of consolidated financial statements *(Continued)*

Name of subsidiary	Control
Guangzhou Baiyunshan Han Fang Modern Pharmaceutical Co., Ltd. (Guangzhou Han Fang)	Direct subsidiary
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	Direct subsidiary
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. (Jing Xiu Tang)	Direct subsidiary
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (Pan Gao Shou)	Direct subsidiary
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (Cai Zhi Lin)	Direct subsidiary
Guangzhou Pharmaceutical Import & Export Co., Ltd. (Pharmaceutical Import & Export)	Direct subsidiary
Guangzhou Baiyunshan Bai Di Bio-Technology Co., Ltd. (Guangzhou Bai Di)	Direct subsidiary
Guangzhou WLJ Great Health Industry Co., Ltd. (WLJ Great Health)	Direct subsidiary
Guangxi Ying Kang Co., Ltd. (Guangxi Ying Kang)	Direct subsidiary
Guangzhou Guang Yao Yi Gan Biological Product Co., Ltd.	Direct subsidiary
Guangzhou Baiyunshan Xing Zhou Pharmaceutical Co., Ltd. (Xing Zhou)	Direct subsidiary
Guangzhou Baiyunshan Medical and Health Industry Investment Co., Ltd. (Baiyunshan Medical and Health)	Direct subsidiary
Guangzhou Baiyunshan Chemical Medicine Technology Co., Ltd.	Direct subsidiary
Guangzhou Haima Pharmaceutical Advertising Co., Ltd. (Guangyao Haima)	Direct subsidiary
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.	Direct subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

1 GENERAL INFORMATION *(Continued)*

(2) Scope of consolidated financial statements *(Continued)*

Name of subsidiary	Control
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. (Qi Xing)	Indirect subsidiary
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd.	Indirect subsidiary
Guangzhou Pan Gao Shou Natural Healthcare Products Co., Ltd	Indirect subsidiary
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	Indirect subsidiary
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Indirect subsidiary
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.	Indirect subsidiary
Guangzhou Ao Ma Medical Apparatus Co., Ltd.	Indirect subsidiary
Tibet Lin Zhi Guangyao Development Co., Ltd.	Indirect subsidiary
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary
Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary
Jingyu Guangyao Dong E Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary
Heilongjiang Sen Gong Guangyao Raw Medicine Development Co., Ltd.	Indirect subsidiary
Wang Lao Ji Great Health (Ya'an) Co., Ltd.	Indirect subsidiary
Guangzhou Baiyunshan Guang Hua Health Products Co., Ltd. (Guang Hua Health)	Indirect subsidiary
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

1 GENERAL INFORMATION (Continued)

(2) Scope of consolidated financial statements (Continued)

Name of subsidiary	Control
Zhejiang Guang Kang Pharmaceutical Co., Ltd.	Indirect subsidiary
Tibet Linzhi Baiyunshan Tibetan Health Castle Management Co., Ltd.	Indirect subsidiary
Guangzhou Wang Lao Ji Great Health Enterprise Development Co., Ltd.	Indirect subsidiary
Guangzhou Wang Lao Ji Industry Company	Indirect subsidiary
Wang Lao Ji Great Health Industry (Beijing) Sales Co., Ltd.	Indirect subsidiary
Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd.	Indirect subsidiary
Guangzhou Baiyunshan Xing Qun Health Technology Co., Ltd.	Indirect subsidiary
Guangzhou Baiyunshan Hospital Co., Ltd. (BYS Hospital)	Indirect subsidiary
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. (Tian Xin)	Direct subsidiary
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd. (Guang Hua)	Direct subsidiary
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. (Ming Xing)	Direct subsidiary
Baiyunshan Wei Ling Pharmaceutical Co., Ltd. (Wei Ling)	Direct subsidiary
Guangzhou Baiyunshan Pharmaceutical Technological Development Co., Ltd. (Pharmaceutical Technology)	Direct subsidiary
Guangzhou Guangyao Baiyunshan Great Health Hotel Co., Ltd. (Baiyunshan Great Health Hotel)	Direct subsidiary
Guangyao Baiyunshan Hong Kong Company	Direct subsidiary
Guangzhou Pharmaceutical Research Institute (Guangyao General Institute)	Direct subsidiary

Changes on the scope of consolidated financial statements at current period refer to note 6 and note 7.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

2 FOUNDATION OF PREPARATION OF THE FINANCIAL STATEMENTS.

(1) Basis of preparation

Based on going concern and actual transactions and events, the Company prepared financial statements in accordance with the basic and specific standards of the Accounting Standards for Business Enterprises, the Application Guidance for Accounting Standard for Business Enterprises, interpretations of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance (hereinafter collectively referred to as "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 issued by the China Securities Regulatory Commission.

(2) Going concern

The Company has the ability for continuous operation and there are no significant events which affect the ability for continuous operation since the end of reporting period within at least 12 months.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

The financial statements of the Company For the six months ended 30 June 2016 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position as at 30 June 2016 and the operating results, cash flows and other information For the six months ended 30 June 2016 of the Group and the Company.

(2) Accounting period

Accounting year starts on 1 January and ends on 31 December. The financial statements cover the period from 1 January 2016 to 30 June 2016.

(3) Business period

The business period of the Company is 12 months.

(4) Recording currency

The recording currency is Renminbi ("RMB").

Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company operating overseas, uses Hong Kong Dollar as its recording currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(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 recognized 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 recognized as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized in initial confirmation amount.

Costs directly attributable to the combination are included in profit or loss in the period in which are incurred. Transaction fees of equity securities or debt securities issued for a business combination are included in the initially recognized amount of equity securities or debt securities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(6) Preparation of consolidated financial statements

(a) Scope of combination

The scope of consolidated financial statements shall be determined on the basis of control, all subsidiaries (including entities which controlled by the Company) are included in the consolidated financial statements.

(b) Procedure of combination

The consolidated financial statements shall be prepared by the Company based on the financial statements of the Company and its subsidiaries according to other related information. When preparing consolidated financial statements, the Company shall consider the entire group as an accounting entity, adopt uniform accounting policies and apply the requirements of Accounting Standard for Business Enterprises related to recognition, measurement and presentation. The consolidated financial statements shall reflect the overall financial position, operating results and cash flows of the Group.

Accounting policies and accounting period adopted by the subsidiaries which included in the consolidated scope of financial statements are the same as that of the Company, if not, should make necessary adjustments to the when preparing consolidated financial statements. For the subsidiaries acquired from business combinations involving entities not under common control, its financial statements shall be adjusted based on fair value of identifiable net assets at the acquisition date. For the subsidiaries acquired from business combinations involving entities under common control, its financial statements shall be adjusted based on carrying amount of its assets, liabilities (including goodwill arising from when ultimate controlling party purchased the subsidiary) in the financial statements of ultimate controlling party.

Portion of owner's equity, current net profit or loss and current comprehensive income attributable to minority shareholders shall be solely presented in owner's equity of consolidated balance sheet, net profit of consolidated income statements and comprehensive income. When the amount of loss for the current period attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess shall be allocated against the minority interests.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(6) Preparation of consolidated financial statements (Continued)

(b) Procedure of combination (Continued)

(1) Acquisition of subsidiaries or business

Where the Company has acquired a subsidiary or business during the reporting period through a business combination involving enterprises under common control, the subsidiary's revenue, expenses and profit, from the beginning to end of the reporting period in which the combination take places, shall be included in consolidated income statement; cash flows of the subsidiaries or business from the beginning to end of the reporting period shall be included in consolidated cash flow statement, in addition, relevant items in the comparative statement shall be adjusted as if the reporting entity after the combination has been in existence since the date the ultimate controlling party first obtained control.

When an enterprise becomes capable of exercising control over an investee under common control due to additional investment or other reasons, it shall be adjusted as if each party involving combination has been in existence since the date the ultimate controlling party first obtained control. The equity investments held before obtaining control right to combined party, and the recognized relevant profit or loss, other comprehensive income as well as changes on other net assets at the later date between obtaining equity and combined party under common control allocated against the opening retained earnings in comparative statements or current profit or loss respectively.

When a subsidiary or business has been acquired through a business combination not involving entities under common control, or by other means, the revenue, expenses and profit of that subsidiary or business from the acquisition date to the end of the reporting period shall be included in the consolidated income statement, opening amount of consolidated balance sheet shall be not adjusted; the cash flows of that subsidiary or business from the acquisition date to the end of the reporting period shall be included in the consolidated cash flow statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(6) Preparation of consolidated financial statements (Continued)

(b) Procedure of combination (Continued)

(1) Acquisition of subsidiaries or business (Continued)

When an enterprises becomes capable of exercising control over an investee not under common control due to additional investment or other reasons, when preparing the consolidated financial statements, the acquirer shall re-measure its previously held equity interest in the acquire to its fair value at the acquisition date. The differences between the fair value and the carrying amount shall be recognized as investment income for the period when the acquisition takes place, When the previously-held equity investment is accounted for under the equity method, any other comprehensive income and the changes on owner's equity other than net profit or loss, other comprehensive income and distribution of profit previously recognized in relation to the acquiree's equity changes shall be transferred to investment income for the current period when the acquisition takes place, except for the other comprehensive income arising from the changes on net liabilities or net assets of defined benefits plan re-measured by investee.

(2) Disposing of subsidiaries or business

① General treatment

When disposing of subsidiaries or business at reporting period, the revenue, expenses and profit of that subsidiary or business from the beginning of reporting period to disposal date shall be included in the consolidated income statement; the cash flows of that subsidiary or business from the beginning of reporting period to disposal date shall be included in the consolidated cash flow statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(6) Preparation of consolidated financial statements (Continued)

(b) Procedure of combination (Continued)

(2) Disposing of subsidiaries or business (Continued)

① General treatment (Continued)

If an enterprise loses control of an investee due to the disposal of a portion of an equity investment or other reasons, the remaining equity investment shall be re-measured at its fair value in the consolidated financial statements at the date when control is lost. The difference between the total amount of consideration received from the transaction that resulted in the loss of control and the fair value of the remaining equity investment and the share of net assets of the former subsidiary calculated continuously from the acquisition date or the combination date based on the previous shareholding proportion, shall be recognized as investment income for the current period when control is lost, and the goodwill related to the subsidiary shall be derecognized. The amount previously recognized in other comprehensive income in relation to the former subsidiary's equity investment should be transferred to investment income for the current period when control is lost. Any other comprehensive income and the changes on owner's equity other than net profit or loss, other comprehensive income and distribution of profit previously recognized in relation to the acquire equity changes shall be transferred to investment income for the current period when the acquisition takes place, except for the other comprehensive income arising from the changes on net liabilities or net assets of defined benefits plan re-measured by investee. If the company loses control due to the decline of rate of interest held arising from the additional capital to subsidiaries by other investors, accounting treatment will be conducted in accordance with the above-mentioned principle.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(6) Preparation of consolidated financial statements (Continued)

(b) Procedure of combination (Continued)

(2) Disposing of subsidiaries or business (Continued)

② Disposal in stages for subsidiaries

Where a parent loses control of a subsidiary in multiple transactions in which it disposes of its subsidiary in stages. In determining whether to account for the multiple transactions as a single transaction, a parent shall consider all of the terms and conditions of the transactions and their economic effects. One or more of the following may indicate that the parent should account for the multiple arrangements as a single transaction:

- I. Arrangements are entered into at the same time or in contemplation of each other;
- II. Arrangements work together to achieve an overall commercial effect;
- III. The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement;
- IV. One arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements.

If each of the multiple transactions forms part of a bundled transaction which eventually results in loss of control of the subsidiary, these multiple transactions should be accounted for as a single transaction. In the consolidated financial statements, the difference between the consideration received and the corresponding proportion of the subsidiary's net assets in each transaction prior to the loss of control shall be recognized in other comprehensive income and transferred to the profit or loss when the parent eventually loses control of the subsidiary.

If each of the multiple transactions does not form part of a bundled transaction which eventually results in loss of control of the subsidiary, these multiple transactions should be accounted for as a single transaction before the loss of control; when lost control, account for as general treatment for disposal of subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(6) Preparation of consolidated financial statements (Continued)

(b) Procedure of combination (Continued)

(3) Purchasing minority equity of subsidiaries

The difference between the long-term equity investments from the purchasing of minority equity and the corresponding portion of net assets of the subsidiary calculated continuously from the acquisition date or the combination date related to the disposal of the long-term equity investments shall be adjusted to the capital reserve in the consolidated financial statements. If the balance of the capital reserve is not sufficient, any excess shall be adjusted against retained earnings.

(4) Disposal in stages for the long-term equity investment of subsidiaries without loss of control

Where the parent disposes of a portion of the long-term equity investments in a subsidiary without loss of control, the difference between the amount of the consideration received and the corresponding portion of net assets of the subsidiary calculated continuously from the acquisition date or the combination date related to the disposal of the long-term equity investments shall be adjusted to the share premium of capital reserve in the consolidated balance sheet, If the share premium of capital reserve is not sufficient, any excess shall be adjusted against retained earnings.

The Group start to include it in the scope of combination from the date of acquiring actual control to subsidiaries; stop to include it in the scope of combination from the date of losing actual control to subsidiaries. For the subsidiaries acquired from business combination involving entities under common control, the Group includes it in the scope of combination from the date when controlled by the same ultimate controlling party with the Company, and presented the net profit achieved before combination date in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(7) Classification of accounting method and the joint arrangements

A joint arrangement is classified as either a joint operation or a joint venture.

The company is a joint operator of joint arrangement, which means it having rights to enjoy the related assets and assume the relevant liabilities.

The Company recognizes the following items in relation to its interest in a joint operation and makes accounting treatments in accordance with relevant accounting standards for business enterprises.

- (a) The Company's solely-held assets, and the Company's share of any assets held jointly;
- (b) The Company's solely-assumed liabilities, and the Company's share of any liabilities incurred jointly;
- (c) The Company's revenue from the sale of its share of the output arising from the joint operation.
- (d) The Company's share of the revenue from the sale of the output by the joint operation; and
- (e) Its solely-incurred expenses and the Company's share of any expenses incurred jointly.

As at 30 June 2016, there are no joint operations.

Accounting policies for joint venture investment refer to note 3 (14) "Long-term equity investments."

(8) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) 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 recognized in the financial expenses.

At the balance sheet date, monetary items denominated in foreign currency are translated into RMB using the spot rate of the balance sheet date. Exchange differences arising from these translations are recognized in profit or loss for the current year, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition, construction or production of qualifying assets, which are capitalized as part of the cost of those assets. Non-monetary items denominated in foreign currency that are measured in terms of historical cost are translated into RMB at the balance sheet date using the spot rate at the date of the transactions. The effect of changes in exchange rate of cash and cash equivalent is separately disclosed in the cash flow statement. Non-monetary items denominated in foreign currency that are measured at fair value are translated into RMB using the spot rate on the date when fair value is determined and the exchange differences arising from which are recognized in profit or loss or capital surplus in the current year.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(10) Financial Instruments

(a) Financial assets

(i) Classification

Financial assets are classified into the following categories at initial recognition: Financial assets based on fair value to confirm 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 based on fair value to confirm profit or loss.

Financial assets based on fair value to confirm 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.

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For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(10) Financial Instruments (Continued)

(a) Financial assets (Continued)

(ii) Recognition and measurement

Financial assets are recognized 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 based on fair value to confirm profit or loss, the related transaction costs incurred at the time of acquisition are recognized in profit or loss for the current year. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initial recognition amounts.

Financial assets based on fair value to confirm profit or loss and available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Receivables and held-to-maturity investments are measured at amortized cost using the effective interest method.

Gain or loss arising from change in the fair value of financial assets based on fair value to confirm profit or loss is recognized in profit or loss. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognized in profit or loss for the current year.

Gain or loss arising from a change in fair value of an available-for-sale financial asset is recognized directly in equity, except for impairment losses and foreign exchange gains and losses arising from the translation of monetary financial assets. When such financial asset is derecognized, the cumulative gain or loss previously recognized directly in equity is 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 recognized as investment income, which is recognized in profit or loss for the period.

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For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(10) Financial Instruments (Continued)

(a) Financial assets (Continued)

(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 are impaired, the Group shall determine the amount of impairment loss.

At the end 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.

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For the six months ended 30 June 2016

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(10) Financial Instruments (Continued)

(a) Financial assets (Continued)

(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 derecognized when all the risks and rewards of ownership of the financial asset have been substantially transferred. The financial assets shall not be derecognized if the 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 derecognized.

In addition to two circumstances of the derecognition mentioned above, a financial assets shall be derecognized when the contractual rights to receive the cash flows from the financial assets have ceased.

On derecognition of a financial asset, the difference between the carrying amount and the aggregate consideration received and the accumulative amount of the changes of fair value originally recorded in the shareholders' equity is recognized in profit or loss.

(b) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: Financial liabilities based on fair value to confirm 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 amortized cost using the effective interest method.

Borrowings and debentures payable are recorded initially at fair value, net of transaction costs incurred, and subsequently carried at amortized costs using the effective interest method.

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For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(10) Financial Instruments (Continued)

(b) Financial liabilities (Continued)

Other financial liabilities with maturities no more than one year (including one year) are classified as current liabilities. Other financial liabilities with maturities over one year (including one year) but are due within one year at balance sheet date are classified as the current portion of non-current liabilities. Others are classified as non-current liabilities.

A financial liability shall be derecognized or partly derecognized when the present obligation is discharged or partly discharged. The difference between the carrying amount of the derecognized portion of the financial liability and the consideration paid shall be recognized in profit or loss.

(c) Determination of the fair value of the financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument for which the market is not active is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, and discounted cash flow analysis. When a valuation technique is used to establish the fair value of a financial instrument, it makes the maximum use of observable market inputs and relies as little as possible on specific inputs related to the Group.

(11) 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 RMB100,000 (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 recognized in profit or loss. Accounts receivable and other receivables which are not impaired according to the separate impairment assessment, shall be combined into certain groups with similar credit risk characteristics and subject to impairment assessment by groups.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) Receivables (Continued)

- (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
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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.
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Group 2	Receivables with extremely low credit risk based on measurement of historical evidence
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Group 3	Other receivables due from related parties
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Group 4	Deposits and staff advances
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Method for provision by groups are summarized as followed:

Group name	Method for provision
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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
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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%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) Receivables (Continued)

- (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.

(12) 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 material, direct labor 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.

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For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(12) Inventories (Continued)

(d) Inventory system

The Group adopts the perpetual inventory system.

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

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

(13) Classified as assets held for sale

The Company recognizes component (or non-current assets) which meet the following conditions as assets held for sale:

- (a) The component must be under the current conditions only according to the usual terms of the sale of such part, then sell immediately;
- (b) The Company has been offered a resolution with disposition of the components (or non-current assets). If regulation needs to be approved by shareholders, it has approved by the general meeting of shareholders or relevant authority;
- (c) The Company has entered into agreement on irrevocable transfer with the transferee.
- (d) Transfer will be completed within 1 year.

(14) Long-term equity investments

(a) Criteria for control, joint control and significant impact

Control exists when the investor has all the following: power over the investee; exposure, or rights to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns.

Joint control is the contractually agreed sharing of control to an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Company's joint venture is investee, which the Company and other joint operators implement joint control to investee and have rights to the net assets.

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For the six months ended 30 June 2016
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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(14) Long-term equity investments (Continued)

(a) Criteria for control, joint control and significant impact (Continued)

Significant impact is the right to participate the decisions of finance and operating policies of investee but is not able to control or jointly control those policies. Investee is the company's joint venture when the latter could exert significant impact on the former.

(b) Initial recognition

(i) Long-term equity investment arising from business combination.

Business combination involving enterprises under common control: Consideration arising from paying cash, transfer of non-cash assets or assumption of liabilities, and issuance of non-equity investments is recognized as the initial cost for long-term equity investment in accordance with the portion of carrying amount presented in consolidated financial statements of ultimate control of owner's equity for absorbing party at combination date. As an increment of investment and other reasons, implement of control to a business combination involving investees under common control is recognized as the initial cost for long-term equity investment in accordance with the portion of carrying amount presented in consolidated financial statements of ultimate control of net assets for absorbing party at combination date. Differences between initial cost for long-term equity investment and the sum of carrying amount of long-term equity investment before combination plus carrying amount of further acquired consideration of new shares shall be adjusted to capital premium, if the balance of capital premium is not sufficient, any excess shall be written-down to retained earnings.

Business combination involving enterprises not under common control: The cost at combination date is recognized as the initial cost for long-term equity investments. As an increment of investment and other reasons, implement of control to a business combination involving investees not under common control is recognized as the initial cost for long-term equity investments in accordance with cost method by using carrying amount of equity investments plus cost of increased investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(14) Long-term equity investments (Continued)

(b) Initial recognition (Continued)

(ii) Long-term equity investments acquired through other method

For a long-term equity investment acquired by paying cash, initial cost shall be recognized by actual purchase price.

For a long-term equity investment acquired by the issuance of equity securities, initial cost shall be recognized by the fair value of equity securities issued.

The exchange of non-monetary assets with commercial nature and the fair value of the assets received or surrendered can be reliably measured, under the circumstance, for a long-term equity investment acquired through an exchange of non-monetary assets according to the fair value of the assets surrendered and shall pay the relevant taxes to determine its initial cost, unless there is convincing evidence that the fair value of the assets received is more reliable. If exchange of non-monetary assets does not meet the above premise, the carrying amount of surrendered assets and taxes payable would be recognized as initial cost for long-term equity investments.

For a long-term equity investment acquired through a debt restructuring, initial cost shall be recognized by the basis of fair value.

(c) Subsequent measurement and recognition for profit or loss

(i) Long-term equity investments measured at cost method

Long-term equity investments to the subsidiaries shall be measured at cost method. In addition to the price for actually paid, or the cash dividends or profits that are included in the consideration which has been declared but not yet paid, the Company recognized current investment income in accordance with the cash dividends or profits that have been declared to issue.

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For the six months ended 30 June 2016
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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(14) Long-term equity investments (Continued)

(c) Subsequent measurement and recognition for profit or loss (Continued)

(ii) Long-term equity investments measured at equity method

Long-term equity investments for associates and joint venture shall be measured at equity method. Where initial cost exceeds the balance of an investor's interest in the fair value of an investee's identifiable net assets at the acquisition date, no adjustment shall be made. Where initial cost less than the balance of the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, it shall be charged into profit or loss at current period.

The Company respectively recognizes investment income and other comprehensive income by the portion of investee's net profit or loss, as well as the portion of investee's other comprehensive income, and adjusts carrying amount of long-term equity investments accordingly. The carrying amount of the long-term equity investments shall be reduced by the portion of any profit distributions or cash dividends declared by the investee that is attributable to the Company. Movements on owner's equity of investees other than net profit or loss, other comprehensive income and distribution of profit shall be adjusted for carrying amount of the investments and charged into owner's equity.

The portion for net profit or loss of investees shall be adjusted based on the investees' fair value of identifiable net assets through investees' net profit and recognized in accordance with accounting policies and accounting period of the Company. During the period of holding investment, the invested entity of preparing consolidated financial statements, with net profit and other comprehensive income presented in the consolidated financial statements and other changes in the owner's equity attributable to the accounting on the basis of the amount of invested entity.

The unrealized profit or loss resulting from transactions between the Company and its associates or joint venture shall be eliminated in portion to the investor's equity interest of investee, based on which investment income or loss shall be recognized. Any losses resulting from transactions, which are attributable to impairment of assets, shall be fully recognized. Transactions of the assets casted and sold that are able to constitute an business between the Company and associates, joint venture shall be dealt with in accordance with Note 3 (5) "Accounting method for business combination involving enterprises under common control and not under common control" and Note 3 (6) "Preparation of consolidated financial statements".

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For the six months ended 30 June 2016

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(14) Long-term equity investments (Continued)

(c) Subsequent measurement and recognition for profit or loss (Continued)

(ii) Long-term equity investments measured at equity method (Continued)

Loss arising from the sharing with investees is dealt with the following orders: Firstly, to write down the carrying amount of long-term equity investments. Secondly, when the carrying amount of long-term equity investments is not enough to offset, loss on investments is continually recognized through the other carrying amount of long-term equity investments for investees' net investment, to write down the carrying amount of long-term receivables etc. Finally, through the above treatment, according to the investment contract or contracted obligations and additional ones in agreement, which shall be recognized into current loss on investments.

(iii) Disposal for long-term equity investments

When disposing of a long-term equity investment, differences between carrying amount and actual obtained price shall be recognized in profit or loss at current period.

For the disposal for long-term equity investments measured at equity method, it shall be dealt with on the basis of same relevant assets or liabilities directly disposed by investees and the part of other comprehensive income calculated through corresponding proportion. The recognized owner's equity as a result of changes other than net profit or loss, other comprehensive income and distribution of profit shall be transferred into current profit or loss in proportion, except for the other comprehensive income arising from the changes on the re-measured net liabilities for defined benefit plans and net assets by investees.

The losing of joint control or significant impact to investees as a result from the disposal for the part of equity, the remaining equity after disposal shall be accounted at standard of financial instruments, which differences between fair value at the date of losing joint control or significant impact and carrying amount shall be charged into profit or loss at current period. The other comprehensive income measured at equity method of original equity investments shall be dealt with on the same basis of the directly disposed assets or liabilities by investees when terminating to measure at equity method. Owner's equity recognized as a result of changes other than net profit or loss, other comprehensive income and distribution of profit by investees shall be transferred into current profit or loss when terminating to measure at equity method.

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For the six months ended 30 June 2016
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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(14) Long-term equity investments (Continued)

(c) Subsequent measurement and recognition for profit or loss (Continued)

(iii) Disposal for long-term equity investments (Continued)

The losing of control power to investees as a result of the disposal for the part of equity, when preparing individual financial statements, the remaining equity after disposal that are able to implement joint control or significant impact to investees shall be measured at equity method, and adjusted through equity method when obtained: the remaining equity after disposal that are not able to implement joint control or significant impact to investees shall be dealt with in accordance with the recognition and measurement for financial instruments, which differences between fair value at the date of losing joint control or significant impact and carrying amount shall be charged into profit or loss at current period.

The remaining of disposed equity as a result of increasing investment through business combination shall be measured at cost method or equity method when preparing individual financial statements, the other comprehensive income and other owners' equity of equity investment held before purchasing date that are measured at equity method shall be carried forward in proportion,: the remaining of disposed equity shall be dealt with in accordance with the recognition and measurement for financial instruments, other comprehensive income and other owners' equity shall be carried forward.

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For the six months ended 30 June 2016

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(15) 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 recognized 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 amortized on a basis consistent with the amortization 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 (amortization) method applied are reviewed and adjusted as appropriate at each year-end.

An investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property net of its carrying amount and related taxes and expenses is recognized in profit or loss at current period

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(16) 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 recognized 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 derecognized and all the other subsequent expenditures are recognized in profit or loss when they are incurred.

Fixed assets are depreciated by categories using the straight-line method, and the annual depreciation rates are determined by categories based upon their estimated useful lives and their estimated residual values. For the fixed assets being provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives. Depreciation charge on decoration expenditure of fixed assets which meets the criteria for capitalisation is calculated using the straight-line method based on the shorter of the period between two decorations and the remaining useful lives of the fixed assets.

