



廣州白雲山醫葯集團股份有限公司

GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS CO., LTD.

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

(H Share Stock Code: 00874)



Interim Report
2017

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IMPORTANT NOTICE

- I. The Board, the Supervisory Committee and the directors, supervisors and senior management of the Company collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this interim report and confirm that there are no false information, misleading statements or material omissions in this interim report.
- II. The directors of the Company were present at the 3rd meeting of the seventh session of the Board, among whom, Ms. Liu Juyan (executive director) and Mr. Wang Wenchu (executive director) were unable to attend the meeting due to business reason and had appointed Ms. Cheng Ning (executive director) and Mr. Chen Mao (vice chairperson of the Board) to attend the meeting and vote on their behalf respectively. Mr. Jiang Wenqi (independent non-executive director) was unable to attend the meeting due to business reason and had appointed Mr. Chu Xiaoping (independent non-executive director) to attend the meeting and vote on his behalf. Ms. Cheng Ning (executive director) and Mr. Wu Changhai (executive director and standing deputy general manager) attended the meeting by telephone.
- III. Mr. Li Chuyuan (chairperson of the Board), Mr. Li Hong (general manager) and Ms. Yao Zhizhi (deputy controller of finance and 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 resolved not to declare interim dividends for the six months ended 30 June 2017 and not to implement 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:

COMMONLY USED WORDS

Company/The 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 2017
After the Reporting Period	From the end of the Reporting Period up to the date of this interim report, being 1 July 2017 to 18 August 2017
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 Branch 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)

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)
WLJ Great Health	Guangzhou WLJ Great Health Industry Co., Ltd. (廣州王老吉大健康產業有限公司)
GP Corp.	Guangzhou Pharmaceuticals Corporation (廣州醫藥有限公司)
Cai Zhi Lin	Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (廣州采芝林藥業有限公司)
Pharmaceutical Import & Export	Guangzhou Pharmaceutical Import & Export Company Limited (廣州醫藥進出口有限公司)
Guangyao Baiyunshan Hong Kong Company	Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited (廣藥白雲山香港有限公司)
Nuo Cheng	Guangzhou Promise Biological Products Co., Ltd. (廣州諾誠生物製品股份有限公司)

Definitions

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)
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)
Bozhou Baiyunshan	Bozhou Baiyunshan Pharmaceutical Co., Ltd. (亳州白雲山製藥有限公司)
Guangyao General Institute	Guangzhou General Pharmaceutical Research Institute Co., Ltd. (廣州醫藥研究總院有限公司)
Guangyao Haima	Guangzhou Haima Pharmaceutical Advertising Co., Ltd. (廣州醫藥海馬品牌整合傳播有限公司)
Baiyunshan Pharmaceutical Marketing	Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd (廣州白雲山醫藥銷售公司)
Baiyunshan Medical and Healthcare Industry Company	Guangzhou Baiyunshan Medical and Healthcare Industry Investment Co., Ltd. (廣州白雲山醫療健康產業投資有限公司)

WLJ Investment	Guangzhou WLJ Investment Co., Ltd. (廣州王老吉投資有限公司)
Medical Instrument Investment Company	Guangzhou Baiyunshan Medical Instrument Investment Company (廣州白雲山醫療器械投資公司)
Guangzhou Baiyunshan Hospital	Guangzhou Baiyunshan Hospital Co., Ltd. (廣州白雲山醫院有限公司)
Xing Zhu	Guangzhou Baiyunshan Xing Zhu Pharmaceutical Co., Ltd. (廣州白雲山星珠藥業公司)
Hua Cheng	Guangzhou Hua Cheng Pharmaceutical Factory (廣州市花城製藥廠)
GZ SOA Development	Guangzhou State-owned Asset Development Holdings Limited (廣州國資發展控股有限公司)
GZ Chengfa	Guangzhou China Life Urban Development Industry Investment Enterprise (Limited Partnership) (廣州國壽城市發展產業投資企業(有限合夥))
Yunfeng Investment	Shanghai Yunfeng Xinchuang equity investment center (limited partnership) (上海雲鋒新創股權投資中心(有限合夥))
Placement Prosperous Age Exclusive Account No. 66	Fund of Huitianfu -Citic bank- Guangzhou Baiyunshan Pharmaceutical Holdings Group (匯添富基金—中信銀行—廣州白雲山醫藥集團)