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For the six months ended 30 June 2016

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(16) Fixed assets (Continued)

(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) Basis for identification of fixed assets held under a finance lease and its measurement

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. The leased asset shall be recorded at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments shall be accounted for as unrecognized finance charge.

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

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(16) Fixed assets (Continued)

(d) Other specification

Disposal of fixed assets

A fixed asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognized in profit or loss.

(17) 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.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(18) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time of acquisition and construction for its intended use commence to be capitalized and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use, the borrowing costs incurred thereafter are recognized in profit or loss for the current year. 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.

(19) 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 recognized only if both of the following conditions are satisfied: (i) it is probable that future economic benefits attributable to the asset will flow to the enterprise; (ii) the amount of the intangible assets can be measured reliably.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(19) Intangible assets (Continued)

(a) Recognition and measurement of intangible assets (Continued)

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

(b) Periodical review of useful life and amortization method

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

(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 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, Xing Qun, Zhong Yi, Pan Gao Shou, Chen Li Ji, Jing Xiu Tang, Qi Xing, 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.

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For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(19) Intangible assets (Continued)

(d) Research and development (Continued)

The specific criteria for the classification of expenditure on the research phase and expenditure on the development phase is as follows:

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

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

Expenditure on the research phase is recognized in profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalized only if all of the following conditions are satisfied:

- It is technically feasible to complete the intangible asset so that it will be available for use;
- Management intends to complete the intangible asset, and use or sell it;
- It can be demonstrated how the intangible asset will generate economic benefits;
- Adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset;
- 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 recognized in profit or loss in the period in which they are incurred. Development costs previously recognized as expenses are not recognized as an asset in a subsequent period. Capitalized 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.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(20) Impairment of long-term assets

Long-term equity investment, long-term assets such as investment properties measured at cost, fixed assets, construction in progress and intangible assets with finite useful lives are tested for impairment at the balance sheet date. When the recoverable amount of an asset is less than its carrying amount, impairment loss shall be recognized accordingly. The recoverable amount of an asset is the higher of the asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is difficult to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs to is determined. A group of assets is the smallest group that is able to generate independent cash inflows.

Goodwill and intangible assets with uncertain useful lives shall be tested for impairment at the end of each accounting period.

The Company tests goodwill for impairment, the carrying amount of goodwill which arising from business combination shall be legitimately apportioned to relevant group of assets, where it is difficult to, it shall be apportioned to the relevant group of assets. When doing those apportionments, the carrying amount is apportioned in a ratio of fair value for each group of assets and a set of group of assets of the total of fair value. For the fair value that are difficult to reliably calculated, it is apportioned in a ratio of carrying amount for each group of assets and a set of group of assets of the total of carrying amount.

When testing relevant group of assets or a set of group of assets which including goodwill for impairment, if there are any indications that the group of assets or a set of group of assets related to goodwill are impaired, the group of assets or a set of group of assets which excluding goodwill are tested for impairment firstly, then calculate its recoverable amount, loss of impairment shall be recognized by comparing with relevant carrying amount, furthermore, tests group of assets or a set of group of assets which including goodwill for impairment and compares the carrying amount of group of assets or a set of group of assets with its recoverable amount, loss of impairment on goodwill shall be recognized if its recoverable amount is lower than its carrying amount.

The loss of impairment is no longer carried forward at subsequent accounting period once recognized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(21) Long-term prepaid expenses

Long-term prepaid expenses include the expenditure for improvements to fixed assets under operating leases, and other expenditures that have been made but shall be recognized as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortized on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortization.

(22) Employee benefits

(a) Method for short-term benefits

The actual occurred short-term benefits arising from the accounting period when personnel who have entered into an employment contract shall be recognized as liabilities and charged in profit or loss at current period or relevant cost of asset.

The Group recognized amount of employee benefits in accordance with regulated accrual basis and ratio by paying the social insurance, housing funds, expenses of labor union and employee education at the accounting period when personnel who have entered into an employment contract.

Employee welfare shall be measured at fair value if it is non-monetary and can be measured reliably

(b) Method for post-employee benefits

(i) *Defined contribution plans*

Basic retirement security and unemployment security that are paid according to related regulations for employees at accounting period when personnel who have entered into an employment contract shall be recognized as liabilities and charged in profit or loss at current period or relevant cost of asset.

Most domestic enterprises of the Group set up enterprise annuity plans as well as basic retirement security in accordance with relevant regulations and policies. The amount of annuity according to total remuneration shall be recognized as liabilities and charged in profit or loss at current period or relevant cost of asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(22) Employee benefits (Continued)

(b) Method for post-employee benefits (Continued)

(i) Defined contribution plans (Continued)

The Group provides contributions of mandatory provident fund for qualified employees of Guangyao Baiyunshan Hong Kong Company in accordance with Mandatory Provident Fund Schemes. The cost of schemes shall be deducted in statement of profit and loss in relevant period. Assets of schemes are held by the fund that is independent managed and separately managed from the Company's assets. Meanwhile, the Group shall also provide contributions for qualified employees when they obtained long service payment at termination date in accordance with Hong Kong <The Employment Ordinance>. Provision for long service payment is made by Guangyao Baiyunshan Hong Kong Company, which is optimum estimated by the service payment of employees as at settlement date.

(ii) Define benefits plans

Benefit obligation arising from defined benefits plans is attributable to the period when personnel who have entered into an employment contract is charged into current profit or loss or relevant cost of assets in accordance with formula of estimated accumulated method.

Deficit or surplus arising from the differences of current value of defined benefits plans obligation minus fair value of defined benefits plans assets is recognized as net liabilities or net assets. When a defined benefits plan has surplus, the Company shall measure the net defined benefits plans assets at the lower of the surplus in the defined benefits plans and the ceiling of assets.

All defined benefits plans obligation, including obligation that are expected to be paid before 12 months after the end of the annual reporting period in period when personnel who have entered into an employment contract shall be discounted by reference to market yields at the balance sheet date on government bonds or on high quality corporate bonds in an active market, of which the term and currency are consistent with the term and currency of the defined benefit obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(22) Employee benefits (Continued)

(b) Method for post-employee benefits (Continued)

(ii) Define benefits plans (Continued)

Service costs arising from defined benefits plans and net interest on the net defined benefits plans liabilities or assets are correspond to the profit or loss at current period or the cost of relevant assets; changes as a result of re-measurements of the net defined benefit liabilities or assets shall be recognized in other comprehensive income and shall not reclassified to profit or loss at subsequent accounting period, when defined benefits plans terminated, part of which measured at other comprehensive income shall be transferred to undistributed profit in the scope of equity.

When the settlement occurs of defined benefits plans, it shall recognize the gain or loss on a settlement according to the differences between present value of the defined benefits plans obligation, as determined on the date of settlement and the settlement price.

As at 30 June 2016, there are no defined benefits plans in the Group.

(c) Accounting method for termination benefits

The company shall recognize an employee benefits liability for termination benefits, with a corresponding charge to the profit or loss for the current period, at the earlier dates between the Company cannot unilaterally withdraw the offer of termination benefits because of an employment termination plan or a curtailment and cost or expenses related to a restructuring that involves the payment of termination benefits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(23) Provisions

Provisions for product warranties, onerous contracts etc. are recognized when the Group has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The increase in the discounted amount of the provision arising from passage of time is recognized as interest expense.

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

(24) 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 recognizes 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 recognized 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(24) Revenue (Continued)

(c) Rendering of services

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

(d) Transfer of asset use rights

Income from transfer of asset use rights include:

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

(e) Dividend income

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

(25) 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 refer to the obtained long-term assets with purchase, construction or otherwise formed, which include 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 refer to the government grants other than the assets-related grants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(25) Government grants (Continued)

(a) Classification (Continued)

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(26) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognized based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognized for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognized for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognized for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

Deferred tax assets are only recognized for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilized.

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(27) 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 recognized on a straight-line basis over the period of the lease, and are either capitalized as part of the cost of related assets, or charged as an expense for the current year.

(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 unrecognized finance charge and is amortized using the effective interest method over the period of the lease. A long-term payable is recorded at the amount equal to the minimum lease payments less the unrecognized finance charge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(28) Changes in significant accounting policies and accounting estimates

(a) Changes in accounting policies

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

(b) Changes in accounting estimates

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

(29) Correction of prior period's accounting errors

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

(30) Other significant accounting policies

(a) Segment information

The Group identifies operating segments based on the internal organization structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments. An operating segment is a component of the 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) Dividend distribution

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

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For the six months ended 30 June 2016
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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(31) Critical accounting estimates and judgments

(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 judgements 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.

4 TAXATION

(1) Major turnover tax and tax rate

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	VAT	6%
Rental income	VAT	6%
Income from technology transfer	VAT	3%, 6%
Balance of owner-occupied real estates	Real-estate tax	1.2%
Rental income	Real-estate tax	12%
Income from capital occupation	VAT	6%
Sales of wine products	Consumption Tax	10%
Turnover tax	City maintenance & construction tax	7%
Turnover tax	Education surcharge	3%
Turnover tax	Local education surcharge	2%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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4 TAXATION (Continued)

(2) Business income tax

The Group companies in the PRC pay 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 Company of the Group, pays the corporation profits tax in accordance with “Hong Kong Inland Revenue Ordinance” at the corporate profit tax rate of 16.5%.

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

The following subsidiaries of the Group, obtained the certificate of High/New Technology Enterprise, enjoy preferential tax rate of 15% at current period. Including: the Company (No. GR201444000590), Zhong Yi (No. GR201444000836), Guangzhou Han Fang Pharmaceutical (No. GR201444000631), Jing Xiu Tang (No. GR201444001464), Qi Xing Pharmaceutical (No. GR201444001047), Chen Li Ji Pharmaceutical Factory (No. GR201444001125), Tian Xin (No. GR201444000895), Guang Hua (No. GR201544000485), Ming Xing (No. GR201444001349), Guang Xi Ying Kang (No. GR201545000083).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	30 June 2016			31 December 2015		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash on hand –						
RMB			1,157,209.13			637,187.57
			<u>1,157,209.13</u>			<u>637,187.57</u>
Bank deposits						
RMB			5,450,573,853.26			4,007,902,029.65
US Dollars (“USD”)	1,953,783.82	6.6312	12,955,931.28	1,022,672.15	6.4936	6,640,823.87
HKD	1,960,215.37	0.8547	1,675,337.27	22,228,023.59	0.8378	18,622,193.60
Yen (JPY)	1.00	0.0600	0.06	13,530,938.28	0.0539	728,979.30
			<u>5,465,205,121.87</u>			<u>4,033,894,026.42</u>
Other deposits –						
RMB			79,483,181.77			83,722,911.03
HKD	43,644.33	0.8547	37,301.50	44,524.22	0.8378	37,301.50
			<u>79,520,483.27</u>			<u>83,760,212.53</u>
			<u>5,545,882,814.27</u>			<u>4,118,291,426.52</u>
Including: overseas account			<u>6,883,044.25</u>			<u>15,325,889.65</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Cash at bank and on hand (Continued)

Details of restricted cash are listed as follows:

	30 June 2016	31 December 2015
Cash deposit of notes payable	72,803,972.94	77,309,482.70
Blocked account	205,347,464.50	202,225,169.88
Cash deposit of construction	270,700.41	270,288.06
Housing fund	582,931.90	582,931.90
Deposit for letter of guarantee	300,000.00	300,000.00
Structured deposit	50,000,000.00	–
	329,305,069.75	280,687,872.54

The blocked account refers to Note 16 (1)(a)(i), Note 16 (1)(c)(iv), Note 16 (1)(c)(v).

(2) Financial assets based on fair value to confirm profit or loss

	30 June 2016	31 December 2015
Financial assets held for trading	5,515,852.67	6,499,789.60
Including: Investments in equity instruments	5,515,852.67	6,499,789.60

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

(3) Notes receivable

(a) Classification of notes receivable

	30 June 2016	31 December 2015
Bank acceptance notes	1,625,767,798.24	1,429,189,250.16
Commercial acceptance notes	–	20,846,331.23
	1,625,767,798.24	1,450,035,581.39

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Notes receivable (Continued)

- (b) As at 30 June 2016 and 31 December 2015, there are no notes receivable that are being pledged of the Group.
- (c) As at 30 June 2016, notes receivable that are not matured at balance sheet date but have been discounted or endorsed are summarized as follows:

	Ending amount (confirmed)	Ending amount (not confirmed)
Notes receivable that are not matured at balance sheet date but have been endorsed		
Bank acceptance notes	1,189,302,324.63	–
Commercial acceptance notes	–	–
	1,189,302,324.63	–
Notes receivable that are not matured at balance sheet date but have been discounted		
Bank acceptance notes	64,205,793.82	–
Commercial acceptance notes	–	–
	64,205,793.82	–

- (i) As at 30 June 2016, the bank acceptance notes receivable that are not matured but have been endorsed amounted to RMB1,189,302 thousand (As at 31 December 2015: RMB1,421,512 thousand), the top five of which are summarized as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2016-03-30	2016-09-30	47,377,200.00
Entity 2	2016-06-29	2016-12-29	11,392,698.00
Entity 3	2016-05-11	2016-11-11	10,000,000.00
Entity 4	2016-06-29	2016-12-29	10,000,000.00
Entity 5	2016-06-29	2016-12-29	10,000,000.00

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Notes receivable (Continued)

(c) As at 30 June 2016, notes receivable that are not matured at balance sheet date but have been discounted or endorsed are summarized as follows: (Continued)

(ii) As at 30 June 2016, there are commercial acceptance notes that are not matured but have been endorsed (As at 31 December 2015: RMB15,737 thousand).

(iii) As at 30 June 2016, the bank acceptance notes that are not matured but have been discounted amounted to RMB64,206 thousand (As at 31 December 2015: RMB153,152 thousand), and the top five of which are summarized as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2016-06-14	2016-12-14	9,080,329.00
Entity 2	2016-03-31	2016-09-30	6,000,000.00
Entity 3	2016-05-26	2016-11-26	5,491,098.48
Entity 4	2016-04-14	2016-10-14	5,000,000.00
Entity 5	2016-04-14	2016-10-14	5,000,000.00

(iv) As at 30 June 2016 and 31 December 2015, there are no commercial acceptance notes that are not matured but have been discounted.

(d) As at 30 June 2016, there are no notes receivable that are reclassified to accounts receivable due to inability of the companies of issuance (As at 31 December 2015: RMB500 thousand).

(e) As at 30 June 2016, balance of notes receivable will expire before 30 June 2017.

(4) Dividends receivable

Item	31 December 2015	Current increase	Current decrease	30 June 2016
Dividends receivable within 1 year aging Guangzhou Promise Biological Products Co., Ltd. (Nuo Cheng)		– 52,938,523.45	–	52,938,523.45
		– 52,938,523.45	–	52,938,523.45

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(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 analyzed as follows:

	30 June 2016	31 December 2015
Within 1 year	1,494,983,520.72	895,601,374.31
1 to 2 years	168,910,057.47	188,310,732.65
2 to 3 years	16,035,868.56	16,312,026.02
3 to 4 years	2,541,645.17	4,481,955.06
4 to 5 years	5,018,853.07	3,734,629.21
Over 5 years	14,106,688.89	12,829,505.70
	1,701,596,633.88	1,121,270,222.95
Less: provision for bad debts	77,729,670.57	69,627,226.56
	1,623,866,963.31	1,051,642,996.39

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

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

	30 June 2016				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	57,952,299.86	3.41%	30,579,338.71	52.77%	27,372,961.15
Subject to provision by groups:					
Group 1	1,637,849,205.49	96.25%	41,692,050.97	2.55%	1,596,157,154.52
Individually insignificant but subject to separate provision	5,795,128.53	0.34%	5,458,280.89	94.19%	336,847.64
	1,701,596,633.88	100.00%	77,729,670.57	4.57%	1,623,866,963.31

	31 December 2015				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	44,666,265.77	3.98%	27,786,476.64	62.21%	16,879,789.13
Subject to provision by groups:					
Group 1	1,070,739,939.07	95.50%	36,352,579.45	3.40%	1,034,387,359.62
Individually insignificant but subject to separate provision	5,864,018.11	0.52%	5,488,170.47	93.59%	375,847.64
	1,121,270,222.95	100.00%	69,627,226.56	6.21%	1,051,642,996.39

Classification of accounts receivable: refer to Note 3(11).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

(c) As at 30 June 2016, accounts receivable that are individually significant and subject to separate provision are analyzed as follows:

	Carrying amount	Provision for bad debts	Ratio	Reason
Customer 1	15,347,686.89	4,324,688.47	28.18%	No legal action, there is a possibility that the amount could not be recoverable.
Customer 2	11,547,785.00	5,773,892.50	50.00%	No legal action, there is a possibility that the amount could not be recoverable.
Customer 3	10,541,832.00	5,270,916.00	50.00%	Involving litigation, detail refers to Note16(1)(a)(i)
Customer 4	5,581,994.72	2,790,997.36	50.00%	Involving litigation, detail refers to Note16(1)(b)(i)
Customer 5	5,191,200.00	5,191,200.00	100.00%	Involving litigation, detail refers to Note16(1)(b)(ii)
Customer 6	5,028,313.75	2,514,156.88	50.00%	Involving litigation, detail refers to Note16(1)(b)(iii)
Customer 7	3,213,487.50	3,213,487.50	100.00%	That company is difficult to pay, there is a possibility that the amount could not be fully recoverable.
Customer 8	1,500,000.00	1,500,000.00	100.00%	Won the lawsuit, there is a possibility that the amount could not be recoverable.
	<u>57,952,299.86</u>	<u>30,579,338.71</u>	52.77%	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

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

	30 June 2016			31 December 2015		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
Within 1 year	1,479,458,192.83	90.33%	14,774,444.93	895,423,733.30	83.63%	8,954,237.37
1 to 2 years	136,104,872.44	8.31%	13,610,487.25	154,423,227.54	14.42%	15,442,322.74
2 to 3 years	10,453,873.76	0.64%	3,136,139.80	9,203,274.51	0.86%	2,760,982.36
3 to 4 years	1,962,111.44	0.12%	981,055.74	4,384,824.49	0.41%	2,192,412.27
4 to 5 years	3,401,158.74	0.21%	2,720,926.97	1,511,272.52	0.14%	1,209,018.00
Over 5 years	6,468,996.28	0.39%	6,468,996.28	5,793,606.71	0.54%	5,793,606.71
	1,637,849,205.49	100.00%	41,692,050.97	1,070,739,939.07	100.00%	36,352,579.45

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

- (e) As at 30 June 2016, accounts receivable that are individually insignificant but subject to separate provision are analyzed as follows:

	Carrying amount	Provision for bad debts	Ratio	Reason
Customer 1	673,695.28	336,847.64	50.00%	Litigation is being conducted, there is a possibility that the amount could not be recoverable.
Customer 2	508,889.00	508,889.00	100.00%	Won the lawsuit, and was enforced to execute, 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%	It is expected that the amount could not be recovered.
Customer 6	315,508.74	315,508.74	100.00%	It is expected that the amount could not be recovered.
Others	2,959,573.11	2,959,573.11	100.00%	It is expected that the amount could not be recovered.
	<u>5,795,128.53</u>	<u>5,458,280.89</u>	94.19%	

- (f) As at 30 June 2016 and 31 December 2015, there is no material accounts receivable which have past due but not impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

- (g) Accounts receivable that are subject to full provision or in large portionate but have been reversed or collected in the current period are as below:

Receivable	Reason of transfer or recover	Basis of determination of original provision for bad debts	Amount of provision for bad debts that are transferred or recovered	Recovered amount	Amount of provision for bad debts that are transferred
Customer 1	Won the lawsuit, received the payment from the bank	It is expected that the amount could not be recovered	1,000,000.00	1,000,000.00	1,000,000.00
Customer 2	Strengthened the work of accounts receivable, recovered debts	It is expected that the amount could not be recovered	529,826.40	529,826.40	529,826.40
Customer 3	Strengthened the work of accounts receivable, recovered debts	It is expected that the amount could not be recovered	39,000.00	39,000.00	39,000.00
Customer 4	Strengthened the work of accounts receivable, recovered debts	It is expected that the amount could not be recovered	6,189.58	6,189.58	6,189.58
Customer 5	Strengthened the work of accounts receivable, recovered debts	It is expected that the amount could not be recovered	2,000.00	2,000.00	2,000.00
			<u>1,577,015.98</u>	<u>1,577,015.98</u>	<u>1,577,015.98</u>

- (h) There are no accounts receivable that have been collected by restructuring or other manners at current period.

- (i) There are no accounts receivable that are written off at current period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

(j) As at 30 June 2016, the top five of accounts receivable are analyzed as follows:

	Relationship with the Group	Carrying amount	Aging	% of total balance	Ending balance of provision for bad debts
Customer 1	Third party	311,002,986.37	Within 1 year	18.28%	3,110,029.86
Customer 2	Related party	136,101,280.38	Within 1 year, 1-2 years	8.00%	1,365,070.36
Customer 3	Related party	119,338,171.48	Within 1 year, 3-4 years	7.01%	1,566,940.07
Customer 4	Third party	86,980,702.56	Within 1 year, 1-2 years	5.11%	3,114,183.63
Customer 5 (Note 1)	Third party	56,087,565.40	1-2 years, 2-3 years	3.30%	5,954,586.88
		709,510,706.19		41.70%	15,110,810.80

Note1: Customer 5 is involved in litigation, details refer to Note 16 (1)(a)(i).

- (k) There are no accounts receivables derecognized due to transfer of financial assets at current period.
- (l) As at 30 June 2016, there are no securitizations that targeted at accounts receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables

	30 June 2016	31 December 2015
Petty cash	8,766,134.32	5,166,130.97
Deposits	29,920,741.48	43,190,038.37
Staff advances	46,482,829.87	25,786,857.13
Receivables due from external parties	104,219,781.78	116,654,867.41
Receivables due from related parties (Note 12)	30,626,212.69	29,415,980.22
Tax refund for exports	3,091,305.27	1,673,405.77
Others	18,620,914.56	17,041,539.78
	241,727,919.97	238,928,819.65
Less: provision for bad debts	24,803,885.62	29,664,407.18
	216,924,034.35	209,264,412.47

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

	30 June 2016			31 December 2015		
	Carrying amount	% of total balance	Provision for bad debts	Carrying amount	% of total balance	Provision for bad debts
Within 1 year	154,730,362.00	64.00%	5,618,459.33	133,303,562.56	55.80%	11,457,087.66
1 to 2 years	37,843,323.10	15.66%	815,797.72	58,931,497.32	24.66%	52,979.81
2 to 3 years	8,302,837.36	3.43%	356,269.90	6,366,775.65	2.66%	415,404.15
3 to 4 years	2,483,442.11	1.03%	502,542.77	2,437,740.61	1.02%	439,183.38
4 to 5 years	1,032,581.24	0.43%	800,709.26	865,762.74	0.36%	362,659.75
Over 5 years	37,335,374.16	15.45%	16,710,106.64	37,023,480.77	15.50%	16,937,092.43
	241,727,919.97	100.00%	24,803,885.62	238,928,819.65	100.00%	29,664,407.18

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

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

	30 June 2016				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	23,594,903.02	9.76%	17,856,475.12	75.68%	5,738,427.90
Subject to provision by groups:					
Group 1	16,793,441.74	6.95%	2,117,285.16	12.61%	14,676,156.58
Group 2	79,781,942.71	33.00%	–	0.00%	79,781,942.71
Group 3	30,626,212.69	12.67%	100,000.00	0.33%	30,526,212.69
Group 4	85,033,294.47	35.18%	–	0.00%	85,033,294.47
Individually insignificant but subject to separate provision	5,898,125.34	2.44%	4,730,125.34	80.20%	1,168,000.00
	241,727,919.97	100.00%	24,803,885.62	10.26%	216,924,034.35

	31 December 2015				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	33,971,204.45	14.22%	22,961,860.55	67.59%	11,009,343.90
Subject to provision by groups:					
Group 1	15,769,867.08	6.60%	1,917,421.29	12.16%	13,852,445.79
Group 2	79,730,616.09	33.37%	–	–	79,730,616.09
Group 3	29,415,980.22	12.31%	100,000.00	0.34%	29,315,980.22
Group 4	74,143,026.47	31.03%	–	–	74,143,026.47
Individually insignificant but subject to separate provision	5,898,125.34	2.47%	4,685,125.34	79.43%	1,213,000.00
	238,928,819.65	100.00%	29,664,407.18	12.42%	209,264,412.47

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

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

	Carrying amount	Provision for bad debts	Ratio	Reason
Other receivables 1	10,315,700.00	5,157,850.00	50.00%	Involving litigation, detail refers to Note 16(1)(a)(i)
Other receivables 2	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 3	2,000,000.00	2,000,000.00	100.00%	The aging is too long and the item did not meet expected progress.
Other receivables 4	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 5	1,520,000.00	1,520,000.00	100.00%	As this company was ceased, it is expected that the amount could not be recovered.
Others	5,089,485.67	4,508,907.77	88.59%	It is expected that the amount could not be recovered.
	23,594,903.02	17,856,475.12	75.68%	

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

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

	30 June 2016			31 December 2015		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	12,709,101.81	75.68%	127,141.01	13,285,331.54	84.26%	132,853.34
1 to 2 years	2,035,162.17	12.12%	203,516.22	476,983.11	3.02%	47,698.31
2 to 3 years	187,566.32	1.12%	56,269.90	218,013.82	1.38%	65,404.15
3 to 4 years	227,255.64	1.35%	113,627.82	200,536.87	1.27%	100,268.43
4 to 5 years	88,127.94	0.52%	70,502.35	89,023.39	0.56%	71,218.71
Over 5 years	1,546,227.86	9.21%	1,546,227.86	1,499,978.35	9.51%	1,499,978.35
	16,793,441.74	100.00%	2,117,285.16	15,769,867.08	100.00%	1,917,421.29

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

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

	Carrying amount	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	5,536,380.14	4,368,380.14	78.90%	It is expected that the amount could not be recovered
	5,898,125.34	4,730,125.34	80.20%	

- (f) There are other receivables that are subject to full provision or in large portionate but have been reversed or collected at current period.

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

- (h) There are no other receivables that are written off at current period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

- (i) As at 30 June 2016, the top five of the debt form the balance of other receivables is analyzed as follows:

	Relationship with the company	Amount	Aging	% of total balance	Ending balance of provision for bad debts
Other receivables 1	Related party	18,218,108.98	Within 1 year, 1-2 years, over 5 years	7.54%	–
Other receivables 2	Third party	15,864,717.00	1-2 years	6.56%	–
Other receivables 3	Third party	10,535,822.73	Within 1 year	4.36%	–
Other receivables 4	Third party	10,315,700.00	1-2 years	4.27%	5,157,850.00
Other receivables 5	Third party	6,900,000.00	1-2 years	2.85%	–
		<u>61,834,348.71</u>		<u>25.58%</u>	<u>5,157,850.00</u>

- (j) There are no other receivables derecognized due to transfer of financial assets at current period.
- (k) As at 30 June 2016, there are no securitizations that targeted at other receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Advances to suppliers

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

	30 June 2016		31 December 2015	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	160,530,166.72	87.05%	301,622,535.55	95.21%
1 to 2 years	12,000,777.71	6.51%	5,094,871.50	1.61%
2 to 3 years	2,648,424.54	1.44%	5,474,848.44	1.73%
Over 3 years	9,220,073.83	5.00%	4,603,509.00	1.45%
	184,399,442.80	100.00%	316,795,764.49	100.00%

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

	Relationship with the Group	Amount	Aging	Reason of unsettlement
Supplier 1	Third party	26,892,505.99	Within 1 year, 1 – 2 years	Normal purchases
Supplier 2	Third party	9,979,452.30	Within 1 year	Normal purchases
Supplier 3	Related party	8,148,872.32	Within 1 year, 1 – 2 years	Normal purchases
Supplier 4	Third party	5,000,000.00	3 – 4 years	Normal purchases
Supplier 5	Third party	4,906,647.74	Within 1 year	Normal purchases
		54,927,478.35		

(c) As at 30 June 2016 and 31 December 2015, there is no significant advance to suppliers with aging over one year.

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For the six months ended 30 June 2016
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Inventories

(a) Classification of inventories:

	30 June 2016			31 December 2015		
	Ending balance	Provision for declines in value of inventories	Carrying amount	Ending balance	Provision for declines in value of inventories	Carrying amount
Raw materials	585,135,156.60	1,518,919.94	583,616,236.66	560,423,152.22	1,940,697.77	558,482,454.45
Work in progress	130,586,974.81	-	130,586,974.81	124,505,894.48	-	124,505,894.48
Semi-finished goods	180,253,268.28	981,315.46	179,271,952.82	183,220,488.41	981,315.46	182,239,172.95
Finished goods	549,750,187.95	11,070,254.10	538,679,933.85	906,858,279.95	10,016,784.23	896,841,495.72
Low-value consumables	7,666,249.20	-	7,666,249.20	6,971,615.68	-	6,971,615.68
Packaging materials	116,604,829.15	-	116,604,829.15	117,253,532.69	-	117,253,532.69
Goods In processing contract	3,954,881.66	-	3,954,881.66	15,026,175.34	-	15,026,175.34
Commodity Stocks	691,257,303.06	8,744,363.82	682,512,939.24	652,737,947.88	11,247,713.60	641,490,234.28
Others	1,114,813.22	-	1,114,813.22	1,055,569.76	-	1,055,569.76
	2,266,323,663.93	22,314,853.32	2,244,008,810.61	2,568,052,656.41	24,186,511.06	2,543,866,145.35

(b) Provision for declines in the value of inventories

Item	31 December 2015	Current additions	Current reductions			30 June 2016
			Reversal	Write-off	Other reductions	
Raw materials	1,940,697.77	329,177.63	750,955.46	-	-	1,518,919.94
Work in progress	981,315.46	-	-	-	-	981,315.46
Finished goods	10,016,784.23	2,754,350.74	1,074,918.64	625,962.23	-	11,070,254.10
Packaging materials	-	-	-	-	-	-
Commodity stocks	11,247,713.60	1,590,615.26	-	4,093,965.04	-	8,744,363.82
	24,186,511.06	4,674,143.63	1,825,874.10	4,719,927.27	-	22,314,853.32

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Inventories (Continued)

(c) Provision for declines in the value of inventories are analyzed as follows:

Item	Basis for provision	Reason for reversal	% of amount of reversal to the relevant inventory balance
Raw materials	Carrying amount over net realizable value	Net realizable increased	0.13%
Finished goods	Carrying amount over net realizable value	Increase in market price	0.20%

(9) Other current assets

	30 June 2016	31 December 2015
Deductible Input VAT	18,117,606.93	106,097,971.62
Provisional Income Tax paid	4,519,923.03	2,219,864.11
Others	282,115.68	–
	22,919,645.64	108,317,835.73

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Available-for-sale financial assets

(a) Details are as follows:

Item	30 June 2016			31 December 2015		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Available-for-sale equity instruments Including:						
Measured at fair value	84,434,957.73	-	84,434,957.73	76,415,058.59	-	76,415,058.59
Measured at cost	306,510,723.88	4,553,551.23	301,957,172.65	256,510,723.88	4,553,551.23	251,957,172.65
Total	390,945,681.61	4,553,551.23	386,392,130.38	332,925,782.47	4,553,551.23	328,372,231.24

(b) Available-for-sale financial assets measured at fair value at the end of period.

Item	Available-for-sale equity instruments
Cost of equity instruments/amortized cost of liabilities	68,789,605.91
Fair value	84,434,957.73
Accumulated movement of fair value charged as other comprehensive income (written down related deferred income tax liabilities)	12,363,856.62
Accumulated movement of differences arising from foreign currency translation charged as other comprehensive income	1,160,023.68
Accumulated movement of fair value charged as deferred tax liabilities	2,121,471.52
Impairment	-

Available-for-sale financial assets measured at fair value at the end of period are shares of listed companies, which fair value is recognized in accordance with the closing price at last transaction day.

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(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Available-for-sale financial assets (Continued)

(c) Available-for-sale financial assets measured at cost at the end of period.

Investee	Book balance				Provision for impairment				% of Equity interest held	Current cash dividends
	Opening amount	Current increase	Current decrease	Ending amount	Opening amount	Current increase	Current decrease	Ending amount		
Shanghai Jiuhtang Chinese Medicine Co., Ltd.	547,193.71	-	-	547,193.71	-	-	-	-	9.53%	-
Beijing Imperial Court Cultural Development Company Ltd.	200,000.00	-	-	200,000.00	-	-	-	-	10.00%	-
Qi Xing Ma Zhong Pharmaceutical Co., Ltd. (Note 1)	362,826.38	-	-	362,826.38	-	-	-	-	40.00%	-
Indonesia San You Development Co., Ltd. (Note 1)	1,078,551.23	-	-	1,078,551.23	1,078,551.23	-	-	1,078,551.23	50.00%	-
Sales Store of Peking Road of Guangzhou Medicine Co., Ltd. (Note 1)	218,399.05	-	-	218,399.05	-	-	-	-	20.00%	-
South China Innovative Pharmaceutical Co., Ltd. of Guangdong	10,000,000.00	-	-	10,000,000.00	-	-	-	-	11.12%	-
Shenzhen Zhong Lian Guang Shen Pharmaceutical Group Co., Ltd.	312,077.00	-	-	312,077.00	-	-	-	-	-	-
Guangzhou Zhong Ying Cambridge Technology Co., Ltd.	300,000.00	-	-	300,000.00	300,000.00	-	-	300,000.00	9.97%	-
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	-	-	2,000,000.00	2.80%	-
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	-	-	275,000.00	5.00%	-
Guangzhou Nan Xin Pharmaceutical Co., Ltd.	7,677,876.51	-	-	7,677,876.51	-	-	-	-	13.00%	-
Guangzhou Yu Fa Medical Instrument Co., Ltd.	100,000.00	-	-	100,000.00	100,000.00	-	-	100,000.00	10.00%	-
Baxter Healthcare	82,338,800.00	-	-	82,338,800.00	-	-	-	-	12.50%	-
Guangzhou Bank of Commerce	100,000.00	-	-	100,000.00	-	-	-	-	-	-
Chongqing Pharmaceutical (Group) Holdings Co., Ltd.	150,000,000.00	-	-	150,000,000.00	-	-	-	-	2.22%	-
Elim Biotech	200,000.00	-	-	200,000.00	-	-	-	-	10.00%	-
Sino-Isreal Fund (Note 2)	-	50,000,000.00	-	50,000,000.00	-	-	-	-	24.75%	-
Total	256,510,723.88	50,000,000.00	-	306,510,723.88	4,553,551.23	-	-	4,553,551.23	-	-

Note: 1) The Group has not participated in the operation of Qi Xing Ma Zhong and Indonesia San You Development Co., Ltd. and Sales Store of Peking Road of Guangzhou Medicine Co., Ltd. Not exercised significant influence on them, in which the investments were accounted as available-for-sale financial assets measured at cost using the cost method.

Note: 2) The Group has participated in establishment of Sino-Isreal Fund, which total amounted to RMB606.06 millions, the Company contributed RMB150 millions to the funds, and proportion of the funds is 24.75%. The general partner of the funds is Guangzhou Yi Lin Biological Industry Entrepreneurial Investment Management Co., Ltd., and limited partner is the Company. Decision-making authority for the funds is investment decision-making committee which is comprise of 7 members, according to the partnership agreement, there is no staff of the Company in the committee. As at 30 June 2016, the Company has contributed RMB50 million as a first contribution.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Available-for-sale financial assets (Continued)

(d) Movement for impairment of available-for-sale financial assets at current period:

Classification	Available-for-sale equity instruments
Opening amount of impairment	4,553,551.23
Current provision	–
Including: Reclassified from other comprehensive income	–
Current decrease	–
Including: Reclassified from increment of fair value at subsequent periods	–
Ending amount of impairment	4,553,551.23

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Long-term equity investments

(a) Details of long-term equity investments:

Entity	Investment cost	31 December 2015	Movement of investment	Profit or loss of investment recognized by equity method	Adjustment for other comprehensive income	Movement of other equity	Distributed cash dividends	Others	30 June 2016	Provision for impairment	Current provision for impairment	Current cash dividends
1. Jointly controlled entities												
GP Corp.	396,589,139.78	1,159,509,073.90	-	60,364,380.19	-	-	-	-	1,219,873,454.09	-	-	-
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. ("Wang Lao Ji")	102,035,124.44	388,718,272.78	-	12,841,622.95	-	-	-	-	401,559,895.73	-	-	-
Nuo Cheng Biological	42,000,000.00	128,016,390.34	-	11,069,275.50	-	-	(52,938,523.45)	-	86,147,142.39	-	-	52,938,523.45
HWBYS	100,000,000.00	364,653,219.55	-	53,643,159.66	-	-	-	-	418,296,379.21	-	-	-
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. ("Baxter Qiaoguang")	37,000,000.00	32,230,969.05	-	1,838,137.56	-	-	-	-	34,069,106.61	-	-	-
2. Associates												
Guangzhou Jinshen Medical Co., Ltd.	765,000.00	-	-	-	-	-	-	-	-	-	-	-
Hangzhou Zheda Han Fang Chinese Medical Info. Engineering Co., Ltd.	440,000.00	-	-	-	-	-	-	-	-	-	-	-
Golden Eagle Fund Management Co., Ltd.	50,000,000.00	36,106,562.73	-	3,051,893.98	76,864.68	-	-	-	39,235,321.39	-	-	-
Wei Yi Co., Ltd.	2,020,000.00	1,978,488.09	-	9,213.02	-	-	-	-	1,987,701.11	-	-	-
Subtotal	730,849,264.22	2,111,212,976.44	-	142,817,682.86	76,864.68	-	(52,938,523.45)	-	2,201,169,000.53	-	-	52,938,523.45

Wang Lao Ji's period of joint venture is for 10 years and expired on 25 January 2015. The Company applied for arbitration to Committee of South China International Economic and Trade Arbitration (Shenzhen International Court of Arbitration) ("Arbitration Committee"), required Tong Xing Pharmaceutical Co., Ltd. to transfer 48.0465% equity interest in Wang Lao Ji to the Company. Arbitration Committee has accepted it (case No. SHENT2014811). Pursuant to <Notice from Guangzhou Administration Bureau for Industry and Commerce in respect of Guangzhou Wang Lao Ji Pharmaceutical Holdings Co., Ltd.>(SGSF[2015]No.49) issued by Guangzhou Administration Bureau for Industry and Commerce on 27 February 2015, Wang Lao Ji should be in normal operation. As at reporting date, Wang Lao Ji is still in continuous and normal operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Long-term equity investments (Continued)

(b) There are no limitation on transfer of funds between the Group and its investee.

(12) Investment properties

(a) Investment properties measured at cost method:

	Buildings	Land use right	Total
1. Cost			
(1) Opening balance	371,360,320.11	18,344,900.69	389,705,220.80
(2) Current increase	12,368,450.66	–	12,368,450.66
(i) Outsourcing	–	–	–
(ii) Private properties or inventories transfer to investment properties	12,232,273.20	–	12,232,273.20
(iii) Changes in exchange	136,177.46	–	136,177.46
(3) Current decrease	–	–	–
(i) Disposal	–	–	–
(4) Ending balance	383,728,770.77	18,344,900.69	402,073,671.46
2. Accumulated depreciation and amortization			
(1) Opening balance	146,728,816.91	8,361,317.65	155,090,134.56
(2) Current increase	11,354,585.69	127,723.47	11,482,309.16
(i) Provision or amortization	5,353,737.19	127,723.47	5,481,460.66
(ii) Private properties or inventories transfer to investment properties	5,949,492.10	–	5,949,492.10
(iii) Changes in exchange	51,356.40	–	51,356.40
(3) Current decrease	–	–	–
(i) Disposal	–	–	–
(4) Ending balance	158,083,402.60	8,489,041.12	166,572,443.72
3. Provision for impairment			
(1) Opening balance	–	–	–
(2) Current increase	–	–	–
(3) Current decrease	–	–	–
(4) Ending balance	–	–	–
4. Book value			
(1) Ending book value	225,645,368.17	9,855,859.57	235,501,227.74
(2) Opening book value	224,631,503.20	9,983,583.04	234,615,086.24

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(12) Investment properties *(Continued)*

- (a) Investment properties measured at cost method: *(Continued)*
- (i) Depreciation charges for the six months ended 30 June 2016 amounted to RMB5,354 thousand. (For the six months ended 30 June 2015: RMB4,892 thousand); Amortization charges for the six months ended 30 June 2016 amounted to RMB128 thousand (For the six months ended 30 June 2015: RMB188 thousand).
 - (ii) As for the six months ended 30 June 2016, the increase of original cost and accumulated depreciation of the investment properties arising from the fluctuations in exchange rate is RMB136 thousand and RMB51 thousand respectively (As for the six months ended 30 June 2015: decrease RMB2 thousand and RMB1 thousand respectively).
 - (iii) The land use right among the investment properties is located in Mainland China, and the useful life is 10-50 years.

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For the six months ended 30 June 2016
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Fixed assets and accumulated depreciation

(a) Fixed assets

	Buildings	Machinery and equipment	Motor vehicles	Electronic equipment	Office equipment	Decoration of fixed assets	Total
1. Cost							
(1) Opening balance	1,948,810,181.62	1,736,315,261.40	91,917,006.29	137,345,602.01	116,261,225.01	69,917,742.74	4,100,567,019.07
(2) Current increase	5,603,189.34	103,671,323.21	2,083,769.58	8,631,344.07	5,904,576.68	7,136,267.78	133,030,470.66
(i) Purchase	125,804.88	4,886,967.44	983,295.69	4,159,405.19	3,100,720.41	304,652.03	13,560,845.64
(ii) Reclassified from constructions in progress	237,850.00	77,847,095.61	253,556.84	2,904,845.79	1,584,526.17	6,831,615.75	89,659,490.16
(iii) Changes in exchange rate	150,201.00	-	-	-	13,544.90	-	163,745.90
(iv) Addition of business combination	4,166,874.85	3,955,983.08	846,917.05	1,389,264.68	805,337.00	-	11,164,376.66
(v) Others	922,458.61	16,981,277.08	-	177,828.41	400,448.20	-	18,482,012.30
(3) Current decrease	12,232,273.20	13,401,178.31	2,407,480.00	582,810.34	1,559,222.70	-	30,182,964.55
(i) Disposal or scrap	-	13,401,178.31	2,407,480.00	582,810.34	1,559,222.70	-	17,950,691.35
(ii) Others	12,232,273.20	-	-	-	-	-	12,232,273.20
(4) Ending balance	1,942,181,097.76	1,826,585,406.30	91,593,295.87	145,394,135.74	120,606,578.99	77,054,010.52	4,203,414,525.18
2. Accumulated depreciation							
(1) Opening balance	797,122,392.90	1,059,062,834.37	65,185,763.46	88,494,704.63	78,422,933.55	55,590,906.00	2,143,879,534.91
(2) Current increase	30,489,713.42	56,906,819.27	2,692,863.55	7,243,473.76	5,447,770.43	2,159,035.53	104,939,675.96
(i) Provision	29,663,697.61	54,751,071.03	2,219,608.51	6,726,415.20	5,028,026.16	2,159,035.53	100,547,854.04
(ii) Changes in exchange rate	70,820.97	-	-	-	10,580.29	-	81,401.26
(iii) Addition of business combination	755,194.84	2,155,748.24	473,255.04	517,058.56	409,163.98	-	4,310,420.66
(3) Current decrease	5,949,492.10	11,048,188.93	2,373,707.20	565,565.34	1,499,501.25	-	21,436,454.82
(i) Disposal or scrap	-	11,048,188.93	2,373,707.20	565,565.34	1,499,501.25	-	15,486,962.72
(ii) Others	5,949,492.10	-	-	-	-	-	5,949,492.10
(4) Ending balance	821,662,614.22	1,104,921,464.71	65,504,919.81	95,172,613.05	82,371,202.73	57,749,941.53	2,227,382,756.05
3. Provision for impairment							
(1) Opening balance	8,821,420.06	12,167,832.36	158,224.47	1,635,422.74	2,846.38	-	22,785,746.01
(2) Current increase	-	-	-	-	-	-	-
(3) Current decrease	-	-	-	-	-	-	-
(i) Disposal or scrap	-	-	-	-	-	-	-
(4) Ending balance	8,821,420.06	12,167,832.36	158,224.47	1,635,422.74	2,846.38	-	22,785,746.01
4. Book value							
(1) Ending book value	1,111,697,063.48	709,496,109.23	25,930,151.59	48,586,099.95	38,232,529.88	19,304,068.99	1,953,246,023.12
(2) Opening book value	1,142,866,368.66	665,084,594.67	26,573,018.36	47,215,474.64	37,835,445.08	14,326,836.74	1,933,901,738.15

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For the six months ended 30 June 2016

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Fixed assets and accumulated depreciation (Continued)

(a) Fixed assets (Continued)

- (i) As for the six months ended 30 June 2016, the fixed assets transferred from construction in progress amounted to RMB89,659 thousand (For the six months ended 30 June 2015: RMB158,494 thousand).
- (ii) As for the six months ended 30 June 2016, the decrease of original cost and accumulated depreciation of fixed assets is due to fluctuations in exchange rate amounted to RMB163 thousand and RMB81 thousand respectively (For the six months ended 30 June 2015: RMB3 thousand and RMB1 thousand respectively).
- (iii) Depreciation expenses for the six months ended 30 June 2016 amounted to RMB100,548 thousand in total (For the six months ended 30 June 2015: RMB95,914 thousand), of which RMB66,907 thousand, RMB1,544 thousand and RMB32,097 thousand were charged to cost of sales, selling and distribution expenses and general and administrative expenses, respectively (For the six months ended 30 June 2015: RMB62,969 thousand, RMB1,561 thousand and RMB31,384 thousand respectively).

- (b) As at 30 June 2016, fixed assets are temporarily idle, which are analysed as follows:

	Cost	Accumulated depreciation	Provision for impairment	Carrying amount
Buildings	6,478,874.98	1,635,322.54	4,618,987.46	224,564.98
Machinery	38,907,244.69	27,834,128.83	7,313,304.83	3,759,811.03
Electrical equipment	147,897.48	69,184.00	78,713.48	–

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Fixed assets and accumulated depreciation (Continued)

- (c) As at 30 June 2016, fixed assets which were lack of ownership certificate are summarized as follows:

	Carrying amount	Reason	Estimated date of obtaining the ownership certificate
Buildings	33,533,950.84	Procedures are not completed, certificates are not handled	Uncertain
Motor vehicles	40,312.50	Procedures are not completed, ownership cannot be transferred	Uncertain
	<u>33,574,263.34</u>		

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

	30 June 2016 Carrying amount	31 December 2015 Carrying amount
Buildings	<u>11,428,458.73</u>	<u>9,213,155.00</u>

- (e) As at 30 June 2016, Guangyao Baiyunshan Hong Kong Company, 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 HKD6,453 thousand of the buildings of fixed assets and the original value amounted to HKD6,843 thousand, the net value amounted to HKD3,935 thousand of investment properties as a pledge, and the issued undue L/C amounted to USD52 thousand and JPY200,971 thousand.

(14) Construction in progress

	30 June 2016			31 December 2015		
	Book balance	Provision for impairment	Carrying amount	Provision for impairment	Carrying amount	Book balance
Construction in progress	<u>508,183,529.27</u>	<u>1,121,052.88</u>	<u>507,062,476.39</u>	<u>557,027,433.05</u>	<u>1,121,052.88</u>	<u>555,906,380.17</u>

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For the six months ended 30 June 2016

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Construction in progress (Continued)

(a) Movement of construction in progress

	Budget	31 December 2015	Current increase	Current decrease		30 June 2016	Source of funds	% contribution in budget
				Transferred to fixed assets	Other decrease			
Pill Line	5,000,000.00	1,225,000.00	-	1,225,000.00	-	-	Self-funded	59.50%
HMPL-004special production line	3,000,000.00	218,363.76	-	-	-	218,363.76	Self-funded	7.28%
Office building	10,000,000.00	-	24,334.00	-	-	24,334.00	Self-funded	0.24%
Land parcel of Bio-island	111,940,400.00	111,940,400.00	-	-	-	111,940,400.00	Self-funded	100.00%
Research of Bio Vaccine & Industrialization	29,300,000.00	17,685,023.83	415,657.52	1,993,925.92	382,072.10	15,724,683.33	Self-funded	92.11%
Wanglaoji anti-channel conflict equipment	3,330,000.00	1,940,769.20	-	-	-	1,940,769.20	Self-funded	68.19%
Wanglaoji Ya'an manufacturing project	298,000,000.00	51,430,944.67	7,081,630.13	-	-	58,512,574.80	Self-funded	68.63%
Removal of reconstruction (power supply room/boiler room/sewage station/cool warehouse of Zhongcun/No.4 addition building)	5,530,000.00	4,689,948.59	27,032.69	-	1,086,951.88	3,630,029.40	Government grants	94.12%
GMP improvement project of 4 workshops	6,920,000.00	25,014.44	-	-	-	25,014.44	Self-funded	73.74%
Tongtai Building	6,773,435.87	-	3,321,357.42	-	-	3,321,357.42	Self-funded	49.04%
Rehabilitation building C	30,000,000.00	-	64,151.60	-	-	64,151.60	Self-funded	0.21%
Chinese medicine treatment before extraction of the modernization of products	97,564,100.00	77,085,120.05	5,861,922.98	54,940,201.00	28,006,842.03	-	Self-funded	83.66%
GMP improvement of solid preparation workshop of No.1 manufacturing depart.	6,440,000.00	1,811,480.73	-	170,000.00	1,641,480.73	-	Self-funded	28.13%
Other installation equipments	5,110,000.00	2,012,820.45	85,196.58	2,098,017.03	-	-	Self-funded	78.40%
Oral Cephalosporin workshop GMP Improvement	47,800,000.00	-	19,029.13	-	-	19,029.13	Self-funded	0.04%
Chemical Factory Oral API GMP Improvement CFO Item	11,695,100.00	6,403,168.79	385,771.81	6,788,940.60	-	-	Self-funded	58.05%
	7,000,000.00	4,876,902.33	1,669,388.77	-	-	6,546,291.10	Self-funded	88.75%
Zhongluotian Wulonggang								
AB0807098-1block	169,750,000.00	2,948,549.00	-	-	-	2,948,549.00	Self-funded	36.31%
Eye drops workshop improvement	2,315,954.73	1,729,817.67	586,137.06	2,315,954.73	-	-	Self-funded	100.00%
Adhesive plaster workshop improvement	1,049,215.87	1,049,215.87	-	1,049,215.87	-	-	Self-funded	100.00%
Tian Xin Powder Inj. Project	14,000,000.00	1,181,734.30	-	-	-	1,181,734.30	Self-funded	81.20%
Tian Xin Chemical Institute Project	25,500,000.00	1,590,360.93	-	-	-	1,590,360.93	Self-funded	147.86%
Tian Xin Wei D 2 Tartaric Acid Inj.	15,000,000.00	200,000.00	-	-	-	200,000.00	Self-funded	1.33%
Tian Xin Asepsis Water Inj Workshop	20,000,000.00	-	730,881.22	730,881.22	-	-	Self-funded	68.88%

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Construction in progress (Continued)

(a) Movement of construction in progress (Continued)

	Budget	31 December 2015	Current increase	Current decrease		30 June 2016	Source of funds	% contribution in budget
				Transferred to fixed assets	Other decrease			
Tian Xin Powder Injector & Screw Arbor Line	19,800,000.00	600,000.00	-	-	-	600,000.00	Self-funded	8.87%
Tian Xin Cephalosporins Workshop Improvement	12,000,000.00	-	10,387.87	10,387.87	-	-	Self-funded	99.56%
Tian Xin Water Inj Workshop	15,900,000.00	3,418,912.02	723,525.75	505,937.88	-	3,636,499.89	Self-funded	150.80%
Penicillin GMP Improvement	12,900,000.00	548,882.15	190,000.00	-	-	738,882.15	Self-funded	92.53%
GMP Improvement of injection and water needle	18,460,000.00	728,639.53	1,427,262.14	256,847.20	-	1,899,054.47	Self-funded, loan	151.67%
Third Manufacturing Department	7,000,000.00	1,147,161.97	2,704,444.87	655,555.57	-	3,196,051.27	Self-funded	55.02%
Ming Xing Equipment Improvement	67,430,000.00	1,526,552.64	3,202,728.30	1,674,573.98	61,602.96	2,993,104.00	Self-funded	56.66%
Ming Xing Decoration	17,200,000.00	217,912.99	98,200.00	98,200.00	-	217,912.99	Self-funded	82.69%
Ming Xing relocation improvement	340,000,000.00	80,380,242.36	5,336,797.73	-	-	85,717,040.09	loan	23.96%
Wei Ling Pharmaceutical new factory	134,987,776.64	88,640,065.43	15,096,475.00	-	-	103,736,540.43	Self-funded	76.96%
GHL-800 granulation production line, LDB-350 efficient coating machine	11,581,000.00	7,221,452.00	-	-	-	7,221,452.00	Self-funded	62.36%
2 sets of automatic bottling production line	3,200,000.00	1,920,000.00	-	-	-	1,920,000.00	Self-funded	60.00%
Air conditioning terminal equipment & water storage system	9,192,279.30	5,414,465.36	-	-	-	5,414,465.36	Self-funded	58.90%
Switch cabinet	3,480,000.00	2,088,000.00	-	-	505,640.97	1,582,359.03	Self-funded	60.00%
Production line of asepsis material	54,000,000.00	34,191,471.68	3,329,199.48	-	-	37,520,671.16	Self-funded	69.48%
Tibetan Health Castle Project	35,000,000.00	16,581,884.37	4,206,319.92	-	-	20,788,204.29	Self-funded	59.39%
Others	110,585,593.56	22,357,155.94	18,458,754.09	15,145,851.29	2,556,409.01	23,113,649.73	Self-funded	
		557,027,433.05	75,056,586.06	89,659,490.16	34,240,999.68	508,183,529.27		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Construction in progress (Continued)

(b) As at 30 June 2016, there are no borrowing costs eligible for capitalization.