Company's Profile and Financial Highlights

A. GENERAL INFORMATION

- Legal Chinese Name: 廣州白雲山醫藥集團股份有限公司
Chinese Name Abbreviation: 廣藥白雲山
English Name: GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS COMPANY LIMITED
English Name Abbreviation.: GYBYS
- Legal Representative: Li Chuyuan
- Secretary to the Board: Huang Xuezheng
Representative of securities affairs: Huang Ruimei
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Internet website: <http://www.gybys.com.cn>
Principal place of business in Hong Kong: Room 2005, 20th Floor, Tower Two Lippo Center, 89 Queensway, Hong Kong
- Stock exchanges, name and codes of the Company's shares: A Shares: SSE
Stock Code: 600332
Stock Abbreviation: BAIYUNSHAN

H Shares: HKEx
Stock Code: 0874
Stock Abbreviation: BAIYUNSHAN PH

Company's Profile and Financial Highlights

B. PRINCIPAL FINANCIAL DATA AND FINANCIAL INDICATORS

Items	Reporting Period (unaudited)	The corresponding period of 2016 (unaudited)	Changes as compared with the corresponding period of 2016 (%)
Income from operations (RMB'000)	11,115,338	10,857,269	2.38
Net profit attributable to the shareholders of the Company (RMB'000)	1,158,140	831,807	39.23
Net profit attributable to the shareholders of the Company after deducting non-recurring items (RMB'000)	1,127,109	697,330	61.63
Net cash flow from operating activities (RMB'000)	864,999	1,762,991	(50.94)
Net cash flow from operating activities per share (RMB)	0.53	1.37	(61.04)
Total profit (RMB'000)	1,400,428	1,059,136	32.22

Items	As at 30 June 2017 (unaudited)	As at 31 December 2016 (audited)	Changes as compared with 31 December 2016 (%)
Net assets attributable to the shareholders of the Company (RMB'000)	18,047,163	17,345,080	4.05
Total assets (RMB'000)	26,703,113	25,897,170	3.11
Equity per share attributable to the shareholders of the Company (RMB)	11.10	10.67	4.05

Principal financial indicators	Reporting Period (unaudited)	The corresponding period of 2016 (unaudited)	Changes as compared with the corresponding period of 2016 (%)
Basic earnings per share (RMB)	0.712	0.644	10.57
Diluted earnings per share (RMB)	0.712	0.644	10.57
Basic earnings per share after deducting non-recurring items (RMB)	0.693	0.540	28.36
Ratio of weighted average return on net assets (%)	6.46	9.38	A decrease of 2.92 percentage points
Ratio of weighted average return on net assets after deducting non-recurring items (%)	6.29	7.86	A decrease of 1.57 percentage points

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

Company's Profile and Financial Highlights

C. NON-RECURRING ITEMS AND THEIR AMOUNTS

Items	Amount for the Reporting Period (RMB'000)	Explanation
Gain/(Loss) on disposal of non-current assets	(1,160)	
Government subsidies recognized as gain/(loss)	67,077	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	(1,195)	
Reversal of provision for bad-debts of accounts receivable subject to separate provision	918	
Other non-operating income and expenses excluding the above items	(27,985)	
Income tax effect	(6,665)	
Effect on minority interest	41	
Total	31,031	

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

(A) Main Business and Products

Since its establishment, the Company has been committed to the healthcare industry. After years of development, the Company has continue to grow in both of its scale and efficiency. Currently, the Group is principally engaged in: (1) research, development, manufacturing and sales of Chinese patent medicine, western medicine, chemical raw materials, natural medicine, biological medicine and 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; and (4) the health industry investment in medical care, health management, health maintenance and elderly care etc.

i. Great Southern TCM (pharmaceutical manufacturing business)

There are 26 pharmaceutical manufacturing companies and organizations under the Company (including 3 branches, 19 subsidiaries and 4 joint ventures). The above enterprises or institutions engaged in the R&D and manufacturing of Chinese patent medicine and western medicine, chemical raw materials, intermediates chemical raw materials, biomedicine and natural medicine, etc..