(c) Provision for impairment of construction in progress

Name of construction	31 December 2015	Current increase	Current decrease	30 June 2016	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) Schedule of significant constructions in progress are as below:

	Progress
Land parcel of Bio-island Research of Bio Vaccine & Industrialization Platform Wang Lao Ji Ya'an manufacturing project	Pending for acceptance Construction phase Construction completed, pending for check
Tibetan Health Castle Project	Construction phase
Ming Xing relocation improvement	Construction phase
Wei Ling new factory	Construction phase
Sterile production line	Construction completed, being tested.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Intangible assets

(a) Details of intangible assets:

	Land use right	Industrial property & proprietary technology	Non-Patents	Trademark	Others	Total
1. Cost						
(1) Opening balance	482,644,927.45	15,792,920.51	28,622,438.97	159,355,952.74	14,644,951.23	701,061,190.90
(2) Current increase	-	-	-	-	2,109,429.62	2,109,429.62
(i) Purchase	-	-	-	-	2,109,429.62	2,109,429.62
(3) Current decrease	-	-	-	-	-	-
(4) Ending balance	482,644,927.45	15,792,920.51	28,622,438.97	159,355,952.74	16,754,380.85	703,170,620.52
2. Accumulated amortization						
(1) Opening balance	95,070,766.95	8,197,449.66	12,724,534.94	32,702,090.56	10,674,080.82	159,368,922.93
(2) Current increase	5,234,713.03	258,352.19	1,195,957.00	5,733.60	1,170,307.80	7,865,063.62
(i) Provision	5,234,713.03	258,352.19	1,195,957.00	5,733.60	1,170,307.80	7,865,063.62
(3) Current decrease	-	-	-	-	-	-
(4) Ending balance	100,305,479.98	8,455,801.85	13,920,491.94	32,707,824.16	11,844,388.62	167,233,986.55
3. Provision for impairment						
(1) Opening balance	480,700.24	453,343.04	-	583,573.00	-	1,517,616.28
(2) Current increase	-	-	-	-	-	-
(3) Current decrease	-	-	-	-	-	-
(4) Ending balance	480,700.24	453,343.04	-	583,573.00	-	1,517,616.28
4. Book value						
(1) Ending book value	381,858,747.23	6,883,775.62	14,701,947.03	126,064,555.58	4,909,992.23	534,419,017.69
(2) Opening book value	387,093,460.26	7,142,127.81	15,897,904.03	126,070,289.18	3,970,870.41	540,174,651.69

At current period, the amortization of intangible assets amounted to RMB7,865 thousand (For the six months ended 30 June 2015: RMB6,540 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Development costs

	31 December 2015	Current increase		Current transferred-out		30 June 2016
		Internal research expenses	Others	Recognized in current profit or loss	Recognized as intangible assets	
Capitalized expenditures	5,509,098.53	-	-	2,492,051.69	-	3,017,046.84
Expensed expenditures	-	153,049,875.75	-	153,049,875.75	-	-
	5,509,098.53	153,049,875.75	-	155,541,927.44	-	3,017,046.84

(17) Goodwill

(a) Original book value of goodwill

Investee or events of goodwill	Opening balance	Current increase		Current decrease		Ending balance
		Amount of business combination	Others	Disposal	Others	
Guangyao Haima	2,282,952.18	-	-	-	-	2,282,952.18
Guangxi Ying Kang	475,756.92	-	-	-	-	475,756.92
BYS Hospital		9,216,610.56				9,216,610.56
Total	2,758,709.10	9,216,610.56	-	-	-	11,975,319.66

The Company purchased 51% equity interest of BYs Hospital by merging cost amounted to RMB46,500 thousand in April 2016, which exceeded the difference amounted to RMB9,216,610.56 between identifiable assets of BYs Hospital and its fair value of liabilities, was recognized as goodwill of BYs Hospital.

(b) Provision for impairment of goodwill

Investee or events of goodwill	Opening balance	Current increase		Current decrease		Ending balance
		Provision	Others	Disposal	Others	
Guangxi Ying Kang	475,756.92	-	-	-	-	475,756.92

The Company calculated Guangyao Haima, a subsidiary of the Company, as a group of assets by profit method for its recoverable amount. There are no impairment for goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(18) Long-term prepaid expenses

	31 December 2015	Current increase	Current amortization	30 June 2016
Building decoration and fixtures	20,048,501.20	23,131,109.55	3,554,586.66	39,625,024.09
GMP improvement fee	1,464,700.67	1,667,627.07	284,616.55	2,847,711.19
Rain sewage diversion improvement	53,963.97	–	53,963.97	–
Zhong Xin warehouse iron canopy improvement	87,643.23	–	61,877.73	25,765.50
Maintaining and decoration for outer wall of warehouse	438,666.71	–	55,999.98	382,666.73
Installation for electric wire of warehouse	237,961.88	–	63,453.18	174,508.70
Authentication of AAALAC	237,260.99	–	22,596.30	214,664.69
Others	1,543,447.65	13,777,331.08	990,880.89	14,329,897.84
	<u>24,112,146.30</u>	<u>38,576,067.70</u>	<u>5,087,975.26</u>	<u>57,600,238.74</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(19) Deferred income tax assets and deferred income tax liabilities

(a) Deferred income tax assets that are not offset

	30 June 2016	31 December 2015
Provision for impairment of construction in progress	168,157.94	168,157.94
Provision for declines in values of inventories	3,365,322.92	4,084,757.42
Provision for bad debts	25,454,045.55	24,690,656.82
Provision for impairment of fixed assets	2,935,296.33	2,935,296.33
Difference arising from accounting and tax depreciations of fixed assets	2,051,776.82	2,051,776.82
Available for sale financial assets	587,551.22	587,551.22
Employee benefits payable	6,525,895.18	6,543,317.10
Provisions	6,936,604.68	6,936,604.68
Other payables	249,770,247.29	218,348,709.96
Deferred income	16,506,728.00	16,267,190.50
Deductible tax losses	17,095,753.13	17,095,753.13
Provision for impairment of intangible assets	120,175.06	120,175.06
Difference arising from accounting and tax amortizations of intangible assets	308,505.30	308,505.30
Elimination of unrealized profits arising from the inter-company transaction	31,743,256.16	29,255,676.72
Others	381,925.32	381,925.32
	363,951,240.90	329,776,054.32

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(19) Deferred income tax assets and deferred income tax liabilities (Continued)

(b) Deferred income tax liabilities that are not offset

	30 June 2016	31 December 2015
Other receivables-rental	555,469.93	555,469.93
Changes in fair value of financial assets held for trading	148,262.15	148,262.15
Changes in fair value of available-for-sale financial assets	2,121,471.52	2,616,810.28
Depreciation balance of fixed assets revaluation	309,216.60	309,216.60
Difference arising from accounting and tax depreciations of fixed assets	122,046.72	122,046.72
Compensation from relocation	12,484,841.75	12,484,841.75
Amortization balance of intangible assets revaluation	1,289,770.80	1,289,770.80
Other receivables-distribution of income	18,103,857.50	11,435,960.00
Others	101,557.00	101,557.00
	35,236,493.97	29,063,935.23

(c) Deductible temporary differences and deductible losses that are not recognized as deferred income tax assets are analyzed as follows:

	30 June 2016	31 December 2015
Deductible temporary differences	30,658,367.86	30,658,367.86
Deductible tax losses	116,695,331.65	102,947,898.90
	147,353,699.51	133,606,266.76

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(19) Deferred income tax assets and deferred income tax liabilities (Continued)

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

	30 June 2016	31 December 2015
2016	10,551,329.14	10,551,329.14
2017	12,693,135.09	12,693,135.09
2018	25,413,425.03	25,504,576.82
2019	26,150,385.15	26,150,385.15
2020	29,692,194.77	28,048,472.70
2021	12,194,862.47	–
	116,695,331.65	102,947,898.90

- (e) Temporary differences correspond to assets or liabilities items of deferred income tax assets that are not offset

	30 June 2016	31 December 2015
Provision of impairment of construction in progress	1,121,052.88	1,121,052.88
Provision for declines in values of inventories	17,595,401.40	19,727,372.60
Provision for bad debts	109,534,216.49	107,353,410.43
Provision of impairment of fixed assets	19,296,479.43	19,296,479.43
Difference arising from accounting and tax depreciations of fixed assets	12,074,081.64	12,074,081.64
Available-for-sale financial assets	3,610,204.88	3,610,204.88
Employee benefits payable	40,978,677.96	41,048,365.75
Other payables	1,058,636,254.08	933,846,501.53
Deferred income	107,326,611.66	106,368,460.66
Deductible tax losses	111,690,410.58	111,690,410.58
Elimination of unrealized profits arising from the inter-company transaction	126,973,024.73	117,022,706.89
Provision for impairment of intangible assets	480,700.24	480,700.24
Difference arising from accounting and tax amortizations of intangible assets	1,838,157.26	1,838,157.26
Provisions	46,244,031.19	46,244,031.19
Others	2,546,168.88	2,546,168.88
	1,659,945,473.30	1,524,268,104.84

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(19) Deferred income tax assets and deferred income tax liabilities (Continued)

- (f) Temporary differences correspond to assets or liabilities items of deferred income tax liabilities that are not offset

	30 June 2016	31 December 2015
Other receivables-rental	3,703,132.87	3,703,132.87
Changes in fair value of financial assets held for trading	988,414.30	988,414.30
Available-for-sale financial assets	13,719,453.79	16,943,053.08
Depreciation balance of fixed assets revaluation	2,061,444.00	2,061,444.00
Difference arising from accounting and tax depreciations of fixed assets	813,644.80	813,644.80
Compensation from relocation	61,772,380.90	61,772,380.90
Amortization balance of intangible assets revaluation	8,598,472.00	8,598,472.00
Other receivables-distribution of income	72,415,430.00	45,743,840.00
Others	677,046.68	677,046.68
	164,749,419.34	141,301,428.63

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(20) Other non-current assets

	30 June 2016	31 December 2015
Pharmaceutical production technologies	36,067,500.00	–

(21) Provision for impairment of assets

	31 December 2015	Current increase (note)	Other decrease			30 June 2016
			Reversal	Written-off	Other decrease	
Provision for bad debts	99,291,633.74	4,818,938.43	1,577,015.98	–	–	102,533,556.19
Provision for declines in value of inventories	24,186,511.06	4,674,143.63	1,825,874.10	4,719,927.27	–	22,314,853.32
Provision for impairment of available for sale financial assets	4,553,551.23	–	–	–	–	4,553,551.23
Provision for impairment of fixed assets	22,785,746.01	–	–	–	–	22,785,746.01
Provision for impairment of construction in progress	1,121,052.88	–	–	–	–	1,121,052.88
Provision for impairment of intangible assets	1,517,616.28	–	–	–	–	1,517,616.28
Provision for impairment of goodwill	475,756.92	–	–	–	–	475,756.92
	153,931,868.12	9,493,082.06	3,402,890.08	4,719,927.27	–	155,302,132.83

Note: Provision for bad debts in current period includes Guangzhou Baiyunshan Hospital Co., Ltd., the business combination involving enterprises not under common control of the Company, its balance of provision for bad debts at combination date amounted to RMB4,314,552.03.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(22) Short-term borrowings

	30 June 2016	31 December 2015
Credit borrowings	375,932,644.20	456,536,134.74
Pledge borrowings	94,999,883.79	94,999,883.79
Guaranteed borrowings	–	–
Discount of commercial acceptance notes	15,000,000.00	78,147,446.16
	485,932,527.99	629,683,464.69

- (a) As at 30 June 2016 and 31 December 2015, there are no overdue borrowings.
- (b) As at 30 June 2016, the pledged bank borrowings amounted to RMB95,000 thousand, the collateral of which was accounts receivables amounted to RMB95,000 thousand. (as at 31 December 2015: the pledged bank borrowings amounted to RMB95,000 thousand, the collateral of which was accounts receivables amounted to RMB95,0000 thousand).
- (c) As at 30 June 2016, the weighted average interest rate of short-term borrowings is 4.2909% per annum (As at 31 December 2015: 4.6192% per annum).

(23) Notes payable

	30 June 2016	31 December 2015
Bank acceptance notes	122,973,382.96	197,727,364.71
Commercial acceptance notes	29,810,376.27	94,879,734.94
	152,783,759.23	292,607,099.65

As at 30 June 2016, notes payable amounted to RMB152,784 thousand were expected to be due within 1 year (as at 31 December 2015: RMB292,607 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(24) Accounts payable

(a) Details of accounts payable:

	30 June 2016		31 December 2015	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	2,557,357,292.06	92.21%	2,452,193,485.28	93.01%
Over 1 year	215,952,745.02	7.79%	184,280,622.77	6.99%
	2,773,310,037.08	100.00%	2,636,474,108.05	100.00%

(b) As at 30 June 2016, accounts payable that are individually significant aging over 1 year are as below (as at 31 December 2015: nil):

Item	Ending balance	Reason of outstanding or transfer
Supplier 1	47,405,089.60	Involving litigation, detail refers to Note 16(1) (a) (i)
Supplier 2	22,576,000.00	Involving litigation, detail refers to Note 16(1) (a) (i)
Supplier 3	18,440,000.00	Involving litigation, detail refers to Note 16(1) (a) (i)
Supplier 4	14,318,990.84	Supplier lack of funds, consulted on-account
Supplier 5	12,579,388.83	Supplier lack of funds, consulted on-account
	115,319,469.27	

(25) Advances from customers

(a) Details of advances from customers:

	30 June 2016		31 December 2015	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	797,906,987.04	96.72%	945,769,911.96	97.05%
Over 1 year	27,037,787.38	3.28%	28,744,298.34	2.95%
	824,944,774.42	100.00%	974,514,210.30	100.00%

(b) As at 30 June 2016 and 31 December 2015, there are no advances from customers that are individually significant aging are over 1 year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(26) Employee benefits payable

	31 December 2015	Current increase	Current decrease	30 June 2016
1. Short-term employee benefits	412,212,971.45	1,431,035,370.35	1,475,723,474.75	367,524,867.05
Wages and salaries, bonuses, allowances and subsidies	390,473,136.72	1,205,119,987.38	1,252,008,549.89	343,584,574.21
Including: Service fee	183,493,987.47	257,051,808.74	361,042,533.06	79,503,263.15
Staff welfare	(378,326.93)	48,086,428.71	44,367,020.26	3,341,081.52
Including: Funds of bonus and welfare of Foreign Invested Enterprises	-	-	-	-
Social insurances	(12,541.06)	59,404,707.66	59,286,869.93	105,296.67
Including: Medical insurance	(5,520.88)	52,569,540.77	52,465,766.14	98,253.75
Work injury insurance	196.61	3,086,509.33	3,077,462.47	9,243.47
Maternity insurance	(7,216.79)	3,748,657.56	3,743,641.32	(2,200.55)
Housing funds	764,482.70	84,407,402.71	85,086,710.71	85,174.70
Labor union funds	3,649,619.45	13,869,315.56	14,503,149.83	3,015,785.18
Employee education funds	2,456,873.98	5,121,848.25	4,243,530.55	3,335,191.68
Non-monetary welfare	-	-	-	-
Housing allowance	14,917,233.49	7,463,771.81	7,599,956.43	14,781,048.87
Short-term paid absences	-	6,232.93	6,232.93	-
Other short-term benefits	342,493.10	7,555,675.34	8,621,454.22	(723,285.78)
2. Post-employment benefits	816,766.70	117,011,173.16	116,965,476.19	862,463.67
Defined contribution plans	816,766.70	117,011,173.16	116,965,476.19	862,463.67
Including: Basic pension insurance	6,178.82	87,802,519.60	87,584,972.53	223,725.89
Unemployment	2,749.40	4,696,649.34	4,654,947.44	44,451.30
Annuity	213,552.00	22,624,228.13	22,837,780.13	-
Others	594,286.48	1,887,776.09	1,887,776.09	594,286.48
Defined benefits plans	-	-	-	-
3. Termination benefits	-	3,677,929.56	3,677,929.56	-
Compensation for lay-off	-	3,007,783.28	3,007,783.28	-
Others	-	670,146.28	670,146.28	-
4. Other long-term employee benefits	-	-	-	-
Long-term paid absences	-	-	-	-
Long-term disability benefits	-	-	-	-
Long-term profit-sharing scheme	-	-	-	-
Other long-term benefits	-	-	-	-
	<u>413,029,738.15</u>	<u>1,551,724,473.07</u>	<u>1,596,366,880.50</u>	<u>368,387,330.72</u>

As at 30 June 2016, employee benefits payable mainly include the wages, bonus and service fee of June 2016 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 year 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(27) Taxes payable

	30 June 2016	31 December 2015
VAT	30,160,393.33	(11,469,979.45)
Business tax	12,466.26	1,462,630.59
City maintenance and construction tax	7,832,322.50	3,767,929.85
Education surcharge	3,391,536.57	1,648,735.36
Local education surcharge	2,261,049.82	1,080,248.09
Enterprise income tax	103,744,957.66	66,193,089.78
Individual income tax	4,297,619.75	9,942,441.20
Real-estate tax	5,890,294.34	807,105.72
Land use tax	3,426,771.64	3,826,404.18
Urban area embankment maintenance fee	8,610.70	20,386.91
Stamp duty	1,254,847.66	1,061,852.06
Others	16,176.04	18.00
	162,297,046.27	74,514,458.11

(28) Interest payable

Item	30 June 2016	31 December 2015
Interest payable of short-term borrowings	32,625.00	73,458.32
Interest payable of long-term borrowings	239,973.80	286,170.24
	272,598.80	359,628.56

(29) Dividends payable

Investor	30 June 2016	31 December 2015
Public shares	156,180.46	156,180.46
BYS Group	45.01	45.01
Minority shareholders	41,325,733.14	51,909,873.44
	41,481,958.61	52,066,098.91

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(30) Other payables

(a) The aging of other payables is analyzed as follows:

	30 June 2016	31 December 2015
Within 1 year	2,381,287,155.44	1,585,891,463.00
Over 1 year	165,531,725.33	169,359,640.41
	2,546,818,880.77	1,755,251,103.41

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

	30 June 2016	31 December 2015
Deposits	120,887,933.77	119,819,155.04
Technology development expenses	1,847,707.91	981,390.62
Rental expenses	2,184,314.42	890,668.56
Payables to third parties	155,287,257.04	89,407,540.85
Amount due to employees	9,013,660.77	12,054,678.84
Payables to related parties (Note 12)	70,300,163.65	43,357,745.40
Accruals for purchase of fixed assets	5,283,471.61	14,444,015.17
Sales rebate	189,335,820.99	138,376,142.93
Accrued expenses	1,964,325,724.83	1,318,679,764.89
Others	28,352,825.78	17,240,001.11
	2,546,818,880.77	1,755,251,103.41

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(30) Other payables (Continued)

(c) Details of accrued expenses:

	30 June 2016	31 December 2015
Rental expenses	7,036,890.28	7,014,509.87
Agent fees	1,015,269.81	1,202,896.67
Advertising and promotional expenses	1,636,881,254.34	1,095,142,853.64
Utilities	7,931,350.86	7,525,426.04
Transportation expenses	89,251,110.59	76,873,746.95
Conference expenses	607,672.03	1,082,302.98
Research and development expenses	29,364,179.17	16,054,341.60
Marketing expenses	92,510,326.33	44,565,889.15
Travelling expenses	8,756,099.26	6,489,622.76
Consulting expenses	900,000.00	959,223.96
Trademark expenses	3,919,881.42	3,900,000.00
Others	86,151,690.74	57,868,951.27
	<u>1,964,325,724.83</u>	<u>1,318,679,764.89</u>

(d) As at 30 June 2016 and 31 December 2015, significant other payables whose aging are over 1 year mainly include unsettled balance for purchase of fixed assets and intangible assets, and purchase deposit.

(31) Long-term borrowings

(a) Classification of long-term borrowings:

Category of borrowings	30 June 2016	31 December 2015
Credit borrowings	<u>32,009,955.51</u>	<u>39,755,174.34</u>

The maturity date of long-term borrowings is 17 April 2018.

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For the six months ended 30 June 2016
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(32) Long-term payables

	30 June 2016	31 December 2015
State fund	17,208,759.82	18,720,803.57
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	929,669.30	929,669.30
	20,707,855.59	22,219,899.34

(33) Payables for specific projects

	31 December 2015	Current increase	Current decrease	30 June 2016	Reason
Compensation of relocation due to policies	19,058,160.00	-	-	19,058,160.00	Compensation of relocation due to policies

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(34) Provisions

	30 June 2016	31 December 2015	Reason
Provisions of rejection on goods	500,191.19	500,191.19	Estimated by the disposal assets agreement, both parties have not yet settled.
Employee benefits from restructuring of Guangyao General Institute	52,855,004.78	53,281,575.59	Note 1
Unemployed fee for relocation of Qi Xing Pharmaceutical	8,385,070.76	10,380,767.54	Note 2
	61,740,266.73	64,162,534.32	

Note1: The Company obtained 100% of stock right of Guangyao General Institute through business combination involving enterprises under common control in year of 2015. According to the employee resettlement scheme, when Guangyao General Institute was being restructured, Guangyao General Institute remain to offer pension and medical benefits for the retirees, in-service staff, family members and dependants who are enrolled as at 30 June 2014, and employee benefits are estimated consequently.

Note2: According to the employee resettlement scheme arising from the relocation of Qi Xing Pharmaceutical, for the employee who has serviced for 15 years but has less than 5 years to the age at statutory retirement, if the relocation of Qi Xing Pharmaceutical was completed, these employee would await job assignment when they have no position, they would receive salary monthly until retirement, and this unemployed fee for relocation of Qi Xing Pharmaceutical are estimated consequently.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(35) Deferred income

Item	31 December 2015	Current revenue				30 June 2016	Reason
		Current increase of grants	from non-operation	For cooperation	Other movement		
Government grants related to assets:	98,663,325.82	33,484,785.68	5,612,582.54	-	-	126,535,528.96	
Including:							
Technology funds granted by government	58,330,044.51	14,484,785.68	3,801,639.96	-	-	69,013,190.23	Received appropriation from government
Relocation compensation	4,462,976.46	-	182,822.22	-	-	4,280,154.24	Received appropriation from government
Financial discount	1,808,952.27	-	35,933.46	-	-	1,773,018.81	Received appropriation from government
Special fund of environmental protection	4,036,427.37	-	220,579.16	-	-	3,815,848.21	Received appropriation from government
Innovating platform construction	15,012,842.78	-	1,105,051.02	-	-	13,907,791.76	Received appropriation from government
Land support fund from government	10,250,041.42	-	174,221.64	-	-	10,075,819.78	Received appropriation from government
Support fund for industrial development	-	18,000,000.00	-	-	-	18,000,000.00	Received appropriation from government
Others	4,762,041.01	1,000,000.00	92,335.08	-	-	5,669,705.93	Received appropriation from government
Government grants related to income:	84,924,533.01	674,405,606.59	182,917,664.82	8,515,050.00	(517,047.05)	567,380,377.73	
Including:							
Technology funds granted by government	60,427,721.15	36,507,184.32	20,936,482.49	8,515,050.00	(111,282.05)	67,372,090.93	Received appropriation from government
Special fund of technology exports	151,628.72	-	-	-	-	151,628.72	Received appropriation from government
Medical industrial research project	11,830,464.30	3,088,770.00	3,247,583.00	-	-	11,671,651.30	Received appropriation from government
Special fund of energy-saving improvement	708,750.00	-	6,300.00	-	-	702,450.00	Received appropriation from government
Special fund of innovative firms	7,710.76	-	1,949.88	-	-	5,760.88	Received appropriation from government
Compensation of relocation	8,260,025.38	500,000,000.00	27,629,745.06	-	-	480,630,280.32	Received appropriation from government
Enterprise Development fund	-	130,480,000.00	130,480,000.00	-	-	-	Received appropriation from government
Others	3,538,232.70	4,329,652.27	615,604.39	-	(405,765.00)	6,846,515.58	Received appropriation from government
Total	183,587,858.83	707,890,392.27	188,530,247.36	8,515,050.00	(517,047.05)	693,915,906.69	

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For the six months ended 30 June 2016

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(36) Long-term employee benefits payable

Item	30 June 2016	31 December 2015
Post-employment benefits-provision for long-term service bonus	302,626.92	296,646.40

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(37) Share capital

	31 December 2015		Current increase (+) decrease (-)					30 June 2016	
	Amount	% of the total balance	Issued shares	Stock distribution	Capitalizing of capital reserves	Others	Subtotal	Amount	Ratio (%)
Shares subject to selling restrictions –									
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 subject to selling restrictions – subtotal	34,839,645.00	2.70	-	-	-	-	-	34,839,645.00	2.70
Shares subject to no selling restrictions:									
RMB ordinary shares	1,036,339,605.00	80.27	-	-	-	-	-	1,036,339,605.00	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 subject to no selling restrictions – subtotal	1,256,239,605.00	97.30	-	-	-	-	-	1,256,239,605.00	97.30
Total share capital	1,291,079,250.00	100.00	-	-	-	-	-	1,291,079,250.00	100.00

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(37) Share capital (Continued)

	31 December 2014		Current increase (+) decrease (-)					31 December 2015	
	Amount	% of the total balance	Issued shares	Stock distribution	Capitalizing of capital reserves	Others	Subtotal	Amount	Ratio (%)
Shares subject to selling restrictions –									
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 subject to selling restrictions-subtotal	34,839,645.00	2.70	-	-	-	-	-	34,839,645.00	2.70
Shares subject to no selling restrictions:									
RMB ordinary shares	1,036,601,005.00	80.27	-	-	-	(261,400.00)	(261,400.00)	1,036,339,605.00	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 subject to no selling restrictions – subtotal	1,256,501,005.00	97.30	-	-	-	(261,400.00)	(261,400.00)	1,256,239,605.00	97.30
Total share capital	1,291,340,650.00	100.00	-	-	-	(261,400.00)	(261,400.00)	1,291,079,250.00	100.00

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(38) Capital surplus

	31 December 2015	Current increase	Current decrease	30 June 2016
Share premium	1,529,628,715.09	-	-	1,529,628,715.09
Other capital surplus	816,806,393.55	-	-	816,806,393.55
Including: Transfer of capital surplus recognized under the previous accounting system	24,955,836.66	-	-	24,955,836.66
	<u>2,346,435,108.64</u>	<u>-</u>	<u>-</u>	<u>2,346,435,108.64</u>

	31 December 2014	Current increase	Current decrease	31 December 2015
Share premium	1,709,943,033.90	261,399.00	180,575,717.81	1,529,628,715.09
Other capital surplus	816,695,796.21	110,597.34	-	816,806,393.55
Including: Transfer of capital surplus recognized under the previous accounting system	24,955,836.66	-	-	24,955,836.66
	<u>2,526,638,830.11</u>	<u>371,996.34</u>	<u>180,575,717.81</u>	<u>2,346,435,108.64</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(39) Other comprehensive income

Item	Current amount						Ending balance
	Opening balance	Current pre-tax	Less: profit or loss transferred by other comprehensive income at last period	Less: income tax	After-tax attributable to parent company	After-tax attributable to minority shareholders	
1. Items will not be classified into profit or loss at following accounting period	1,448,181.81	-	-	-	-	-	1,448,181.81
Including: Portion of items will not be classified into profit or loss when under equity method	1,448,181.81	-	-	-	-	-	1,448,181.81
2. Items will be classified into profit or loss at following accounting period.	(2,180,860.00)	9,695,211.22	-	-	9,700,086.99	(4,875.78)	7,519,226.99
Including: Portion of items will be classified into profit or loss when under equity method	414,932.57	76,864.68	-	-	76,864.68	-	491,797.25
Profit or loss arising from the changes in fair value of available for sale financial assets	4,977,844.81	7,355,214.23	-	-	7,360,090.00	(4,875.78)	12,337,934.81
Differences arising from translation of foreign currency	(7,573,637.38)	2,263,132.31	-	-	2,263,132.31	-	(5,310,505.07)
Total other comprehensive income	(732,678.19)	9,695,211.22	-	-	9,700,086.99	(4,875.78)	8,967,408.80

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(40) Surplus reserve

	31 December 2015	Current increase	Current decrease	30 June 2016
Statutory surplus reserve	811,596,644.87	-	-	811,596,644.87
Discretionary surplus reserve	118,925,617.49	-	-	118,925,617.49
	<u>930,522,262.36</u>	<u>-</u>	<u>-</u>	<u>930,522,262.36</u>

	31 December 2014	Current increase	Current decrease	31 December 2015
Statutory surplus reserve	696,561,588.89	115,035,055.98	-	811,596,644.87
Discretionary surplus reserve	118,925,617.49	-	-	118,925,617.49
	<u>815,487,206.38</u>	<u>115,035,055.98</u>	<u>-</u>	<u>930,522,262.36</u>

Pursuant to the Company Law and the 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 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.