- 1) The Group is an epitome of the southern TCM. The Company has 12 China time honored brand enterprises such as Zhong Yi, Chen Li Ji, Qi Xing, Jing Xiu Tang, Pan Gao Shou, etc. (including subsidiaries and joint ventures), among which, 10 of them are century old time-honored enterprises. The Company and its joint ventures has 4 protected Chinese traditional medicine of national grade, and 54 exclusively made Chinese traditional medicine. Main products include Xiao Ke Pill, Hua Tuo Zai Zao Pill, compound Salvia Milltiorrhiz slice, Ban Lan Gen Granule, Qing Kai Ling series, Baoji series, Shu Jin Jian Yao Pill, Zi Shen Yu Tai Pill, Zhuang Yao Jian Shen Pill, An Gong Niu Huang Pill, Zhui Feng Tou Gu Pill etc. The Group boasts clear brand and variety advantages in proprietary Chinese medicines in southern China and even countrywide.
- 2) The Group has a complete antibiotic production chain ranging from raw material medicine to preparation and male medicine, with products covering commonly used antibiotic varieties. The Group integrated the antibiotic brands with the famous trademark "Kang Zhi Ba", striving to make a market image with the number one brand of oral antibacterial anti-inflammatory. The Group's chemical medicine includes Cefathiamidine, Cefixime, Amoxicillin and Sildenafil Citrate Tablets, etc..

Company's Business Profile

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

(A) Main Business and Products *(Continued)*

ii. **Great Health Industry**

The Group and its joint ventures under the Company engaging in the Great Health Industry are mainly engaged in the production, R&D and sale of beverage, food, healthcare product cosmeceuticals, etc., including the wholly-owned subsidiary, WLJ Great Health and the joint venture of the Company, Wang Lao Ji and the main products include Wang Lao Ji Herbal Tea, ganoderma spore oil capsules, lozenges, tortoise herb jelly etc..

iii. **Great Commerce (pharmaceutical distribution business)**

The pharmaceutical distribution business of the Group and its joint ventures mainly includes the wholesale, retail, and import and export business of pharmaceutical products, medical equipment and healthcare products etc.. The wholesale business is carried out principally through the Company's joint venture, namely GP Corp. and the Company's subsidiary, namely Cai Zhi Lin and Pharmaceutical Import & Export. The retail business is carried out principally through Cai Zhi Lin pharmacy chains, Jian Min pharmacy chains and Ying Bang pharmacy, etc.. GP Corp. is the largest pharmaceutical logistics company in Southern China.

iv. **Great Medical Care**

The Group promoted the industry investments in medical services, health management, health maintenance and elderly care etc., with Baiyunshan Medical and Healthcare Industry Company as the main investment vehicle. At present, the Great Medical Care is still at preliminary stage. In the field of medical services, the Group has completed the acquisition of Guangzhou Baiyunshan Hospital, which will be gradually built into a special integrated medical service institution based on rehabilitation and supplemented by orthopedics and urology. In the field of health maintenance, the Tibetan-style Health-keeping Fort invested by the Group has been completed and put into trial operation.

Company's Business Profile

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

(B) Operating Model

i. **Great Southern TCM**

1) *Procurement Model*

After completion of the major assets reorganization in relation to the absorption of Baiyunshan through exchange of shares and the acquisition of the assets of GPLH through issuance of shares (hereinafter "Major Asset Reorganization"), the Group integrated the procurement system of the subsidiaries, and established the centralized procurement platform Pharmaceutical Import & Export and Cai Zhi Lin, intensively centralized procurement of raw and auxiliary materials, Chinese herbal medicine, packaging materials and machinery equipment, improved the ability of negotiation on prices and risk resistance, effectively reduced the procurement cost.

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

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

Company's Business Profile

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

(B) Operating Model *(Continued)*

i. **Great Southern TCM** *(Continued)*

2) *Production Model*

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

3) *Sales Model*

The sales mode of Great Southern TCM segment is mainly divided into two categories: one is the sales mode for national essential drugs, and the other is the sales mode for non-national essential drugs.