(41) Undistributed profits

	The six months ended 30 June 2016	The six months ended 30 June 2015
Undistributed profits at the beginning of the year (before adjustments)	3,883,510,490.48	3,059,769,635.87
Adjustments of undistributed profits at the beginning of the year (Add: positive; Less: negative)	-	-
Undistributed profits at the beginning of the year (after adjustments)	3,883,510,490.48	3,059,769,635.87
Add: Net profit for current period	831,806,521.89	775,238,268.04
Less: Appropriation for surplus reserve	-	-
Less: Distributed dividends	-	361,575,382.00
Less: Others	-	-
Undistributed profits at the end of period	4,715,317,012.37	3,473,432,521.91

- (a) As at 30 June 2016, surplus reserves of the Company's subsidiaries amounted to RMB462,235 thousand was included in undistributed profits (as at 31 December 2015: RMB462,235 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(42) Minority interests

Investee	Investment relationship with the Company	30 June 2016	31 December 2015
Xing Qun	Direct subsidiary	24,049,267.15	22,256,243.19
Guangzhou Han Fang	Direct subsidiary	70,136.13	67,649.58
Jing Xiu Tang	Direct subsidiary	17,939,728.31	17,220,844.13
Pan Gao Shou	Direct subsidiary	24,673,316.61	23,483,406.94
Tibet Lin Zhi Guangyao Development Co., Ltd.	Indirect subsidiary	153,089.96	169,403.78
Guangxi Ying Kang	Direct subsidiary	15,803,656.70	14,998,338.75
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd.	Indirect subsidiary	2,898,436.45	2,741,098.44
Guangzhou Guang Yao Yi Gan Biological Product Co., Ltd.	Direct subsidiary	(837,581.63)	657,724.77
Xing Zhou	Direct subsidiary	19,527,010.51	19,508,039.08
Tian Xin	Direct subsidiary	37,998,881.66	32,649,180.15
Guang Hua Baiyunshan Pharmaceutical Technology	Direct subsidiary	68,590,388.71	52,997,602.26
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	186,903.25	192,548.90
Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	692,021.48	672,412.21
Jingyu Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	2,471,205.65	2,489,208.01
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	1,930,687.07	1,760,758.20
Heilongjiang Sen Gong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	1,307,461.06	1,236,217.03
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	1,322,414.82	1,121,224.76
Zhejiang Guang Kang Hospital Co., Ltd.	Indirect subsidiary	20,578,739.55	20,909,325.09
Guang Hua Health	Indirect subsidiary	105,615.49	44,525.44
BYS Hospital	Indirect subsidiary	36,622,070.61	–
		300,628,128.94	233,118,715.62

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(43) Revenue and cost of operation

	The six months ended 30 June 2016		
	Principal operation	Other operation	Subtotal
Revenue	10,779,756,975.24	77,512,344.85	10,857,269,320.09
Cost of operation	6,715,929,910.96	19,309,624.88	6,735,239,535.84
Gross profit	4,063,827,064.28	58,202,719.97	4,122,029,784.25

	The six months ended 30 June 2015		
	Principal operation	Other operation	Subtotal
Revenue	10,406,013,218.79	73,650,303.43	10,479,663,522.22
Cost of operation	6,594,720,564.55	16,954,496.74	6,611,675,061.29
Gross profit	3,811,292,654.24	56,695,806.69	3,867,988,460.93

(a) Revenue and cost of principal operations by natures are summarised as follows:

	Revenue of principal operation		Cost of principal operation	
	The six months ended 30 June 2016	The six months ended 30 June 2015	The six months ended 30 June 2016	The six months ended 30 June 2015
Great Southern TCM	3,526,248,345.26	3,829,544,047.77	1,926,959,639.65	2,103,286,686.66
Great Health	4,701,483,232.19	4,368,444,525.14	2,404,490,017.46	2,448,007,863.62
Great Commerce	2,535,695,589.52	2,207,696,556.38	2,372,547,294.10	2,043,083,425.79
Other	16,329,808.27	328,089.50	11,932,959.75	342,588.48
	10,779,756,975.24	10,406,013,218.79	6,715,929,910.96	6,594,720,564.55

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(43) Revenue and cost of operation (Continued)

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

	Revenue of principal operation		Cost of principal operation	
	The six months ended 30 June 2016	The six months ended 30 June 2015	The six months ended 30 June 2016	The six months ended 30 June 2015
Southern China	5,690,766,032.32	5,628,499,835.10	3,746,381,801.93	3,744,513,416.79
Eastern China	1,931,021,414.85	1,773,005,285.97	1,134,362,402.56	1,002,730,122.01
Northern China	1,266,962,352.24	1,310,327,078.57	657,140,863.94	769,041,056.89
North east China	169,925,219.94	177,930,267.33	97,722,019.26	103,079,164.33
South west China	1,321,185,868.80	1,043,337,081.06	856,819,191.68	634,160,421.34
North west China	358,852,476.42	309,263,407.36	185,321,734.98	180,231,429.94
Other countries	41,043,610.67	163,650,263.40	38,181,896.61	160,964,953.25
	10,779,756,975.24	10,406,013,218.79	6,715,929,910.96	6,594,720,564.55

(c) Top five of the revenue of the Group amounted to RMB1,422,220 thousand in total (For the six months ended 30 June 2015: RMB1,160,713 thousand), which accounts for 13.19% of the total revenue of the Group (For the six months ended 30 June 2015: 11.15%).

	Revenue of the principal operation	Percentage of the total revenue of the principal operation of the Group
Customer 1	544,049,990.45	5.04%
Customer 2	361,757,721.14	3.35%
Customer 3	250,672,524.77	2.33%
Customer 4	139,956,167.98	1.30%
Customer 5	125,783,909.54	1.17%
	1,422,220,313.88	13.19%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(43) Revenue and cost of operation (Continued)

(d) Revenue from other operation

	The six months ended 30 June 2016	The six months ended 30 June 2015
Leases of assets	39,396,430.60	37,663,585.20
Sales of materials	3,841,266.82	803,059.48
Trademark fee income	7,090,421.16	8,018,247.30
Consulting fee income	1,761,378.96	629,689.03
Medicine slotting fee income	240,422.55	210,860.71
Technology services income	44,009.44	454,752.80
Utilities expense collected on behalf	5,009,010.00	3,973,404.84
Management fee	3,277,569.72	3,355,181.40
Labor income	725,206.05	472,190.86
License fee	12,761,083.02	13,327,191.80
Others	3,365,546.53	4,742,140.01
	77,512,344.85	73,650,303.43

(e) Expenses from other operation

	The six months ended 30 June 2016	The six months ended 30 June 2015
Depreciation of assets leased out	10,354,393.13	9,361,599.71
Cost of materials sold	543,413.82	41,042.55
Service fee for technology	-	112,804.53
Utilities expense collected on behalf	5,515,202.32	4,413,349.36
Labor fee	725,206.05	472,190.86
Management fee	39,393.42	49,026.32
Others	2,132,016.14	2,504,483.41
	19,309,624.88	16,954,496.74

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For the six months ended 30 June 2016

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(44) Taxes and surcharges

	The six months ended 30 June 2016	The six months ended 30 June 2015
Business tax	3,530,203.84	4,050,200.63
City maintenance and construction tax	45,675,378.07	54,047,204.30
Education surcharge	19,744,739.82	23,256,132.44
Local education surcharge	13,171,834.52	15,420,796.11
Real-estate tax	3,784,024.24	3,441,876.70
Others	26,000.76	373,304.14
	85,932,181.25	100,589,514.32

Basis of calculation: refer to Note 4.

(45) Selling and distribution expenses

	The six months ended 30 June 2016	The six months ended 30 June 2015
Employee benefit	825,761,031.18	829,900,114.50
Sales service fee	504,814,400.23	269,852,662.95
Transportation expenses	74,378,404.00	69,871,321.04
Office expenses	8,005,873.23	6,603,651.93
Freight and miscellaneous charges	219,419,572.51	229,383,843.68
Rental expenses	8,993,565.37	10,099,189.54
Conference expenses	19,452,001.11	27,685,049.30
Advertising and promotion fees	944,330,129.07	777,012,553.72
Consulting fees	2,031,971.54	1,916,208.28
Depreciation charges	1,544,082.61	1,560,569.84
Others	19,949,949.53	16,927,084.95
	2,628,680,980.38	2,240,812,249.73

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(46) General and administrative expenses

	The six months ended 30 June 2016	The six months ended 30 June 2015
Employee benefit	326,149,543.27	303,168,952.97
Insurance premium	1,412,574.76	1,273,897.77
Depreciation charges	23,944,291.85	22,890,758.87
Utilities	4,165,437.22	3,959,131.46
Administrative expenses	10,633,461.61	14,369,092.63
Travelling expenses	6,689,430.77	6,509,280.29
Freight and miscellaneous charges	7,355,558.89	7,708,958.32
Repairing expenses	6,098,785.17	7,092,061.04
Rental expenses	18,604,801.22	15,192,176.95
Conference expenses	1,741,718.28	1,998,576.49
Research and development expenses	153,049,875.75	158,294,106.25
Taxation charges	21,561,089.64	23,283,495.67
Amortization	13,270,295.55	11,568,681.23
Professional service fees	5,608,546.65	7,914,004.43
Including: Audit fees	-	-
Consulting fees	2,959,103.86	11,211,963.36
Trademark License fees	57,735,907.05	52,727,895.25
Others	33,122,105.06	30,608,767.22
	694,102,526.60	679,771,800.20

(47) Financial expenses

	The six months ended 30 June 2016	The six months ended 30 June 2015
Interest expenses	10,043,303.16	14,163,098.44
Discount interest expenses of notes	2,808,977.48	3,614,071.54
Interest income	(44,356,336.09)	(35,687,470.00)
Exchange (gains)/losses	(550,330.19)	(1,872,722.11)
Bank charges	1,879,514.50	1,699,464.08
Cash discounts	50,670.59	-
Others	291,653.21	119,440.56
	(29,832,547.34)	(17,964,117.49)

The interest expenses for the six months ended 30 June 2016 and for the six months ended 30 June 2015 are the last issue of interest of borrowings which due date within 5 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(48) Losses for impairment of assets

	The six months ended 30 June 2016	The six months ended 30 June 2015
Losses for bad debts	(1,072,629.58)	5,602,842.26
Losses for declines in values of inventories	2,848,269.53	6,507,719.72
	1,775,639.95	12,110,561.98

(49) Profit arising from changes in fair value

	The six months ended 30 June 2016	The six months ended 30 June 2015
Gains arising from changes in fair value of listed shares of Zhongzhi	(650,362.50)	1,406,517.30
Gains arising from changes in fair value of listed shares of Harbin Pharmaceutical Group Co., Ltd. held by the Group	(333,574.43)	972,081.60
	(983,936.93)	2,378,598.90

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(50) Investment income

(a) Details of investment incomes:

	The six months ended 30 June 2016	The six months ended 30 June 2015
Investment income from financial assets:		
Investment income in the period of holding of financial assets at fair value through to profit or loss	-	-
Investment income in the period of holding of available-for-sale financial assets	13,774.71	1,199,814.24
Investment income from the period of held-to-maturity investments	-	-
Gain or loss of entrusted loans	-	(816,443.69)
	13,774.71	383,370.55
Income from long-term equity investment:		
Income from long-term equity investments recognized by equity method	145,271,601.20	100,028,397.14
Income from disposal of long-term equity investments	-	-
	145,271,601.20	100,028,397.14
	145,285,375.91	100,411,767.69

(51) Non-operating income

	The six months ended 30 June 2016	The six months ended 30 June 2015
Gains on disposal of non-current assets	313,315.04	106,218.52
Including: Gains on disposal of fixed assets	313,315.04	106,218.52
Government grants	188,530,247.36	44,960,600.39
Penalty income	120,668.08	266,397.17
Sales of scraps	2,212,132.13	2,114,488.17
Waived funds	164,428.08	45,185.98
Compensation income	266,517.77	484,577.76
Indemnity income	6,109,076.27	3,774,769.07
Expatriates benefits	2,380,285.77	3,334,065.60
Others	3,571,992.32	3,848,633.10
	203,668,662.82	58,934,935.76

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(51) Non-operating income (Continued)

Details of government grants are as below:

Item	The six months ended 30 June 2016	The six months ended 30 June 2015
Government grants related to assets: Including:		
Technology funds granted from government	3,801,639.96	2,502,168.18
Compensation for relocation	182,822.22	182,822.22
Financial discount	35,933.46	35,933.46
Specific funds of environmental protection	220,579.16	191,205.54
Innovating platform construction	1,105,051.02	1,310,986.02
Government grants for land	174,221.64	–
Others	92,335.08	77,075.76
	5,612,582.54	4,300,191.18
Government grants related to income: Including:		
Technology funds granted from government	20,936,482.49	6,801,287.62
Special funds of technology export	–	–
Special funds for project of medical industrial research	3,247,583.00	1,176,794.37
Special funds of reconstruction for energy saving	6,300.00	6,300.00
Special funds of innovating enterprises	1,949.88	1,949.88
Compensation of relocation	27,629,745.06	31,463,432.10
Special funds for “Enterprises Development”	130,480,000.00	–
Others	615,604.39	1,210,645.24
	182,917,664.82	40,660,409.21
Total	188,530,247.36	44,960,600.39

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(52) Non-operating expenses

	The six months ended 30 June 2016	The six months ended 30 June 2015
Losses on disposal of non-current assets	698,504.23	533,803.68
Including: Losses on disposal of fixed assets	698,504.23	533,803.68
Public welfare donations	1,085,216.88	831,467.08
Unusual loss	27,629,745.06	49,062,655.33
Penalty and overdue fines	267,143.39	438,986.47
Reward of family planning	–	244,450.00
Other	524,636.72	87,074.17
	30,205,246.28	51,198,436.73

(53) Income tax expenses

	The six months ended 30 June 2016	The six months ended 30 June 2015
Current income tax	223,515,051.50	157,167,369.95
Deferred income tax	(27,507,289.09)	13,345,562.16
	196,007,762.41	170,512,932.11

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(53) Income tax expenses (Continued)

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 2016	The six months ended 30 June 2015
Total profit	1,059,135,858.93	963,195,317.81
Income tax expenses calculated at 25%	264,783,964.73	240,798,829.45
Tax effect of different rates applicable to subsidiaries	(54,033,382.75)	(57,363,443.76)
Adjust effect for income tax of previous period	(424,602.52)	(2,396,077.86)
Gain or loss belong to associates & joint venture	(22,610,061.00)	(13,195,356.13)
Non-taxable revenue	(202,154.14)	(1,139,473.46)
Expenses not deductible for tax purposes	5,516,803.95	703,083.91
Effect for the balance of deferred income tax in initial stage of changes on tax rate	-	-
Tax effect of deductible temporary differences & deductible loss which are not recognized in current period	3,035,942.08	3,487,368.67
Tax effect of unrecognized deferred income tax assets	(58,747.94)	(381,998.71)
Income tax expenses	196,007,762.41	170,512,932.11

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(54) 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 2016	The six months ended 30 June 2015
Consolidated net profit attributable to ordinary shareholders of the Company	831,806,521.89	775,238,268.04
Weighted average number of ordinary shares outstanding:	1,291,079,250.00	1,291,297,083.00
Weighted average basic earnings per share	0.644	0.600

(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 2016	The six months ended 30 June 2015
Consolidated net profit attributable to ordinary shareholders of the Company	831,806,521.89	775,238,268.04
Number of ordinary shares outstanding:	1,291,079,250.00	1,291,079,250.00
Overall diluted basic earnings per share	0.644	0.600

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing adjusted consolidated 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 2016, there were no potential ordinary shares (For the six months ended 30 June 2015: nil), diluted earnings per share is equal to basic earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(55) Notes to the cash flow statement

(a) Cash received relating to other operating activities:

	The six months ended 30 June 2016	The six months ended 30 June 2015
Non-operating income	14,654,070.89	13,822,797.34
Other operation income	77,512,344.85	73,861,252.07
Government grants	684,751,336.59	53,102,395.23
Interest income	44,356,336.09	35,687,470.00
Received guarantee and others	1,068,778.73	21,247,904.50
	822,342,867.15	197,721,819.14

(b) Cash paid relating to other operating activities:

	The six months ended 30 June 2016	The six months ended 30 June 2015
Cash payments of selling and distribution expenses	920,404,516.82	852,313,447.80
Cash payments of general and administrative expenses	218,069,917.05	211,495,817.68
Financial expenses – bank charges	1,879,514.50	1,699,464.08
Structured deposit	50,000,000.00	–
Others	17,421,062.13	119,026,678.53
	1,207,775,010.50	1,184,535,408.09

(c) Cash received relating to other investing activities:

	The six months ended 30 June 2016	The six months ended 30 June 2015
Net cash received from acquire investments	5,391,663.23	8,512,691.75
Interest received from securities accounts	–	6,022.90
	5,391,663.23	8,518,714.65

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(55) Notes to the cash flow statement (Continued)

(d) Cash paid relating to other investing activities:

	The six months ended 30 June 2016	The six months ended 30 June 2015
Business tax and additional tax for payment of entrusted loans and interests of internal borrowings	1,990,385.70	1,616,754.15
Borrowing paid to General Institute	–	230,000,000.00
Performance bond	–	2,311,000.00
	1,990,385.70	233,927,754.15

(e) Cash paid relating to other financing activities:

	The six months ended 30 June 2016	The six months ended 30 June 2015
Repurchasing for share	–	1.00
Poundage of borrowings	–	49,001.26
Liquidation fee paid for minority shareholders	–	557,396.33
Withholding tax paid for overseas financing	248,927.11	4,331,573.23
	248,927.11	4,937,971.82

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(56) 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 2016	The six months ended 30 June 2015
Net profit	863,128,096.52	792,682,385.70
Add: Provision for assets impairment	1,775,639.95	12,110,561.98
Depreciation of fixed assets, and depreciation and amortization of Investment properties	106,029,314.70	100,960,134.43
Amortization of intangible assets	7,865,063.62	6,539,828.70
Amortization of long-term prepaid expenses	5,087,975.26	2,322,168.70
Loss (less: gain) on disposal of fixed assets, intangible assets and other long-term assets	385,189.19	115,608.13
Loss on scrapping of fixed assets	–	311,977.03
Loss (less: gain) on changes in fair value	983,936.93	(2,378,598.90)
Financial expenses	13,084,359.10	17,633,919.86
Investment gain	(145,285,375.91)	(100,411,767.69)
Decrease (less: increase) in deferred tax assets	(34,175,186.58)	13,345,562.16
Increase (less: decrease) in deferred tax liabilities	6,667,897.49	–
Decrease in inventories (less: increase)	297,009,065.21	165,258,860.01
Decrease of operating receivables (less: increase)	(641,137,925.43)	(1,128,967,149.27)
Increase of operating payables	1,231,572,538.33	1,397,858,657.64
Others	–	–
Net cash flows from operating activities	1,712,990,588.38	1,277,382,148.48

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(56) Supplementary information of cash flow statements (Continued)

(a) Supplementary information of cash flow statements (Continued)

(ii) Investing and financing activities that do not involve cash receipts and payments:

	The six months ended 30 June 2016	The six months ended 30 June 2015
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 2016	The six months ended 30 June 2015
Cash at the end of period	5,216,577,744.52	4,066,544,496.86
Less: Cash at the beginning of year	3,837,603,553.98	3,049,528,750.47
Add: Cash equivalents at end of the period	-	-
Less: Cash equivalents at beginning of the year	-	-
Net movement in cash and cash equivalents	1,378,974,190.54	1,017,015,746.39

The cash and cash equivalents do not include housing fund amounted to RMB583 thousand, deposit of letter of guarantee amounted to RMB300 thousand, deposit of direct commerce enterprise amounted to RMB271 thousand, security deposit for bank payable notes amounted to RMB72,804 thousand, blocked account amounted to RMB205,347 thousand and structured deposit RMB50,000 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(56) Supplementary information of cash flow statements (Continued)

(b) Details of cash and cash equivalents:

	30 June 2016	31 December 2015
Cash	5,216,577,744.52	3,837,603,553.98
Including: Cash on hand	1,157,209.13	637,187.57
Bank deposits that are readily available for payment	5,209,274,725.47	3,831,098,568.48
Other cash that are readily available for payment	6,145,809.92	5,867,797.93
Cash equivalents	-	-
Total cash and cash equivalent	5,216,577,744.52	3,837,603,553.98
Including: Cash and cash equivalents that are restricted	-	-
	30 June 2016	31 December 2015
Balance of cash at bank and on hand	5,545,882,814.27	4,118,291,426.52
Less: Balance of cash at bank and on hand that are restricted to use	329,305,069.75	280,687,872.54
Balance of cash and cash equivalents	5,216,577,744.52	3,837,603,553.98

(57) Assets that restricted for ownership or use right

	30 June 2016	31 December 2015
Cash at bank and on hand	329,305,069.75	280,687,872.54

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(58) Monetary items denominated in foreign currency

(a) Monetary items denominated in foreign currency

	Ending balance	Conversion rate Balance	Converted to RMB
Cash at bank and on hand			14,668,570.11
Including: USD	1,953,783.82	6.6312	12,955,931.28
HKD	2,003,859.70	0.8547	1,712,638.77
JPY	1.00	0.0645	0.06
Other receivable			63,770.09
Including: HKD	74,613.70	0.8547	63,770.09
Accounts receivable			6,081,026.45
Including: USD	779,840.65	6.6312	5,171,279.32
HKD	1,064,442.57	0.8547	909,747.13
Other payable			2,208,784.79
Including: HKD	333,089.76	6.6312	2,208,784.79
Accounts payable			13,562,614.47
Including: HKD	15,868,831.79	0.8547	13,562,614.47
Advances from customers			24,756.11
Including: HKD	28,965.69	0.8547	24,756.11
Long-term borrowings			32,009,955.51
Including: HKD	37,453,000.00	0.8547	32,009,955.51

- (b) Guangyao Baiyunshan Hong Kong Company, an overseas subsidiary of the Company, uses Hong Kong Dollar as its recording currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

6 CHANGES IN SCOPE OF CONSOLIDATION

(1) Business combination involving enterprises not under common control

- (a) Details of business combination involving enterprises not under common control:

Acquiree	Time of acquiring equity	Cost of acquiring equity	Ratio of acquiring equity (%)	Mode of acquiring equity	Acquisition date	Determination basis of acquisition date	Income of acquiree from acquisition date to the end of period	Net profit of acquiree from acquisition date to the end of period
BYS Hospital	April 2016	46,500,000.00	51.00	Additional share	April 2016	Transfer of corporate control	16,329,808.27	1,634,234.39

- (b) Cost of consolidation and goodwill

Cost of consolidation

– Cash

Total cost of consolidation

Less: proportion of fair value of obtained identifiable net assets

Goodwill

46,500,000.00

46,500,000.00

37,283,389.44

9,216,610.56

- (c) Identifiable assets and liabilities of acquired at acquisition date

	BYS Hospital	
	Fair value at acquisition date	Book value at acquisition date
Assets:		
Cash at bank and on hand	51,891,663.23	51,891,663.23
Notes receivable	12,974,680.55	12,974,680.55
Receivable	306,924.45	306,924.45
Advance to supplier	2,376,709.31	2,376,709.31
Fixed assets	48,632.00	48,632.00
Intangible assets	6,853,956.00	6,357,688.74
Construction in progress	3,766,875.72	3,593,270.33
Long-term prepaid expenses	4,580,817.65	4,580,817.65
Deferred tax assets	8,213.35	8,213.35
Liabilities:		
Payables	7,090,996.45	7,090,996.45
Advances from customers	671,968.77	671,968.77
Employee benefits payable	1,477,974.33	1,477,974.33
Taxes payable	462,847.54	462,847.54
Net assets	73,104,685.17	72,434,812.52
Less: minority interests	35,821,295.73	35,493,058.13
Obtained net assets	37,283,389.44	36,941,754.39

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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6 CHANGES IN SCOPE OF CONSOLIDATION *(Continued)*

(1) Business combination involving enterprises not under common control *(Continued)*

(c) Identifiable assets and liabilities of acquired at acquisition date *(Continued)*

Pursuant to the capital increase agreement which entered into by the Company and BYS Hospital, the Company increased capital amounted to RMB46,500 thousand, which is 51% equity interest of BYS Hospital, among them, RMB20,816 thousand is as registered capital, RMB25,684 thousand is as capital surplus. This additional capital is divided into 2 phases, the Company has 51% equity interest of BYS Hospital after contributing the first phase amounted to RMB23,250 thousand, another contribution amounted to RMB23,250 thousand will be paid up within 15 workdays after receiving the confirmed 80% of accounts receivable. In consideration of calculating goodwill, when stating the-above-mentioned identifiable assets, liabilities at purchase date, the Company assumed that fully contributed additional capital amounted to RMB46,500 thousand.

The fair value of identifiable assets and liabilities is recognized by appraisal report (ZLYCPZ (2016) No. XKGPD0210) which was issued by Guang Dong Zhong Lian Yang Cheng Assets Appraisal Co., Ltd.

There are no contingent liabilities of acquiree to assume in business combination.