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

(B) Operating Model *(Continued)*

i. Great Southern TCM *(Continued)*

3) Sales Model *(Continued)*

① The sales mode for national essential drugs

In recent years, China has put more efforts in deepening medicare reform and actively promoted universal health insurance system. All of national essential drugs have been included into Medical Insurance Catalogue, and reimbursed with full amount, forming huge advantages in China's pharmaceutical market. The companies under the Company have actively responded to the national policies by setting special marketing team for undertaking sales of national essential drugs, and actively participating in purchasing by Invitation to Bid for essential drugs in all provinces and considered essential drugs marketing as the key for pharmaceutical sales in the future.

The sales mode of essential drugs: The governments or hospitals used the centralized purchasing platform to carry out uniform Purchasing by Invitation to Bid for essential drugs. The companies under the Company participated in the tendering process for essential drugs throughout the country according to the relevant national policies. After winning the bid for the products, the companies carried out uniform distribution and dispatching process for essential drugs through the medicine operation enterprises.

② The sales mode for non-national essential drugs

For non-national essential drugs, the Company established pharmaceutical industry marketing, e-commerce marketing sub-platforms for sale.

Company's Business Profile

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

(B) Operating Model *(Continued)*

i. **Great Southern TCM** *(Continued)*

3) *Sales Model (Continued)*

② The sales mode for non-national essential drugs *(Continued)*

(a) Pharmaceutical industry sales sub-platform

The Company has established the pharmaceutical industry sales sub-platform in the mode of “industrial operation + commercial platform”, which integrated with the Group’s pharmaceutical industry marketing resources to improve the sale level of pharmaceutical industry enterprises, creating overall pharmaceutical marketing advantages. During the Reporting Period, the Group established the OTC integrated marketing platform with HWBYS as the subject, deepening in-depth cooperation with retail drug stores, especially the Top 100 Chains, and also set up Baiyunshan Pharmaceutical Marketing Company, starting integration of marketing resources for the pharmaceutical manufacturing enterprises under the Company.

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

(B) Operating Model *(Continued)*

i. **Great Southern TCM** *(Continued)*

3) *Sales Model (Continued)*

② The sales mode for non-national essential drugs *(Continued)*

(b) E-commerce sales sub-platform

E-commerce sales sub-platform is a platform of brands and new products promotion for complementing the existing sale systems. It is also one of the sales channels that the Company will focus on its development. At present, the official flagship store of the Company was officially launched on the e-commerce terminal marketing platforms such as Taobao, T-mall and JD.com. The subsidiaries of which Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. integrated the e-commerce teams of Cai Zhi Lin Medicine Chain Pharmacies and Chinese Medical Drink and Pill Factory and optimized the resources allocation. It developed e-commerce terminal marketing platform, also integrated with standardization and modernization to realize the Internet +, upgraded and reconstructed "Cloud Dispensing" service to enable the customers could upload the traditional Chinese medicine prescription through WeChat, and provided decoction and delivery service for them. The Guangyao Jian Min Network under Guangyao Jian Min Chain Co., Ltd. is the first appointed drug store for medical insurance network; creating online and offline interconnected innovation model, setting up modern community flagship drugstores to interface with WeChat team, establishing new platform for Jian Min life house Vshop; the first depth cooperation on separation of innovation and pharmaceuticals from pharmacy outside the hospital successfully carried out 24-hour chronic disease management service; Jian Min cross-border e-commerce officially operated, attracting numerous international brands for settling down.

Company's Business Profile

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

(B) Operating Model *(Continued)*

ii. Great Health Industry

1) Purchasing Mode

The uniform centralized purchasing platform established by the Group is mainly used for centralized purchasing.

2) Production Mode

The controlling subsidiaries of the Company and its joint ventures organized production strictly in accordance with the relevant laws and regulations through self-built productivity and OEM and other modes, from planting, purchasing, production and manufacturing to consumer use to ensure safe quality from planting, harvesting, production and manufacturing to consumer use to ensure safe quality in the entire processes used by material base, raw and auxiliary materials, packaging materials, personnel, equipment, finished goods and consumers.