(2) Changes in scope of consolidation arising from other reasons:

The reasons for the addition of 1 company in scope of consolidation comparing to the previous period are:

- (1) Xing Qun, a subsidiary of the Company, established Guangzhou Baiyunshan Xing Qun Health Technology Co., Ltd. in May 2016 with registered capital of RMB3,000 thousand, and holds 100% equity interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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7 EQUITY IN OTHER ENTITIES

(1) Equity in subsidiaries

(a) Details of the Group:

Name of subsidiary	Principal place of business	Registration place	Nature of business	Registered	% equity interest held		% voting rights held		Acquisition method
				capital					
				('0000)	Direct	Indirect	Direct	Indirect	
Xing Qun	Guangzhou	Guangzhou	Pharmaceutical manufacturing	7,717.00	88.99		88.99		Establishment or Investment
Zhong Yi	Guangzhou	Guangzhou	Pharmaceutical manufacturing	21,741.00	100.00		100.00		Establishment or Investment
Chen Li Ji	Guangzhou	Guangzhou	Pharmaceutical manufacturing	11,285.00	100.00		100.00		Establishment or Investment
Han Fang Pharmaceutical ⁽¹⁾	Guangzhou	Guangzhou	Pharmaceutical manufacturing	24,606.00	99.96		100.00		Establishment or Investment
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd	Guangzhou	Guangzhou	Pharmaceutical manufacturing	8,242.00	100.00		100.00		Establishment or Investment
Jing Xiu Tang	Guangzhou	Guangzhou	Pharmaceutical manufacturing	8,623.00	88.40		88.40		Establishment or Investment
Pan Gao Shou	Guangzhou	Guangzhou	Pharmaceutical manufacturing	6,544.00	87.77		87.77		Establishment or Investment
Cai Zhi Lin	Guangzhou	Guangzhou	Pharmaceutical trading	3,222.00	100.00		100.00		Establishment or Investment
Pharmaceutical Import & Export	Guangzhou	Guangzhou	Pharmaceutical trading	2,400.00	100.00		100.00		Establishment or Investment
Guangzhou Bai Di	Guangzhou	Guangzhou	Pharmaceutical manufacturing	13,160.00	100.00		100.00		Establishment or Investment
WJJ Great Health	Guangzhou	Guangzhou	Food manufacturing	10,000.00	100.00		100.00		Establishment or Investment
Guangzhou Guang Yao Yi Gan Biological Product Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	2,100.00	60.00		60.00		Establishment or Investment
Xing Zhou	Guangzhou	Guangzhou	Pharmaceutical manufacturing	8,648.00	75.00		75.00		Establishment or Investment
Baiyunshan Medical and Health	Guangzhou	Guangzhou	Assets management, investment management,	9,150.00	100.00		100.00		Establishment or Investment
Guangzhou Baiyunshan Chemical Medicine Technology Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	5,100.00	100.00		100.00		Establishment or Investment
Guangzhou Baiyunshan Pharmaceutical Marketing Co.,Ltd	Guangzhou	Guangzhou	Pharmaceutical trading	1,000.00	100.00		100.00		Establishment or Investment

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7 EQUITY IN OTHER ENTITIES (Continued)

(1) Equity in subsidiaries (Continued)

(a) Details of the Group: (Continued)

Name of subsidiary	Principal place of business	Registration place	Nature of business	Registered	% equity interest held		% voting rights held		Acquisition method
				capital ('0000)	Direct	Indirect	Direct	Indirect	
Qi Xing	Guangzhou	Guangzhou	Pharmaceutical manufacturing	10,000.00		100.00	100.00		Establishment or Investment
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd. ⁽¹⁾	Guangzhou	Guangzhou	Pharmaceutical trading	300.00		45.08	51.00		Establishment or Investment
Guangzhou Pan Gao Shou Natural Healthcare Products Co., Ltd. ⁽¹⁾	Guangzhou	Guangzhou	Pharmaceutical manufacturing	1,400.00		87.77	100.00		Establishment or Investment
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	Guangzhou	Guangzhou	Pharmaceutical trading	294.00		100.00	100.00		Establishment or Investment
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Guangzhou	Guangzhou	Pharmaceutical manufacturing	2,000.00		100.00	100.00		Establishment or Investment
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	500.00		100.00	100.00		Establishment or Investment
Guangzhou Ao Ma Medical Apparatus Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	668.00		100.00	100.00		Establishment or Investment
Tibet Lin Zhi Guangyao Development Co., Ltd. ⁽¹⁾	Linzhi	Linzhi	Pharmaceutical trading	200.00		54.82	55.00		Establishment or Investment
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Wulanchabu	Wulanchabu	Pharmaceutical trading	100.00		80.00	80.00		Establishment or Investment
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Linqi	Linqi	Pharmaceutical trading	200.00		60.00	60.00		Establishment or Investment
Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd. ⁽¹⁾	Kaili	Kaili	Pharmaceutical Trading	200.00		67.67	70.00		Establishment or Investment
Jingyuxian Dong E Guangyao Chinese Raw Medicine Development Co., Ltd. ⁽¹⁾	Jingyu	Jingyu	Pharmaceutical trading	300.00		57.50	60.00		Establishment or Investment
Heilongjiang Sen Gong Guangyao Raw Medicine Development Co., Ltd.	Haerbin	Haerbin	Pharmaceutical trading	300.00		60.00	60.00		Establishment or Investment
Wang Lao Ji Great Health (Ya'an) Co., Ltd.	Ya'an	Ya'an	Pharmaceutical manufacturing	5,000.00		100.00	100.00		Establishment or Investment
Guang Hua Health ⁽¹⁾	Guangzhou	Guangzhou	Pharmaceutical manufacturing	180.00		63.36	75.00		Establishment or Investment

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7 EQUITY IN OTHER ENTITIES (Continued)

(1) Equity in subsidiaries (Continued)

(a) Details of the Group: (Continued)

Name of subsidiary	Principal place of business	Registration place	Nature of business	Registered	% equity interest held		% voting rights held		Acquisition method
				capital	Direct	Indirect	Direct	Indirect	
				('0000)					
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Fengshun	Fengshun	Pharmaceutical trading	200.00		60.00		60.00	Establishment or Investment
Zhejiang Guang Kang Pharmaceutical Co., Ltd.	Shengzhou	Shengzhou	Pharmaceutical manufacturing	4,400.00		51.00		51.00	Establishment or Investment
Tibet Linzhi Baiyunshan Tibetan Health Castle Management Co., Ltd.	Linzhi	Linzhi	Pharmaceutical manufacturing	3,500.00		100.00		100.00	Establishment or Investment
Guangzhou Wang Lao Ji Great Health Enterprise Development Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	1,000.00		100.00		100.00	Establishment or Investment
Guangzhou Wang Lao Ji Industry Company	Guangzhou	Guangzhou	Pharmaceutical manufacturing	100.00		100.00		100.00	Establishment or Investment
Wang Lao Ji Great Health Industry (Beijing) Sales Co., Ltd.	Beijing	Beijing	Pharmaceutical trading	500.00		100.00		100.00	Establishment or Investment
Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd.	Meizhou	Meizhou	Pharmaceutical trading	5,000.00		100.00		100.00	Establishment or Investment
Guangzhou Baiyunshan Xing Qun Health Technology Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	300		100.00		100.00	Establishment or Investment
Tian Xin	Guangzhou	Guangzhou	Pharmaceutical manufacturing	4,569.00	82.49			82.49	Business combinations involving entities under common control
Guang Hua	Guangzhou	Guangzhou	Pharmaceutical manufacturing	5,529.00	84.48			84.48	Business combinations involving entities under common control
Ming Xing	Guangzhou	Guangzhou	Pharmaceutical manufacturing	2,649.00	100.00			100.00	Business combinations involving entities under common control
Wei Ling	Jiexi	Jiexi	Pharmaceutical manufacturing	1,179.00	100.00			100.00	Business combinations involving entities under common control

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(All amounts in Renminbi yuan unless otherwise stated)

7 EQUITY IN OTHER ENTITIES (Continued)

(1) Equity in subsidiaries (Continued)

(a) Details of the Group: (Continued)

Name of subsidiary	Principal place of business	Registration place	Nature of business	Registered capital ('0000)		% equity interest held		% voting rights held		Acquisition method
				Direct	Indirect	Direct	Indirect	Direct	Indirect	
BYS Pharmaceutical Technology	Guangzhou	Guangzhou	Pharmaceutical trading	200.00	51.00			51.00		Business combinations involving entities under common control
Baiyunshan Great Health Hotel	Guangzhou	Guangzhou	Hotel	50.00	100.00			100.00		Business combinations involving entities under common control
Guangyao Baiyunshan Hong Kong Company	Hongkong	Hongkong	Pharmaceutical trading	HKD7,500	100.00			100.00		Business combinations involving entities under common control
Guangyao General Institute	Guangzhou	Guangzhou	Medical research	8,000.00	100.00			100.00		Business combinations involving entities under common control
Guangyao Haima	Guangzhou	Guangzhou	Advertising	50.00	100.00			100.00		Business combinations involving entities not under common control
Guangxi Ying Kang	Nanning	Nanning	Pharmaceutical manufacturing	3,188.00	51.00			51.00		Business combinations involving entities not under common control
BYS Hospital	Guangzhou	Guangzhou	Medical	4,081.60		51.00		51.00		Business combinations involving entities not under common control

Reasons for ratio of equity interest held is different from the ratio of voting rights held in subsidiaries:

Note 1: The reason of difference between ratio of equity interest held and ratio of voting rights held of these 7 companies is that the Company indirectly holds these 7 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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7 EQUITY IN OTHER ENTITIES (Continued)

(2) Equity in joint venture or associates

(a) Summary of joint venture and associates that are insignificant

Item	Ending balance/ Current amount	Opening balance/ Prior amount
Joint venture:		
Total carrying amount of investments	2,159,945,978.03	2,073,127,925.62
Calculated by rate of interests held:		
– Net profit	141,674,036.06	102,250,833.29
– Other comprehensive income	–	(60,983.96)
– Total comprehensive income	141,674,036.06	102,189,849.33
Associates:		
Total carrying amount of investments	41,223,022.50	38,085,050.82
Calculated by rate of interests held:		
– Net profit	3,061,106.99	2,731,685.06
– Other comprehensive income	76,864.68	–
– Total comprehensive income	3,137,971.68	2,731,685.06

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8 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 30 June 2016 and 31 December 2015, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarized as follows:

	30 June 2016					
	USD	HKD	EUR	JPY	GBP	Total
Financial assets denominated in foreign currency –						
Cash at bank and on hand	12,955,931.28	1,712,638.77	-	0.06	-	14,668,570.11
Accounts receivable	5,171,279.32	909,747.13	-	-	-	6,081,026.45
Other receivables	-	63,770.09	-	-	-	63,770.09
	<u>18,127,210.60</u>	<u>2,686,155.99</u>	<u>-</u>	<u>0.06</u>	<u>-</u>	<u>20,813,366.65</u>
Financial liabilities denominated in foreign currency –						
Accounts payable	-	13,562,614.47	-	-	-	13,562,614.47
Advances from customers	-	24,756.11	-	-	-	24,756.11
Other payable	2,208,784.79	-	-	-	-	2,208,784.79
Long-term borrowings	-	32,009,955.51	-	-	-	32,009,955.51
	<u>2,208,784.79</u>	<u>45,597,326.09</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,806,110.88</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

8 FINANCIAL INSTRUMENT AND RISK (Continued)

(1) Market risk (Continued)

(a) Foreign exchange risk (Continued)

	31 December 2015					Total
	USD	HKD	EUR	JPY	GBP	
Financial assets denominated in foreign currency -						
Cash at bank and on hand	6,640,823.87	18,659,495.10	-	728,979.30	-	26,029,298.27
Accounts receivable	3,078,240.11	1,208,317.71	-	-	-	4,286,557.82
Other receivables	-	21,983.67	-	-	-	21,983.67
	<u>9,719,063.98</u>	<u>19,889,796.48</u>	<u>-</u>	<u>728,979.30</u>	<u>-</u>	<u>30,337,839.76</u>
Financial liabilities denominated in foreign currency -						
Accounts payable	859,245.58	-	-	-	-	859,245.58
Advances from customers	82,711.45	-	-	-	-	82,711.45
Other payables	-	2,825,464.82	-	-	-	2,825,464.82
Long-term borrowings	-	39,755,174.34	-	-	-	39,755,174.34
	<u>941,957.03</u>	<u>42,580,639.16</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,522,596.19</u>

As at 30 June 2016, 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 RMB2,024 thousand (As at 31 December 2015: approximately RMB989 thousand) higher/lower.

(b) Interest rate risk

As at 30 June 2016, long-term interest bearing borrowings of the Group amounted to RMB32,010 thousand, if annual interest rate declined 50 basic point with all other variables held constant, the Group's net profit would increase RMB565 thousand (As at 31 December 2015: RMB1,404 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

8 FINANCIAL INSTRUMENT AND RISK (Continued)

(1) Market risk (Continued)

(c) Other price risk

Equity of listed companies held by the Company is as below:

Item	30 June 2016	31 December 2015
Financial assets based on fair value to confirm profit or loss	5,515,852.67	6,499,789.60
Available-for-sale financial assets	84,434,957.73	76,415,058.59
Total	89,950,810.40	82,914,848.19

As at 30 June 2016, under the circumstance of variables unchanged, if the value of equity instruments rise or decline 10%, the Company would increase or decrease net profit amounted to RMB552 thousand, other comprehensive income amounted to RMB8,061 thousand accordingly (As at 31 December 2015: RMB650 thousand, RMB7,209 thousand). Management considers 10% a reasonable range where the value of equity instruments might change in next period.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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8 FINANCIAL INSTRUMENT AND RISK (Continued)

(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 2016, the financial assets and liabilities of the Group at the balance sheet date are analyzed by their maturity date below at their undiscounted contractual cash flows:

	30 June 2016					Total
	Within 1 year	1 - 2 years	2 - 5 years	Over 5 years	Without fixed maturity	
Financial assets –						
Cash at bank and on hand	5,545,882,814.27	-	-	-	-	5,545,882,814.27
Notes receivable	1,625,767,798.24	-	-	-	-	1,625,767,798.24
Accounts receivable	1,701,596,633.88	-	-	-	-	1,701,596,633.88
Other receivables	234,801,157.33	-	-	-	-	234,801,157.33
	<u>9,108,048,403.72</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,108,048,403.72</u>
Financial liabilities –						
Short-term borrowings	485,994,272.45	-	-	-	-	485,994,272.45
Long-term borrowings	1,136,519.87	32,925,485.41	-	-	-	34,062,005.28
Notes payable	152,783,759.23	-	-	-	-	152,783,759.23
Accounts payable	2,773,310,037.08	-	-	-	-	2,773,310,037.08
Other payables	2,546,818,880.77	-	-	-	-	2,546,818,880.77
Long-term payables	-	-	-	20,707,855.59	-	20,707,855.59
	<u>5,960,043,469.40</u>	<u>32,925,485.41</u>	<u>-</u>	<u>20,707,855.59</u>	<u>-</u>	<u>6,013,676,810.40</u>
Provision of guarantees	-	-	-	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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8 FINANCIAL INSTRUMENT AND RISK (Continued)

(3) Liquidity risk (Continued)

	31 December 2015					Total
	Within 1 year	1-2 years	2-5 years	Over 5 years	Without fixed maturity	
Financial assets –						
Cash at bank and on hand	4,118,291,426.52	-	-	-	-	4,118,291,426.52
Notes receivable	1,450,035,581.39	-	-	-	-	1,450,035,581.39
Accounts receivable	1,121,270,222.95	-	-	-	-	1,121,270,222.95
Other receivables	232,828,701.78	-	-	-	-	232,828,701.78
	<u>6,922,425,932.64</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,922,425,932.64</u>
Financial liabilities –						
Short-term borrowings	641,392,962.78	-	-	-	-	641,392,962.78
Long-term borrowings	1,411,515.42	1,411,515.42	39,842,758.45	-	-	42,665,789.29
Notes payable	292,607,099.65	-	-	-	-	292,607,099.65
Accounts payable	2,636,474,108.05	-	-	-	-	2,636,474,108.05
Other payables	1,755,251,103.41	-	-	-	-	1,755,251,103.41
Long-term payables	-	-	-	22,219,899.34	-	22,219,899.34
	<u>5,327,136,789.31</u>	<u>1,411,515.42</u>	<u>39,842,758.45</u>	<u>22,219,899.34</u>	<u>-</u>	<u>5,390,610,962.52</u>
Provision of guarantees	-	-	-	-	-	-

The repayment periods of the bank loans and other loans are analyzed as follow:

	30 June 2016		31 December 2015	
	Bank borrowings	Other borrowings	Bank borrowings	Other borrowings
Wholly repayable within 5 years	<u>520,056,277.73</u>	<u>-</u>	<u>684,058,752.06</u>	<u>-</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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9 DISCLOSURE OF 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).

The level of measurement of fair value is determined by the lowest level of input, which is significant for it.

As at 30 June 2016, the financial assets measured at fair value by the above three levels are analyzed below:

	Level 1	Level 2	Level 3	Total
Financial assets – Financial assets based on fair value to confirm profit or loss – Investments in equity instrument held for trading	5,515,852.67	–	–	5,515,852.67
Available-for-sale financial assets – Available-for-sale equity instruments	84,434,957.73	–	–	84,434,957.73
	<u>89,950,810.40</u>	<u>–</u>	<u>–</u>	<u>89,950,810.40</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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9 DISCLOSURE OF FAIR VALUE *(Continued)*

(b) Financial instruments measured at fair value *(Continued)*

As at 31 December 2015, the financial assets measured at fair value by the above three levels are analyzed below:

	Level 1	Level 2	Level 3	Total
Financial assets –				
Financial assets based on fair value to confirm profit or loss				
Investments in equity instrument held for trading	6,499,789.60	–	–	6,499,789.60
Available-for-sale financial assets –				
Available-for-sale equity instruments	76,415,058.59	–	–	76,415,058.59
	<u>82,914,848.19</u>	<u>–</u>	<u>–</u>	<u>82,914,848.19</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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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10 FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

	31 December 2015	Profit or loss arising from changes in fair value during the current period	Differences charged into equity at current year which arising from foreign currency translation of available-for-sale financial assets	Accumulated changes in fair value recognized in equity during the current period	Impairment loss recognized during the current period	30 June 2016
Financial assets –						
Financial assets based on fair value to confirm profit or loss	6,499,789.60	(983,936.93)	-	-	-	5,515,852.67
Available-for-sale financial assets	76,415,058.59	-	1,160,023.68	7,355,214.21	(495,338.75)	84,434,957.73
	<u>82,914,848.19</u>	<u>(983,936.93)</u>	<u>1,160,023.68</u>	<u>7,355,214.21</u>	<u>(495,338.75)</u>	<u>89,950,810.40</u>

11 FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

	31 December 2015	Profit or loss arising from changes in fair value during the current period	Accumulated changes in fair value recognized in equity during the current period	Impairment loss recognized during the current period	30 June 2016
Financial assets –					
Cash and bank	26,029,298.27	-	-	-	14,668,570.11
Accounts receivable	4,286,557.82	-	-	-	6,081,026.45
Other receivables	21,983.67	-	-	-	63,770.09
	<u>30,337,839.76</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,813,366.65</u>
Financial liabilities –					
Accounts payable	859,245.58	-	-	-	13,562,614.47
Advances from customers	82,711.45	-	-	-	24,756.11
Other payables	2,825,464.82	-	-	-	2,208,784.79
Long-term borrowings	39,755,174.34	-	-	-	32,009,955.51
	<u>43,522,596.19</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,806,110.88</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12 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 Liwan District Guangzhou	Li Chuyuan	Manufacturing and trading	125,281	45.23%	45.23%	Guangzhou State-owned Assets Supervision and Administration Commission	23124735-0

Registered capital and changes in registered capital of the parent company:

	30 June 2016 (RMB '0000)
GPHL	125,281

The percentage of equity interests and voting rights held by the parent company in the Company:

	30 June 2016	
	% equity interest held	% voting rights held
GPHL	45.23%	45.23%

(2) Information of subsidiaries

For the general information and related information of the subsidiaries, please refer to Note 7.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(3) Information of joint venture and associates

Details of joint venture or associates that had connected transactions with the Company at current period or at previous period are as below:

Name	Relation with the Company
GP Corp.	joint venture
Wang Lao Ji	joint venture
Nuo Cheng	joint venture
HWBYS	joint venture
Baxter Qiaoguang	joint venture

(4) Information of other related parties that are not controlled by the Group

Name of entity	Relationship with the Group	Organization code
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(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) Purchase of goods from related parties

Name of related party	Type of transaction	Nature of transaction	Pricing Policies and procedures for decision-making	For the six months ended 30 June 2016		For the six months ended 30 June 2015	
				Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
HWBYS	Purchase of goods	Chinese raw medicine or medicine	Market price	9,893,990.65	0.16	437,958,525.65	8.09
GP Corp.	Purchase of goods	Chinese raw medicine or medicine	Market price	413,392,624.94	6.71	180,324,013.00	3.33
Wang Lao Ji	Purchase of goods	Chinese raw medicine or medicine	Market price	439,871,400.85	7.14	215,092,702.11	3.97
				863,158,016.44	14.01	833,375,240.76	15.39

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12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(c) Sales of goods to related parties

Name of related party	Type of transaction	Nature of transaction	Pricing Policies and procedures for decision-making	For the six months ended 30 June 2016		For the six months ended 30 June 2015	
				Amount	Percentage of similar transactions (%)	Amount	Percentage of similar transactions (%)
GPHL	Sales of goods	Chinese raw medicine or medicine	Market price	16,410.24	0.00	8,360.00	0.00
HWBYS	Sales of goods	Chinese raw medicine or medicine	Market price	90,670,313.41	0.85	108,463,517.37	1.05
GP Corp.	Sales of goods	Chinese raw medicine or medicine	Market price	543,767,639.51	5.07	277,829,254.36	2.68
Wang Lao Ji	Sales of goods	Chinese raw medicine or medicine	Market price	218,651,884.10	2.04	200,913,044.47	1.94
Nuo Cheng	Sales of goods	Chinese raw medicine or medicine	Market price	15,384.62	0.00	1,230.78	0.00
Baxter Qiaoguang	Sales of goods	Chinese raw medicine or medicine	Market price	514,427.35	0.00	424,741.02	0.00
				853,636,059.23	7.96	587,640,148.00	5.67

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(d) Rendering of service to related party

Name of related party	Type of transaction	Nature of transaction	Pricing Policies and procedures for decision-making	For the six months ended 30 June 2016		For the six months ended 30 June 2015	
				Amount	Percentage of similar transactions (%)	Amount	Percentage of similar transactions (%)
HWBYS	Rendering of service	Advertising agency	Market price	13,604,123.96	37.56	33,300,437.20	91.79
GP Corp.	Rendering of service	Advertising agency	Market price	282,350.94	0.78	160,664.16	0.44
Wang Lao Ji	Rendering of service	Advertising agency	Market price	20,540,868.04	56.71	1,592,485.29	4.39
Baxter Qiaoguang	Rendering of service	Advertising agency	Market price	754.72	0.00	-	-
Subtotal				34,428,097.66	95.05	35,053,586.65	96.62
Wang Lao Ji	Rendering of service	Consigned processing	Market price	11,479,772.63	100.00	11,516,409.74	81.77
HWBYS	Rendering of service	Service of research and development	Market price	33,018.87	0.93	113,207.55	2.40

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(e) Other related party transactions

(i) *The company renders guarantee for subsidiaries as follows:*

There is no guarantee for subsidiaries for the six months ended 30 June 2016.

(ii) *Leases*

1) Tenancy Agreement

Pursuant to a tenancy agreement entered into by the Group and GPLH, GPLH 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 GPLH RMB622 thousand of the above-mentioned for the current period (For the six months ended 30 June 2015: RMB4,183 thousand).

2) Office Tenancy Agreement – No. 5 front stalls of GPLH located at No. 45 North Shamian Street

Pursuant to the Tenancy Agreement entered into by the Company and GPLH on 27 June 2013, the Company rents the No. 5 front stalls of GPLH located at No. 45 North Street Shamian at a fixed annual rent., which term is 3 years, the Company should pay GPLH RMB272 thousand in current period. (For the six months ended 30 June 2015: RMB268 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(e) Other related party transactions *(Continued)*

(ii) Leases *(Continued)*

3) Warehouse and Office Building Tenancy Agreement

Pursuant to the Tenancy Agreement entered into by the Company and GPL, the Company rents certain buildings to GP Corp. at fixed amount per annum with a lease term from 1 January 2014 to 31 December 2016 and the rental amounted to RMB1,321 thousand. (For the six months ended 30 June 2015: RMB1,310 thousand).

Pursuant to the Tenancy Agreement entered into by the Company and Baxter Qiaoguang, the Company rents the building located in No.25, Fangcun Avenue to Baxter Qiaoguang at fixed amount per annum with a lease term from 10 May 2007 to the relocated date and the rental amounted to RMB1,000 thousand (For the six months ended 30 June 2015: RMB1,250 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 fixed amount per annum with a lease term from 1 January 2015 to 31 August 2016 and the rental amounted to RMB32 thousand (For the six months ended 30 June 2015: RMB32 thousand).

Pursuant to the Tenancy Agreement entered into by Guangzhou Bai Di and Nuo cheng Biological, Guangzhou Bai Di rents the building located in No.1, Wanbao Street North, Panyu District, Guangzhou to Nuo cheng Biological at fixed amount per annum with a lease term from 15 March 2011 to 14 March 2019 and the rental amounted to RMB1,104 thousand (For the six months ended 30 June 2015: RMB941 thousand).

Pursuant to the Tenancy Agreement entered into by Guang Hua, a subsidiary of the Company, and HWBYS, Guang Hua rents the building located in No.355, Shatai Rd North, Guangzhou to HWBYS at fixed amount per month with a lease term from 10 March 2014 to 9 March 2017 and the rental amounted to RMB36 thousand (For the six months ended 30 June 2015: 37 thousand).

Pursuant to the Tenancy Agreement entered into by Guang Hua, a subsidiary of the Company, and GP Corp., Guang Hua rents the building located in No.355, Shatai Rd North, Guangzhou to GP Corp. at fixed amount per month with a lease term from 17 July 2015 to 14 July 2020 and the rental amounted to RMB216 thousand (For the six months ended 30 June 2015: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(e) Other related party transactions *(Continued)*

(iii) License Agreement

- 1) Pursuant to the Trademark License Agreement entered into by Wang Lao Ji Great Health and GPLH on 25 May 2012 and 26 April 2013, GPLH authorized the use of 5 trademarks by Wang Lao Ji Great Health; Wang Lao Ji Great Health agreed to pay license fees to GPLH at 2.1% of its aggregate net sales, GPLH and the Company are to entitled by 53% and 47% of the license fee respectively. That Trademark License Agreement has expired on 31 December 2015, Wang Lao Ji Great Health and GPLH have entered into <Confirm Letter> in accordance with <Trademark License Agreement> in year 2016, periods of license has been extended to 24 May 2018.

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 RMB50,911 thousand for the current period (For the six months ended 30 June 2015: RMB48,585 thousand) and GPLH should receive RMB57,410 thousand (For the six months ended 30 June 2015: RMB54,787 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(e) Other related party transactions *(Continued)*

(iii) License Agreement *(Continued)*

- 2) 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 authorize all the use rights of "Wang Lao Ji" trademark to consignee; (2) During the period of validity of Trusteeship Agreement, consignee shall pay the expenses arising from trusteeship. (but consignor shall pay the expenses arising from dispute to the authority and the expenses arising from the dispute to the previous Trademark Trusteeship Agreement and Trademark Trusteeship Supplementary Agreement); (3) Consignee shall directly receive the trademark license fee which is arranged in the Trademark License Agreement signed during the trusteeship (including the supplementary agreement or new agreement which is signed by consignor or consignee). (4) During the period of validity of Trusteeship Agreement, consignor should pay the company RMB1,000 thousand for the basic trusteeship fee before the end of every March; (5) On the premise of non-violation to the Trademark License Agreement or supplementary which is entered into by consignor and third party before this Agreement 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 portion which is negotiated by consignor and consignee, the portion could not higher than 80% in any case, it could be 80% if both parties failed to reach an agreement for that.) as the authorized income for consignor. (the basic trusteeship fee of previous year of consignor shall directly deducted from this expenses by consignee) As the confirmed trademark "Wang Lao Ji", the portion to be shared of consignor and consignee shall be confirmed in accordance with the previous arrangement before this agreement was signed, and shall not be limited to the trademark trusteeship agreement. This agreement became effective on 5 July 2013, and will expire on the date of trademark transfer 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(e) Other related party transactions *(Continued)*

(iii) License Agreement *(Continued)*

2) *(Continued)*

Pursuant to <Notice of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. on Unfulfilled Commitment in respect of Shareholders, Related Parties and the Company > issued on 25 June 2014, the term of contract expire on 20 January 2015. On 13 March 2015, the First Extraordinary General Meeting 2015 of the Company adopted <Solution of Guangzhou Pharmaceutical Group Co., Ltd. Revise Trademark of "Wang Lao Ji">, GPLH revised the term of contract, which will expire within 2 years from the date of "Red jar decoration dispute" coming into force.

GPLH started to authorize the Group and its joint-control entity to use the registered trademark "GPC" without compensation in June 2000.

3) Pursuant to <Trademark License Agreement> entered into by Xing Qun and the Company on 5 September 2014, Xing Qun is able to use 32 kinds of trademark owned by GPLH for 32 kinds of plant beverage and coke products from 5 September 2013 to 6 March 2016 (both parties otherwise agreed to extend the term if need to, 2.1% of net sale volume for the products which use these 32 kinds of trademark shall be paid to the Company as a license fee by Xing Qun. <Trademark License Agreement> will expire on 6 March 2019. Xing Qun should pay the Company license fee amounted to RMB665 thousand at current period. (For the six months ended 30 June 2015: RMB854 thousand).

Based on <The arrangement of the Trademark Trusteeship Agreement> and <Trademark Trusteeship Supplementary Agreement> entered into by GPLH and the Company, Xing Qun should pay the Company the above license fee amounted to RMB665 thousand (For the six months ended 30 June 2015: RMB854 thousand), and pay GPLH RMB532 thousand (For the six months ended 30 June 2015: RMB683 thousand).

(iv) Employee benefits of key management personnel

Employee benefits of the Group's key management personnel amounted to RMB1,539 thousand for the six months ended 30 June 2016 (For the six months ended 30 June 2015: RMB1,711 thousand). The Group's key management personnel include director, supervisor, general manager, vice general manager, and secretary to the Board of Director ("BOD"). The key management includes 16 persons for the six months ended 30 June 2016 (For the six months ended 30 June 2015: 16 persons), among which 10 persons received their salaries from the Group (For the six months ended 30 June 2015: 10 persons).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(f) Balance of current account for related parties

(i) Receivables from related parties

Related party	30 June 2016		31 December 2015	
	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Notes receivable: GP Corp.	35,302,982.27	-	24,524,200.00	-
	35,302,982.27	-	24,524,200.00	-
Accounts receivable: GPHL	55,788.21	557.88	-	-
HWBYS	30,838,940.07	315,093.82	31,332,414.44	313,324.14
GP Corp.	136,101,280.38	1,373,028.95	16,814,175.95	168,141.76
Wang Lao Ji	119,338,171.48	1,414,467.27	63,598,489.35	876,655.25
Baxter Qiaoguang	582,200.00	5,822.00	761,300.00	7,613.00
	286,916,380.14	3,108,969.92	112,506,379.74	1,365,734.15
Other receivables: GPHL	5,125,661.87	-	6,000,573.30	-
Guangzhou South China Medical Apparatus Co., Ltd.	100,000.00	100,000.00	100,000.00	100,000.00
HWBYS	18,218,108.98	-	20,159,243.27	-
GP Corp.	1,523,843.29	-	57,600.00	-
Wang Lao Ji	4,658,598.55	-	3,098,563.65	-
Baxter Qiaoguang	1,000,000.00	-	-	-
	30,626,212.69	100,000.00	29,415,980.22	100,000.00
Advances to suppliers: HWBYS	8,148,872.32	-	5,945,156.25	-
GP Corp.	3,396.65	-	270,257.00	-
Wang Lao Ji	1,335,005.71	-	38,780.21	-
Guangzhou Yu Fa Medical Apparatus Co., Ltd.	210,278.62	-	210,278.62	-
	9,697,553.30	-	6,464,472.08	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(f) Balance of current account for related parties *(Continued)*

(ii) Payables to related parties

	Related party	30 June 2016	31 December 2015
Notes Payable:	HWBYS	–	1,000,000.00
	Wang Lao Ji	–	1,410,000.00
		–	2,410,000.00
Accounts Payable:	HWBYS	9,388,127.65	2,593,012.54
	GP Corp.	341,131,948.34	12,450,440.51
	Wang Lao Ji	6,046,788.00	–
		356,566,863.99	15,043,453.05
Other Payables:	GPHL	66,855,722.19	42,574,153.82
	HWBYS	687,264.10	520,000.00
	GP Corp.	2,447,832.33	237,599.54
	Wang Lao Ji	263,665.39	–
	Baxter Qiaoguang	45,679.64	25,992.04
	70,300,163.65	43,357,745.40	
Advances from customers:	GPHL	490,339.19	–
	HWBYS	2,995,145.87	4,010,690.63
	GP Corp.	3,281,906.27	13,754,837.05
	6,767,391.33	17,765,527.68	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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13 COMMITMENTS

(1) Capital expenditures commitments

- (a) Capital expenditures commitments are contracted but not yet necessary to be recognized on the balance sheet

The Group's capital expenditures commitments that are contracted for but not yet necessary to be recognized on the balance sheet are as follows:

	30 June 2016	31 December 2015
Investment	100,300,000.00	59,878,887.68
Building, machinery and equipment	217,396,320.29	221,569,932.06
	317,696,320.29	281,448,819.74

The Group's share of the jointly controlled entities' capital commitments are as follows:

	30 June 2016	31 December 2015
Building, machinery and equipment	134,622,642.15	52,332,142.50

- (b) Capital commitments authorized by the management but are not yet contracted for:

	30 June 2016	31 December 2015
Investment	320,000,000.00	320,000,000.00
Building, machinery and equipment	808,347,537.27	386,062,983.80
	1,128,347,537.27	706,062,983.80

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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13 COMMITMENTS (Continued)

(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 summarized as follows:

	Minimum lease payables	
	30 June 2016	31 December 2015
Remaining leasing term		
Within 1 year	48,384,277.21	54,584,993.02
1 to 2 years	36,090,846.12	23,726,819.62
2 to 3 years	35,369,602.12	22,363,443.20
Over 3 years	219,500,978.45	198,784,413.03
	339,345,703.90	299,459,668.87

The rental expenses under operating lease amounted to RMB41,765 thousand are recognized in the profit or loss for the six months ended 30 June 2016 (For the six months ended 30 June 2015: RMB29,842 thousand).

(3) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 30 June 2016.

14 CONTINGENCIES

Contingencies related to litigation refer to Note 16(1).

15 EVENTS AFTER THE BALANCE SHEET DATE

As at the reporting date, there are no non-adjusting events of significant events after balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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16 OTHER SIGNIFICANT EVENTS

(1) Litigation

(a) Litigation of A company, a subsidiary of the Company.

- (i) Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. started a suit to the unreceived payment amounted to RMB36,880 thousand by A company, a subsidiary of the Company on 5 February 2015, and required A company to pay maturity payment and overdue interest.

Pursuant to <Written Civil Ruling> with reference of (2015) SuiYueFaMinErChuZi No.328-3 issued by Guangzhou Yue Xiu District People's Court on 14 March 2016, the prosecution by Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. was rejected.

Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. started a suit to the unreceived payment amounted to RMB18,440 thousand by A company, a subsidiary of the Company on 4 February 2015, and required A company to pay maturity payment and overdue interest.

Pursuant to <Written Civil Ruling> with reference of (2015) SuiLiFaMinErChuZi No.774-3 issued by Guangzhou Li Wan District People's Court on 21 December 2015, the prosecution by Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. was rejected, and transferred to public security organization to handle as criminal case.

As at reporting date, Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. has lodged an appeal.

Guangzhou Meijian Co., Ltd. started a suit to the unreceived payment amounted to RMB5,014.8 thousand by A company, a subsidiary of the Company on 1 June 2015, and required A company to pay maturity payment and overdue interest.

Pursuant to <Written Civil Ruling> with reference of (2015) SuiYueFaMinErChuZi No.744 issued by Guangzhou Yue Xiu District People's Court on 11 July 2016, all of the prosecution by Guangzhou Meijian Co., Ltd. was rejected.

Guangzhou Fuel Group Co., Ltd. started a suit to the unreceived payment amounted to RMB5,075.7 thousand by A company, a subsidiary of the Company on 1 June 2015, and required A company to pay maturity payment and overdue interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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16 OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

(a) Litigation of A company, a subsidiary of the Company. *(Continued)*

(i) *(Continued)*

Pursuant to <Written Civil Ruling> with reference of (2015) SuiYueFaMinErChuZi No.745 issued by Guangzhou Yue Xiu District People's Court on 11 July 2016, all of the prosecution by Guangzhou Fuel Group Co., Ltd. was rejected.

Guangdong Guangsheng Investment Group Energy Co., Ltd. started a suit to the unreceived payment amounted to RMB47,400 thousand by A company, a subsidiary of the Company on 25 December 2014, required to block the account of A company, and required A company to pay maturity payment and overdue interest.

Pursuant to <Written Civil Ruling> with reference of (2015) SuiLiFaMinErChuZi No.455-1 issued by Guangzhou Li Wan District People's Court on 21 December 2015, the prosecution by Guangdong Guangsheng Investment Group Energy Co., Ltd. was rejected, and transferred to public security organization to handle as criminal case.

As at reporting date, Guangdong Guangsheng Investment Group Energy Co., Ltd. has lodged an appeal to Guangzhou Intermediate People's Court.

The above litigation involved the same party related to the case, A company has taken an action to the case:

On 23 December 2014, A company, a subsidiary of the Company, started a suit for the unreceived payment amounted to RMB20,087.2 thousand by Guangzhou Defenghang Petrochemical Co., Ltd. to Guangzhou Luogang District People's Court, and required Guangzhou Defenghang Petrochemical Co., Ltd. to pay maturity payment and overdue interest.

On 23 December 2014, A company, a subsidiary of the Company, started a suit for the unreceived payment amounted to RMB6,036 thousand by Guangzhou Tongtai Fuel Chemical Co., Ltd. to Guangzhou Luogang District People's Court, and required Guangzhou Tongtai Fuel Chemical Co., Ltd. to pay maturity payment and overdue interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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16 OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

(a) Litigation of A company, a subsidiary of the Company. *(Continued)*

(i) *(Continued)*

According to the above case, A company has applied to Guangzhou Luogang District People's Court (now for Guangzhou Huangpu District People's Court) for property preservation before litigation. Guangzhou Huangpu District People's Court has frozen the equity of Zhuhai Rural Commercial Bank Co., Ltd. held by the guarantor, Zhuhai Yemai Energy Co., Ltd., the mineral rights for the guarantor, Guangxi Zhongke Mining Industry Co., Ltd., sealed up the mortgaged manufacturing equipment of the guarantor, Guangzhou Yeda Investment Co., Ltd. and Dongguan Ye Lian Road Modified Asphalt Co., Ltd. (Yelian), sealed up the land use right (451 square meters) for the guarantor, Jiangmen Yeli Energy Co., Ltd., the land parcel is located in Nanyangwei, Haidachong Village Committee, Muzhou Town, Xinhui District, Jiangmen City.

Guangzhou Defenghang Petrochemical Co., Ltd., Guangzhou Tongtai Fuel Chemical Co., Ltd., Dongguan Ye Lian Road Modified Asphalt Co., Ltd. and its actual controller, Chen Xijiang are suspected of commercial fraud, A company reported to Guangzhou Public Security accordingly, the case is under investigation.

According to the opinion of external lawyer, upstream customers of A company could not provide logistics certificates of delivery to Guangzhou Defenghang Petrochemical Co., Ltd. and Guangzhou Tongtai Fuel Chemical Co., Ltd., the relationship of liabilities may not be established, A company does not have to pay to the upstream customers, and the overdue accounts receivable are not existed.

Management of A company has assessed the case with external opinion of lawyer, the accounts receivable for Guangzhou Defenghang Petrochemical Co., Ltd. and Guangzhou Tongtai Fuel Chemical Co., Ltd. are no longer individual subject to separate provision for bad debts but the subject in group 1 by aging. For the accounts that have been paid, which includes other receivables amounted to RMB10,315.7 thousand of Guangzhou Defenghang Petrochemical Co., Ltd., Account receivables amounted to RMB10,541.8 thousand of Sinogas (Zhuhai) Petrochemical Co. Ltd., are individual subject to separate provision for bad debts, ratio of provision is 50%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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16 OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

(a) Litigation of A company, a subsidiary of the Company. *(Continued)*

- (ii) On 6 January 2015, A company, a subsidiary of the Company, received a notice of responding to prosecution which of the contract dispute of financial borrowings of the subsidiary, Jiangmen Yuehui Fuel Co., Ltd. and another 7 companies accused by Industrial Bank Jiangmen Branch from Guangdong Province Jiangmen City Intermediate People's court, according to indictment, Jiangmen Yuehui Fuel Co., Ltd. applied to Industrial Bank for a borrowing amounted to RMB86,080 thousand by the payment receivable amounted to RMB95,320 thousand of the subsidiary as a pledge, required A company to take the responsibility of settlement or compensation. A company have submitted a verification report, and considered they should not bear any legal responsibility for fake official seal and signature.

Pursuant to <Written Civil Ruling> with reference of (2014) JiangZhongFaMinErChuZi No.55 issued by Jiangmen City Intermediate People's Court on 14 June 2016, the prosecution by Industrial Bank Jiangmen Branch was rejected, and transferred to Jiangmen City public security organization.

- (iii) On 30 January 2015, A company, a subsidiary of the Company, received a notice of responding to prosecution which of the contract dispute of financial borrowings of the subsidiary, Jiangmen Yuehui Fuel Co., Ltd. and another 5 companies accused by Industrial Bank Jiangmen Branch from Guangdong Province Jiangmen City Pengjiang District Intermediate People's court, according to indictment, Jiangmen Yuehui Fuel Co., Ltd. applied to Industrial Bank for a commercial bank acceptance amounted to RMB16,800 thousand by the payment receivable amounted to RMB17,000 thousand of the subsidiary as a pledge, required A company to take the responsibility of settlement or compensation. A company considered they should not bear any legal responsibility for fake official seal and signature.

Pursuant to <Written Civil Ruling> with reference of (2015) JiangPengFaMinErChuZi No.55 issued by Jiangmen City Pengjiang District People's Court on 15 April 2016, the proof from Jiangmen Industrial Bank can not prove that A company has not paid the accounts receivable to Yuehui Company, and there are no facts or legislative authority for it, the court found that to be unsupported, and rejected the prosecution, Industrial Bank bore the legal cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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16 OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

(a) Litigation of A company, a subsidiary of the Company. *(Continued)*

- (iv) Guangzhou Linhai Trading Industry Co., Ltd. started a suit to the unreceived payment amounted to RMB8,364.9 thousand by A company, a subsidiary of the Company on 11 November 2014, and required A company to pay maturity payment and overdue interest.

Pursuant to <Written Civil Ruling> with reference of (2015) SuiLiFaMinErChuZi No.2424, 2425-4 issued by Guangzhou Li Wan District People's Court on 30 December 2015, A company should pay maturity payment and overdue interest to Guangzhou Linhai Trading Industry Co., Ltd.

A company has lodged an appeal to Guangzhou Intermediate People's Court, the above case is still under second trial. Management of A company considers that it is not probable that it will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

- (v) On 29 October 2014, A company, a subsidiary of the Company received a notice of responding to prosecution which of the contract dispute of financial borrowings of the subsidiary, Jiangmen Yuehui Fuel Co., Ltd. and another 7 companies accused by Guangdong Nanyue Bank and Guangdong Nanyue Bank Jiangmen Branch, according to indictment, Jiangmen Yuehui Fuel Co., Ltd. applied to Guangdong Nanyue Bank for the payment receivable amounted to RMB37,500 thousand of the subsidiary as factoring financing amounted to RMB30,000 thousand, required the subsidiary to take the responsibility of settlement or compensation. The subsidiary considered they should not bear any legal responsibility for fake official seal and signature.

As at reporting date, this case is under trial. Management of A company considers that it is not probable that it will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(All amounts in Renminbi yuan unless otherwise stated)

16 OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

(b) Other litigation of A company

- (i) A company, a subsidiary of the Company, started a suit for the unreceived payment amounted to RMB5,582 thousand by Guangzhou Gelingkang Pharmaceutical Co., Ltd. on to Guangzhou City Li Wan District People's Court on 19 October 2015, and required Guangzhou Gelingkang Pharmaceutical Co., Ltd. to pay maturity payment and overdue interest.

Pursuant to <Written Civil Ruling> with reference of (2015) SuiLiFaMinErChuZi No.1973 issued by Guangzhou City Li Wan District People's Court on 14 June 2016, Guangzhou Gelingkang Pharmaceutical Co., Ltd. shall pay up the loan amounted to RMB5,581,994.72 and overdue interest to A company (overdue interest is calculated by the similar coterminous rate of People's Bank of China, with a cardinal number of principle amounted to RMB5,581,994.72 in a period from 29 November 2013 to the date when Guangzhou Gelingkang Pharmaceutical Co., Ltd. has paid up the loan), and Guangzhou Gelingkang Pharmaceutical Co., Ltd. bore the acceptance fee of this case amounted to RMB54.850 thousand, announcement fee of this case amounted to RMB1 thousand.

- (ii) A company, a subsidiary of the Company, started a suit for the unreceived payment amounted to RMB5,191.2 thousand by Hengshan Zhongkong Paper Co., Ltd. on to Hunan Province Hengyang City Intermediate People's Court on 10 December 2014, and required Hengshan Zhongkong Paper Co., Ltd. to pay maturity payment and overdue interest.

On 5 December 2014, Hunan Province Hengshan County People's Court accepted and heard the bankruptcy liquidation of Hengshan Zhongkong International Paper Co., Ltd. According to the application of Hengshan County Urban and Rural Construction Investment Co., Ltd. The litigation of Hengshan Zhongkong International Paper Co., Ltd. was rejected, creditor's rights of A company will be dealt with in the procedure of bankruptcy liquidation.

On 20 November 2015, the accountant in bankruptcy considered the seal of the contract for declaring creditor's right by A company is inconsistent with the one used by Hengshan Zhongkong International Paper Co., Ltd., A company is not creditor. A company has reported to Guangzhou Public Security on 29 February 2016.

Management of A company has assessed this case with external opinion of lawyer, and has made provision for bad debts of the above accounts receivable amounted to RMB5,191.2 thousand, ratio of provision is 100%.

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For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

16 OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

(b) Other litigation of A company *(Continued)*

- (iii) A company, a subsidiary of the Company, has not received payment amounted to RMB5,028.3 thousand from Foshan Sanshui Changshun Fuel Co., Ltd., on 21 October 2014, Guangzhou City Li Wan District People's Court sealed up the 3 land parcel of Foshan Sanshui Changshun Fuel Co., Ltd., which are located in "Shuigangdi", Wudinggang Village Committee, South west Street, Sanshui District, Foshan City, East "Gaozhoukeng", Jinbenjianggen Village Committee, South west Street, Sanshui District, Foshan City and West "Gaozhoukeng", Jinbenjianggen Village Committee, South west Street, Sanshui District, Foshan City. On 15 January 2015, Foshan Intermediate People's Court announced Foshan Sanshui Changshun Fuel Co., Ltd. enter the procedure of bankruptcy liquidation. On 7 July 2015, the accountant in bankruptcy of Foshan Sanshui Changshun Fuel Co., Ltd. acknowledged creditor's rights that declared by A company in accordance with <Notice of Advise in Respect of Checking on Credit of Bankrupt >.

Management of A company has assessed this case with external opinion of lawyer, and has made provision for bad debts of the above accounts receivable amounted to RMB5,028.3 thousand, ratio of provision is 50%.

(c) Respond to prosecution of other subsidiaries of the Company

- (i) In year 2012, Wang Lao Ji Great Health, the wholly-owned subsidiary was sued with its unauthorized use of the specific name, package and decoration of famous products by JDB.

Guangdong Higher People's Court rejected the appeal of unauthorized use of the specific name, package and decoration of famous products accrued from Guangdong Jiaduobao Co., Ltd. on 19 December 2014. JDB lodged an appeal.

As at 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 Wang Lao Ji 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

16 OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

(c) Respond to prosecution of other subsidiaries of the Company *(Continued)*

- (ii) In year of 2014, Tong Xing Pharmaceutical conducted prosecution to China International Economic and Trade Arbitration Commission with "V20140834", which reason is: the use of "Wang Lao Ji" trademark by Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. violates the agreement of <Shareholder Contract> and <Articles of Association> of Wang Lao Ji Pharmaceutical. The Company has submitted objection of jurisdiction to Shenzhen Intermediate People's court and China International Economic and Trade Arbitration Commission.

China International Economic and Trade Arbitration Commission notified the suspension of action on 22 April 2015.

Pursuant to the final judgment of Shenzhen City Intermediate People's Court on 30 May 2016, China International Economic and Trade Arbitration Commission has no jurisdiction to the dispute for <Shareholder Contract> of Wang Lao Ji Pharmaceutical.

- (iii) Guangzhou Hao Cheng Estate Management Development Co., Ltd. started a suit to the dispute of lease contract by B company, a subsidiary of the Company, and applied for termination to contract and compensating for loss. B company also instituted an action for the unreceived rental of Guangzhou Hao Cheng Estate Management Development Co., Ltd and its guarantor.

The above cases are still under investigation at the moment, the rental of this property was not recognized since January 2015, Management of B company considers that it is not probable that it will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

16 OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

(c) Respond to prosecution of other subsidiaries of the Company *(Continued)*

- (iv) Guangdong Guangsheng Investment Group Energy Co., Ltd. started a suit to the unreceived payment amounted to RMB81,408.50 thousand by C company, a subsidiary of the Company, and applied for a sequestered account to it in year of 2015. C company has reported to Guangzhou Public Security. It shall be investigated for criminal responsibility requirements.

As at the reporting date, the above case is still under investigation, Management of C company considers that it is not probable that it will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

- (v) Guangdong Guangsheng Investment Group Energy Co., Ltd. started a suit to the unreceived payment amounted to RMB58,900 thousand by a subsidiary of the Company, and applied for a sequestered account to it in year of 2014. The subsidiary have started a suit accordingly and applied for sealing up related assets, report to Guangzhou Public Security. It shall be investigated for criminal responsibility requirements.

Pursuant to <Written Civil Ruling> with reference of (2014) SuiTianHeFaMinErChuZi No.4583 issued by Guangzhou Tian He District People's Court on 5 February 2016, the prosecution by Guangdong Guangsheng Investment Group Energy Co., Ltd. was rejected, and transferred to public security organization to handle as criminal case. Guangdong Guangsheng Investment Group Energy Co., Ltd. lodged an appeal.

The above cases are still under investigation, Management of this subsidiary considers that it is not probable that it will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

16 OTHER SIGNIFICANT EVENTS *(Continued)*

- (2) Pursuant to the resolution of the eighth meeting of the sixth board of directors and the thirteenth meeting of the sixth board of directors, the Company intended to issue public A share less than 419,463,087 shares, raise a fund less than RMB10 billion, specific object are GPLH (a shareholder of the Company), Tianfu-Dingzengshengshi No.66 asset management plan (Tianfu-Dingzengshengshi No.66), Guangzhou State-owned Development Holding Co., Ltd., Guangzhou Guoshou City Development Industrial Investment (Limited Partnership), Shanghai Yunfeng Xinchuang Equity Investment Center (Limited Partnership). Benchmark date of this new shares issuance is 13 January 2015, the notice date of the eighth meeting of the sixth board of directors. The issued price of new A share amounted to RMB23.84 per share, no less than 90% of average price of transaction within 20 transaction days before benchmark date. This issued price and amount will be adjusted if there is any dividend distribution, delivering of stock, transfer of capital surplus transferring to share capital between benchmark day and issued date.

The-above-mentioned events have been approved by 1st Extraordinary General Meeting of year 2015 on 13 March 2015, 1st Meeting of Shareholders of Domestic Shares of year 2015 on 13 March 2015 and 1st Meeting of Shareholders of Foreign Shares for First Overseas Listing of year 2015 on 13 March 2015.

The price of non-public offering for A share was adjusted to RMB23.56 per share after the completion of profit distribution for the year ended 31 December 2015. This price would be adjusted if DR, XR, distributing dividends, stock distribution, conversion of capital surplus to stock capital occurred during the period from the base pricing date of non-public offering for A share to the date of issue.

The-above-mentioned events have been approved by 1st Extraordinary General Meeting of year 2015 on 13 March 2015, 1st Meeting of Shareholders of Domestic Shares of year 2015 on 13 March 2015 and 1st Meeting of Shareholders of Foreign Shares for First Overseas Listing of year 2015 on 13 March 2015.

This preplanning of issuance was revised in accordance with resolution of the sixteenth meeting of the sixth session board of directors. After adjustment, issued number is not exceed 334,711,699 shares.

This non-public offering of A share is approved with reference to approval of ZJXK[2016] No.826 by China's Securities Regulatory Commission.

So far, every purchaser have paid in full fund; the Company issued non-public fund amounted to RMB7,885,807,628.44, the actual net amount of which is RMB7,863,446,528.33 after deducting issuance cost amounted to RMB22,361,100.11, and it has been transferred to account of the Company; the Company is handling registration procedure of increased capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

16 OTHER SIGNIFICANT EVENTS *(Continued)*

- (3) The Company entered into <Memorandum in Respect of Establishing United Pharmaceutical Platform> with Shanghai Pharmaceutical Holdings Co., Ltd., Nanjing Pharmaceutical Holdings Co., Ltd., Hayao Holdings Co., Ltd., Tianjin City Pharmaceutical Holdings Co., Ltd. and Chongqing Pharmaceutical (Group) Holdings Co., Ltd. on 12 May 2016, and planned to jointly contribute a platform company, which total registered capital is RMB500 million, the Company planned to contribute RMB118,750 thousand among the total registered capital, and proportion of equity interest is 23.75%.

17 SEGMENT INFORMATION

With the strategic management and business development, the Group basically completed the industrial chain layout and internal structure of 4 sectors, which include "Great Southern TCM", "Great Commerce", "Great Health", "Great Medical Care", according to the requirements of regulatory laws, regulations and company management, 4 sectors are divided into 4 operating segments, as business scale of "Great Medical Care" is fail to 10%, details for other segments are as below:

- "Great South TCM": Research, development, manufacturing and sales for Chinese and Western medicine, chemical raw medicine, natural drug, biological medicine and intermediates of chemical raw medicine;
- "Great Health": Research, development, manufacturing and sales for the products of Great Health;
- "Great Commerce": Wholesale, retail, import and export for Western medicine, Chinese medicine and medical apparatus and instruments.

Price transfer between segments are carried out in accordance with the price of sales to third party.

Assets and liabilities are allocated based on the segment operations, expenses attributable indirectly to each segment are allocated among segments based on the portion of revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

17 SEGMENT INFORMATION (Continued)

(1) The segment information for the six months ended 30 June 2016 and as of 30 June 2016 is as follows:

	Great Southern TCM	Great Health	Great Commerce	Other	Elimination	Total
Revenue	3,580,998,827.21	4,701,508,746.37	2,546,297,651.19	28,464,095.32	-	10,857,269,320.09
Inter-segment revenue	201,823,834.61	8,528,629.53	2,658,414,126.93	74,395,928.69	(2,943,162,519.76)	-
Interest income	(8,994,717.38)	(30,859,561.79)	(2,207,451.97)	(3,154,435.44)	859,830.49	(44,356,336.09)
Interest expenses	10,744,406.95	-	24,492,335.38	10,397,678.48	(32,731,469.58)	12,902,951.23
Share of profit or loss of associates and jointly controlled entities	11,069,275.50	-	-	132,284,947.45	1,917,378.25	145,271,601.20
Asset impairment losses	2,116,313.54	78,189.49	(4,616,764.38)	195,366.13	4,002,535.17	1,775,639.95
Depreciation and amortization	99,652,720.37	6,883,602.96	3,997,700.86	8,520,381.89	(72,052.50)	118,982,353.58
Total profit	425,404,305.49	404,344,745.89	39,585,054.52	161,029,706.03	28,772,047.00	1,059,135,858.93
Income tax expenses	37,339,719.21	99,183,970.94	8,262,155.04	43,578,592.35	7,643,324.87	196,007,762.41
Net profit (Including: Minority interests)	388,064,586.28	305,160,774.95	31,322,899.48	117,451,113.68	21,128,722.13	863,128,096.52
Total assets	7,928,147,073.64	4,432,986,690.24	4,333,608,210.89	8,759,796,291.54	(7,642,388,915.90)	17,812,149,350.41
Total liabilities	4,510,184,877.88	3,519,355,038.87	4,057,948,382.61	1,332,167,023.27	(5,200,455,143.33)	8,219,200,179.30
Long-term equity investments in associates and jointly controlled entities	86,147,142.39	-	-	2,115,021,858.14	-	2,201,169,000.53
Additions of non-current assets other than long-term equity investments	172,957,726.89	12,599,004.59	3,311,432.21	25,499,644.77	-	214,367,808.46

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

17 SEGMENT INFORMATION (Continued)

(2) The segment information for the six months ended 30 June 2015 and as of 31 December 2015 is as follows:

	Great Southern TCM	Great Health	Great Commerce	Other	Elimination	Total
Revenue	3,880,250,789.18	4,368,484,777.90	2,216,622,120.15	14,305,834.99	-	10,479,663,522.22
Inter-segment revenue	1,157,806,414.95	8,332,466.93	2,931,249,847.98	68,672,632.42	(4,166,061,362.28)	-
Interest income	(6,620,957.34)	(23,293,433.71)	(7,467,099.95)	(3,215,989.95)	4,910,010.95	(35,687,470.00)
Interest expenses	14,310,966.42	-	33,020,023.72	13,272,541.40	(42,826,361.56)	17,777,169.98
Share of profit or loss of associates and jointly controlled entities	(21,103,079.35)	-	(40,397.57)	122,227,238.35	(1,055,364.29)	100,028,397.14
Asset impairment losses	9,376,168.95	390,031.53	10,268,960.90	-	(7,924,599.40)	12,110,561.98
Depreciation and amortization	95,544,052.09	2,625,623.39	3,413,695.68	8,377,236.67	(72,052.50)	109,888,555.33
Total profit	347,245,783.23	354,848,368.79	25,764,603.89	170,325,238.45	65,011,323.45	963,195,317.81
Income tax expenses	32,396,866.21	88,911,130.74	5,538,748.41	34,398,840.19	9,267,346.56	170,512,932.11
Net profit (Including: Minority interests)	314,848,917.02	265,937,238.05	20,225,855.48	135,926,398.26	55,743,976.89	792,682,385.70
Total assets	7,704,680,636.46	3,883,794,696.88	4,374,126,249.76	8,017,210,356.26	(8,109,234,672.16)	15,870,577,267.20
Total liabilities	4,442,907,371.01	3,275,323,820.46	4,142,247,157.89	1,067,328,341.52	(5,741,162,572.59)	7,186,644,118.29
Long-term equity investments in associates and jointly controlled entities	128,016,390.34	-	-	1,983,196,586.10	-	2,111,212,976.44
Additions of non-current assets other than long-term equity investments	89,277,388.42	37,803,218.68	7,899,125.15	12,368,401.09	-	147,348,133.34

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

17 SEGMENT INFORMATION (Continued)

The Group's revenue from external customers in the PRC and other countries/regions, and the total non-current assets other than financial assets and deferred tax assets located in the PRC and other countries/regions are summarized as follows:

Revenue from external customers	For the six months ended 30 June 2016	For the six months ended 30 June 2015
PRC	10,816,225,709.42	10,316,013,258.82
Other countries/regions	41,043,610.67	163,650,263.40
	10,857,269,320.09	10,479,663,522.22
Total non-current assets	30 June 2016	31 December 2015
PRC	5,821,890,754.10	5,639,816,203.36
Other countries/regions	19,648,512.34	19,855,998.99
	5,841,539,266.44	5,659,672,202.35

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Accounts receivable

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

	30 June 2016	31 December 2015
Within 1 year	235,626,848.90	335,235,055.50
1 to 2 years	39,977,276.36	39,709,959.86
2 to 3 years	21,913.73	223.20
3 to 4 years	10,992.00	20,502.80
4 to 5 years	1,546,244.88	1,552,184.23
Over 5 years	2,932,283.97	2,921,502.04
	280,115,559.84	379,439,427.63
Less: provision for bad debts	10,835,323.79	11,796,914.32
	269,280,236.05	367,642,513.31

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

	30 June 2016				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provisions	1,500,000.00	0.54%	1,500,000.00	100.00%	-
Subject to provision by groups: Group 1	277,760,933.60	99.15%	8,480,697.55	3.05%	269,280,236.05
Individually insignificant but subject to separate provisions	854,626.24	0.31%	854,626.24	100.00%	-
	280,115,559.84	100.00%	10,835,323.79	3.87%	269,280,236.05

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(1) Accounts receivable (Continued)

(b) Accounts receivable by categories are analyzed as follows: (Continued)

	31 December 2015				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provisions	1,500,000.00	0.40%	1,500,000.00	100.00%	-
Subject to provision by groups:					
Group 1	377,084,801.39	99.37%	9,442,288.08	2.50%	367,642,513.31
Individually insignificant but subject to separate provisions	854,626.24	0.23%	854,626.24	100.00%	-
	<u>379,439,427.63</u>	100.00%	<u>11,796,914.32</u>	3.11%	<u>367,642,513.31</u>

Classification of accounts receivable: refer to Note 3 (11).

(c) As at 30 June 2016, 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%	The action is enforced, it is expected that the amount could not be recovered

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(1) Accounts receivable (Continued)

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

	30 June 2016			31 December 2015		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
Within 1 year	235,626,848.90	84.83%	2,356,268.49	335,235,055.50	88.90%	3,352,350.56
1 to 2 years	39,977,276.36	14.39%	3,997,727.63	39,709,959.86	10.53%	3,970,995.98
2 to 3 years	21,913.73	0.01%	6,551.80	223.20	0.00%	66.96
3 to 4 years	10,992.00	0.00%	5,496.00	20,502.80	0.01%	10,251.40
4 to 5 years	46,244.88	0.02%	36,995.90	52,184.23	0.01%	41,747.38
Over 5 years	2,077,657.73	0.75%	2,077,657.73	2,066,875.80	0.55%	2,066,875.80
	277,760,933.60	100.00%	8,480,697.55	377,084,801.39	100.00%	9,442,288.08

- (e) As at 30 June 2016, 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
	854,626.24	854,626.24	100.00%	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(1) Accounts receivable (Continued)

- (f) There are no accounts receivables that are reversed or collected during the current period.
- (g) There are no accounts receivables that are collected by restructuring or other manners during the current period.
- (h) There are no accounts receivables that written off during the current period.
- (i) As at 30 June 2016, accounts receivables with significant balance are analyzed as follows:

Name of the entity	Relation with the Company	Amount	Aging	% of total balance
Customer 1	Related party	112,505,973.20	Within 1year	40.16%
Customer 2	Related party	77,429,490.03	Within 1year, 1-2 years	27.64%
Customer 3	Third party	12,057,518.50	Within 1year	4.30%
Customer 4	Related party	10,932,195.59	Within 1year	3.90%
Customer 5	Third party	6,094,663.00	Within 1year	2.18%
		<hr/>		
		219,019,840.32		<hr/> 78.19%

- (j) There are no accounts receivables derecognized as at 30 June 2016.
- (k) As at 30 June 2016, there are no securitizations that targeted at accounts receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(2) Other receivables

	30 June 2016	31 December 2015
Receivables due from related parties	1,157,726,854.30	1,057,170,703.77
Including: Entrusted loan	394,280,000.00	618,120,000.00
Other accounts receivable	763,446,854.30	439,050,703.77
Rentals, deposits and staff advances	20,612,548.27	18,792,162.71
Others	27,954,817.86	29,190,075.88
	1,206,294,220.43	1,105,152,942.36
Less: Provision for bad debts	5,605,839.91	5,579,791.92
	1,200,688,380.52	1,099,573,150.44

(a) The aging of other receivables is analyzed as follows:

	30 June 2016	31 December 2015
Within 1 year	1,172,766,895.37	1,079,841,799.07
1 to 2 years	8,831,670.25	2,541,057.08
2 to 3 years	1,634,137.48	364,946.15
3 to 4 years	31,903.64	66,172.45
4 to 5 years	59,316.94	57,035.39
Over 5 years	22,970,296.75	22,281,932.22
	1,206,294,220.43	1,105,152,942.36

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(2) Other receivables (Continued)

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

	30 June 2016				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	1,040,121.11	0.09%	1,040,121.11	100.00%	-
Subject to provision by groups:					
Group 1	8,270,496.37	0.69%	1,428,149.36	17.27%	6,842,347.01
Group 2	15,506,630.94	1.29%	-	0.00%	15,506,630.94
Group 3	1,157,726,854.30	95.96%	-	0.00%	1,157,726,854.30
Group 4	20,612,548.27	1.71%	-	0.00%	20,612,548.27
Individually insignificant but subject to separate provision	3,137,569.44	0.26%	3,137,569.44	100.00%	-
	1,206,294,220.43	100.00%	5,605,839.91	0.46%	1,200,688,380.52

	31 December 2015				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	1,040,121.11	0.09%	1,040,121.11	100.00%	-
Subject to provision by groups:					
Group 1	9,902,104.82	0.90%	1,402,101.37	14.16%	8,500,003.45
Group 2	15,110,280.51	1.37%	-	0.00%	15,110,280.51
Group 3	1,057,170,703.77	95.66%	-	0.00%	1,057,170,703.77
Group 4	18,792,162.71	1.70%	-	0.00%	18,792,162.71
Individually insignificant but subject to separate provision	3,137,569.44	0.28%	3,137,569.44	100.00%	-
	1,105,152,942.36	100.00%	5,579,791.92	0.50%	1,099,573,150.44

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(2) Other receivables (Continued)

- (c) Other receivables that are individually significant and subject to separate provision are analyzed 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
Other receivables 3	108,000.00	108,000.00	100.00%	it is expected that the amount would not be recoverable
	1,040,121.11	1,040,121.11		

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

	30 June 2016			31 December 2015		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	6,546,026.19	79.15%	65,510.26	8,467,887.26	85.52%	84,678.88
1 to 2 years	354,545.41	4.29%	35,454.54	82,250.61	0.83%	8,225.06
2 to 3 years	44,750.00	0.54%	13,425.00	44,920.00	0.45%	13,476.00
3 to 4 years	19,903.64	0.24%	9,951.82	9,836.87	0.10%	4,918.43
4 to 5 years	7,316.94	0.09%	5,853.55	32,035.39	0.32%	25,628.31
Over 5 years	1,297,954.19	15.69%	1,297,954.19	1,265,174.69	12.78%	1,265,174.69
	8,270,496.37	100.00%	1,428,149.36	9,902,104.82	100.00%	1,402,101.37

- (e) There are no receivables that are subjected to fully provision or in large portionate but are reversed or collected in full amount or in large portionate in the current period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(2) Other receivables (Continued)

(f) There are no other receivables collected by restructuring or other manners in the current period.

(g) As at 30 June 2016, the top five of other receivables are analyzed as follows:

Name of entity	Relation of the Company	Amount	Aging	% of total balance
Other receivables 1	Wholly-owned subsidiary	544,021,483.60	Within 1 year	45.10%
Other receivables 2	Wholly-owned subsidiary	136,558,140.35	Within 1 year, over 5 years	11.32%
Other receivables 3	Wholly-owned subsidiary	117,090,675.34	Within 1 year	9.71%
Other receivables 4	Wholly-owned subsidiary	95,213,867.87	Within 1 year	7.89%
Other receivables 5	Indirect subsidiary	67,454,035.61	Within 1 year	5.59%
		960,338,202.77		79.61%

(h) As at 30 June 2016, there are no other receivables that are derecognized.

(i) As at 30 June 2016, there are no securitizations that targeted at other receivables.

(3) Long-term equity investments

Item	30 June 2016			31 December 2015		
	Book balance	Provision for impairment	Current amount	Book balance	Provision for impairment	Current amount
For subsidiary investment	2,147,085,363.78	171,000,000.00	1,976,085,363.78	2,075,585,363.78	171,000,000.00	1,904,585,363.78
For Joint entity, and Associates investment	2,112,754,155.80	-	2,112,754,155.80	1,980,392,343.67	-	1,980,392,343.67
Total	4,259,839,519.58	171,000,000.00	4,088,839,519.58	4,055,977,707.45	171,000,000.00	3,884,977,707.45

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(a) For subsidiary investment

Name of entity	31 December 2015	Current increase	Current decrease	30 June 2016	Impairment losses recognized in current period	Provision for impairment on 30 June 2016
Xing Qun	125,322,300.00	-	-	125,322,300.00	-	-
Zhong Yi	324,320,391.34	-	-	324,320,391.34	-	-
Chen Li Ji	142,310,800.00	-	-	142,310,800.00	-	-
Guangzhou Han Fang	249,017,109.58	-	-	249,017,109.58	-	55,000,000.00
Qi Xing	126,775,500.00	-	-	126,775,500.00	-	-
Jing Xiu Tang	101,489,800.00	-	-	101,489,800.00	-	-
Pan Gao Shou	144,298,200.00	-	-	144,298,200.00	-	-
Cai Zhi Lin	89,078,900.00	-	-	89,078,900.00	-	69,000,000.00
Pharmaceutical Import & Export	18,557,303.24	-	-	18,557,303.24	-	-
Guangzhou Bai Di	129,145,812.38	-	-	129,145,812.38	-	47,000,000.00
Guangxi Ying Kang	21,536,540.49	-	-	21,536,540.49	-	-
Wang Lao Ji Great Health	100,000,000.00	-	-	100,000,000.00	-	-
Guangzhou Guang Yao Yi Gan Biological Product Co., Ltd.	12,600,000.00	-	-	12,600,000.00	-	-
Xing Zhou	64,860,000.00	-	-	64,860,000.00	-	-
Guangyao Baiyunshan Hong Kong Company	93,874,006.87	-	-	93,874,006.87	-	-
Tian Xin	96,192,658.47	-	-	96,192,658.47	-	-
Guang Hua	53,659,963.75	-	-	53,659,963.75	-	-
Ming Xing	12,581,294.18	-	-	12,581,294.18	-	-
Wei Ling	10,444,783.48	-	-	10,444,783.48	-	-
Baiyunshan Pharmaceutical Technology	1,020,000.00	-	-	1,020,000.00	-	-
Baiyunshan Great Health Hotel	500,000.00	-	-	500,000.00	-	-
Baiyunshan Medical Health	45,000,000.00	46,500,000.00	-	91,500,000.00	-	-
Guangzhou Baiyunshan Chemical Technology Co., Ltd.	26,000,000.00	25,000,000.00	-	51,000,000.00	-	-
Guangyao Haima	7,000,000.00	-	-	7,000,000.00	-	-
Guangzhou Baiyunshan Pharmaceutical Sales Co., Ltd.	10,000,000.00	-	-	10,000,000.00	-	-
Guangyao General Institute	70,000,000.00	-	-	70,000,000.00	-	-
Total	2,075,585,363.78	71,500,000.00	-	2,147,085,363.78	-	171,000,000.00

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(b) For joint ventures and associates investments

Name of entity	Investment cost	31 December 2015	Current period movement	Under the equity method to confirm the investment profit and loss	Current period movement on other comprehensive income	Other equity movement	Cash dividends declared to distribute	Others	30 June 2016	Provision for impairment	Impairment losses recognized in current period	Cash dividend in current period
Equity method:												
Jointly-controlled entities:												
GP Corp.	396,589,139.78	1,159,498,159.19	-	59,992,864.53	-	-	-	-	1,219,491,023.72	-	-	-
Wang Lao Ji	102,035,124.44	386,929,395.21	-	13,541,095.56	-	-	-	-	400,470,490.77	-	-	-
HWBYS	100,000,000.00	363,648,769.40	-	53,851,742.80	-	-	-	-	417,500,512.20	-	-	-
Baxter Qiao Guang	37,000,000.00	32,230,969.05	-	1,838,137.56	-	-	-	-	34,069,106.61	-	-	-
Associates:												
Guangzhou Jinshen Pharmaceutical Technology Co., Ltd.												
	765,000.00	-	-	-	-	-	-	-	-	-	-	-
Golden Eagle Asset Management Co., Ltd.												
	50,000,000.00	36,106,562.73	-	3,051,893.98	76,864.68	-	-	-	39,235,321.39	-	-	-
Wei Yi Co., Ltd.	2,020,000.00	1,978,488.09	-	9,213.02	-	-	-	-	1,987,701.11	-	-	-
Sub-total of equity method	688,409,264.22	1,980,392,343.67	-	132,284,947.45	76,864.68	-	-	-	2,112,754,155.80	-	-	-

(c) There are no limitation on fund transfer between the Group and its investing entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(4) Revenue and cost of sales

For the six months ended 30 June 2016			
	Principal operation	Other operation	Subtotal
Revenue	1,301,228,560.87	160,063,708.05	1,461,292,268.92
Cost of operation	623,184,434.97	54,366,903.68	677,551,338.65
Gross profit	678,044,125.90	105,696,804.37	783,740,930.27

For the six months ended 30 June 2015			
	Principal operation	Other operation	Subtotal
Revenue	1,439,151,899.26	213,827,002.26	1,652,978,901.52
Cost of operation	734,054,390.89	101,346,274.09	835,400,664.98
Gross profit	705,097,508.37	112,480,728.17	817,578,236.54

(a) Revenue and cost of principal operation by natures are summarized as follows:

	Revenue from principal operation		Cost of principal operations	
	For the six months ended 30 June 2016	For the six months ended 30 June 2015	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Great Southern TCM	1,301,226,789.48	1,438,908,822.83	623,183,101.10	733,820,518.82
Great Commerce	1,771.39	243,076.43	1,333.87	233,872.07
	1,301,228,560.87	1,439,151,899.26	623,184,434.97	734,054,390.89

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(4) Revenue and cost of sales (Continued)

(b) Revenue and cost of principal operation by regions are summarized as follows:

	Revenue from principal operation		Cost of principal operation	
	For the six months ended 30 June 2016	For the six months ended 30 June 2015	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Southern China	1,131,297,098.72	1,210,836,953.99	530,802,031.98	633,047,816.59
Eastern China	55,584,024.78	115,140,499.85	33,060,764.91	37,535,139.33
Northern China	34,638,724.66	37,094,785.28	18,733,482.44	21,338,786.60
North east China	4,388,652.52	4,734,579.99	2,500,110.57	3,100,306.17
South west China	71,235,725.01	67,227,880.93	36,242,679.37	36,852,719.53
North west China	4,084,335.18	4,117,199.22	1,845,365.70	2,179,622.67
	1,301,228,560.87	1,439,151,899.26	623,184,434.97	734,054,390.89

(c) The total top five of customer sales is RMB1,066,537 thousand, which is 81.97% of revenue from principal operation this period.

	Revenue from principal operation	% of revenue from principal operation of the company
Customer 1	990,136,558.80	76.09%
Customer 2	23,254,000.00	1.79%
Customer 3	20,287,087.24	1.56%
Customer 4	16,786,133.00	1.29%
Customer 5	16,073,441.70	1.24%
	1,066,537,220.74	81.97%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
(All amounts in Renminbi yuan unless otherwise stated)

18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(5) Investment income

(a) Details of Investment income

	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Income from financial assets:		
Income from financial assets held for trading	–	–
Income from available-for-sale financial assets	–	1,125,300.00
Income from entrusted loans	–	13,762,907.96
Income from long-term equity investments under cost method	(3,342,762.22)	–
Income from long-term equity investments under equity method	132,284,947.45	122,227,238.35
Income from disposal long-term equity investments	–	–
	128,942,185.23	137,115,446.31

(b) Among the long-term equity investments measured at cost method, there are no investment income accounted for more than 10% of net profit.

(c) Among the long-term equity investments measured at equity method, details of investment income accounted for more than 10% of net profit are as below:

	For the six months ended 30 June 2016	For the six months ended 30 June 2015
GP Corp	59,992,864.53	62,640,465.54
HWBYS	53,851,742.80	59,909,044.54
	113,844,607.33	122,549,510.08

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(6) Supplementary information to the Company's cash flow statement

	For the six months ended 30 June 2016	For the six months ended 30 June 2015
(a) Reconciliation from net profit to cash flows from operating activities		
Net profit	395,620,108.83	369,612,377.69
Add: Provisions for asset impairment	1,550,604.58	681,567.28
Depreciation and amortization of fixed assets and investment property	28,374,611.40	27,658,159.50
Amortization of intangible assets	3,103,367.27	3,384,715.06
Amortization of long-term prepaid expenses	255,141.61	168,804.75
Gains on disposal of fixed assets, intangible assets and other long-term assets	(9,530.54)	198,994.00
Losses on scrapping of fixed assets	-	(36,682.50)
Loss (less: gains) on change in fair value	983,936.93	(2,378,598.90)
Financial expenses	10,442,622.65	15,937,307.63
Investment income	(128,942,185.23)	(137,115,446.31)
Decrease in deferred tax assets (less: increase)	-	3,614,174.38
Increase (less: decrease) in deferred tax liabilities	-	-
Decrease (less: increase) in inventories	84,104,822.78	37,677,975.10
Decrease in operating receivables (less: increase)	(231,110,023.79)	(270,512,572.70)
Increase in operating payables (less: decrease)	187,204,478.02	242,685,869.37
Others	-	-
Net cash flows from operating activities	351,577,954.51	291,576,644.35
(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	1,266,564,635.87	814,141,091.23
Less: Cash at beginning of year	960,889,437.00	709,868,368.22
Add: Cash equivalents at end of period	-	-
Less: Cash equivalents at beginning of year	-	-
Net movement in cash and cash equivalents	305,675,198.87	104,272,723.01

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

1 Summary of non-recurring profit or loss

Item	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Losses on disposal of non-current assets	(385,189.19)	(427,585.16)
Tax return or exemption without proper authorization	-	11,769.02
Government grants recognized 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)	188,530,247.36	44,960,600.39
Interests received from entities other than financial institutions recognized 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	(983,936.93)	2,378,598.90
Reversal of provision for bad-debts of accounts receivable subject to separate provision	1,577,015.98	203,895.16
Gains or losses arising from entrusted loan granted to other entities	-	(816,443.69)
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 above-mentioned items	(14,681,641.63)	(36,796,516.20)
Other profit or loss items meeting the definition of non-recurring profit or loss	-	-
Impact on income tax	(38,881,119.02)	(2,250,289.87)
Impact on minority interests (post-tax)	(698,742.71)	(296,977.00)
Total	134,476,633.86	6,967,051.55

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi yuan unless otherwise stated)

18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2 Return on net assets and earnings per share:

	Weighted average return on net assets	Earnings per share	
		Weighted average basic earnings per share	Weighted average diluted earnings per share
For the six months ended 30 June 2016			
Net profit attributable to ordinary shareholders of the Company	9.38%	0.644	0.644
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	7.86%	0.540	0.540

	Weighted average return on net assets	Earnings per share average	
		Weighted average basic earnings per share	Weighted average diluted earnings per share
For the six months ended 30 June 2015			
Net profit attributable to ordinary shareholders of the Company	9.58%	0.600	0.600
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	9.49%	0.595	0.595

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016
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18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2 Return on net assets and earnings per share: (Continued)

	Earnings per share		
	Overall diluted return on net assets	Overall diluted basic earnings per share	Overall diluted earnings per share
For the six months ended 30 June 2016			
Net profit attributable to ordinary shareholders of the Company	8.95%	0.644	0.644
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	7.50%	0.540	0.540

	Earnings per share		
	Overall diluted return on net assets	Overall diluted basic earnings per share	Overall diluted earnings per share
For the six months ended 30 June 2015			
Net profit attributable to ordinary shareholders of the Company	9.57%	0.600	0.600
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	9.48%	0.595	0.595

The Group presented return on net assets and earnings per share in accordance with the regulations of <Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No.9 – Calculation and Disclosure of Return on Net Assets and Earnings Per Share > (revised 2010).

Documents Available for Inspection

- I. The financial statements signed and stamped by the legal representative, responsible persons in charge of the accounting work of the Company and the responsible person of the accounting firm;
- II. The review reports signed by BDO China Shu Lun Pan CPAS LLP together with the financial statements prepared in accordance with China Accounting Standards for Business Enterprises;
- III. The original company documents disclosed and announcements published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) during the Reporting Period;
- IV. The documents listed above are available at the Secretariat of the Company.