3) Sales Mode

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

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

(B) Operating Model *(Continued)*

iii. **Great Commerce**

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

GP Corp., a joint venture of the Company, is the leading medicine circulation enterprise in south China, with good business reputation, huge sales network, a wide range of sales channels and stronger pharmaceutical distribution capacity. The Group and its joint ventures have "Cai Zhi Lin", "Jian Min" and other well-known pharmaceutical retail chain and more than 60 medicine retail outlets, with strong terminal strength.

As at 30 June 2017, the Group and its joint ventures had 65 retail chain pharmacy outlets, including 30 "Cai Zhi Lin" pharmacy outlets which specialized in traditional Chinese medicines, 34 "Jian Min" pharmacy outlets which specialized in western medicine, medical apparatus and instruments, and one pharmacy named Ying Bang.

The main performance driving factors:

During the Reporting Period, the Group actively promoted the development of the four major business segments of "Great Southern TCM, Great Health, Great Commerce and Great Medical", made every effort to carry out the above four segments strategic upgrading, strengthened marketing and promotion and endeavored to improve quality effect. During the Reporting Period, the Group achieved the revenue of RMB11,115,338,000, representing a year-on-year increase of 2.38%.

(C) Current circumstances of the development of the industry

In the first half of 2017, as the pharmaceutical industry entered into an intensive policy period, policies such as new version of the medical insurance catalogue and "Two-invoice system" aiming at structural adjustment, consistency assessment entered into the crucial phase, the pharmaceutical industry has moved to a regulated fast lane, and quality enterprise will achieve better development.

Company's Business Profile

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

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

The formal implementation of the Traditional Chinese Medicine Law specified the important status and development policy of traditional Chinese medicine sector, provided greater support to the traditional Chinese medicine sector, and adhered to placing equal emphasis on support and standardization, which will be beneficial for the further development of industries related to traditional Chinese medicine, and the major varieties of proprietary Chinese medicine will have greater development opportunities.

The development potential of the Great Health Industry was further explored. As the regulatory policy on pharmaceutical e-commerce became more and more reasonable, better development was brought in.

The total industrial output value of above nationwide-scale medicines in the first half of 2017 was RMB1,451.6 billion, representing an increase of 12.6%; total profit amounted to RMB159.6 billion, representing an increase of 15.9%.

(D) Periodic Characteristics

The pharmaceutical manufacturing and trading operations of the Group have no obvious seasonality as they do not have any obvious periodic features. The Great Health segment, with the characteristics and gift feature of its main product, namely Wang Lao Ji herbal tea, has certain seasonality as product demands relates to weather and holidays.

(E) Position of the Company in the Industry

After years of development, the Group achieved the transition from Chinese patent medicine manufacturing and pharmaceutical trading to the whole industrial chain coverage of Chinese patent medicine, Chinese medicine herbal pieces, chemical raw medicine, chemical raw materials intermediates, biomedicine, great health products, pharmaceutical business as well as the health care. After years of development, the Group has a leading position in the fields of anti-bacterial and anti-inflammatory treatment, diabetes, cardiovascular treatment, digestive system, detoxification, andrology, pediatric drugs, etc., which has formed a relatively complete product distribution and product chain; thus occupying an important position in the segmentation markets of traditional Chinese medicine, chemical raw medicine, chemical medicine preparation etc..

In the recent years, the Company uses "Wang Lao Ji" brand to lead the great health industry, the main products, namely Wang Lao Ji herbal tea, has occupied a leading position in the Chinese herbal tea market, helping the Group to open up new growth impetus and strategic space.

Company's Business Profile

B. DURING THE REPORTING PERIOD, THE GROUP DID NOT HAVE ANY SIGNIFICANT CHANGES IN ITS MAIN ASSETS.

C. ANALYSIS ON CORE COMPETITION CAPACITY DURING THE REPORTING PERIOD

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

- i. The Group possesses rich products and brand resources:
 - 1) Products: The Group has formed complete series in areas such as diabetes, cardiovascular and cerebrovascular diseases, anti-bacteria and anti-infection, cooling and detox, parenteral nutrition, coughing, bone-setting and pain relief, rheumatism and bone pain, gynaecological and paediatric medication, and nurturing and health. The Group has more than 30 forms and nearly 2,000 specifications and over 100 exclusive products.
 - 2) Brands: Currently, the Group has trademarks of 9 nationally renowned brands, 21 renowned brands in Guangdong Province and 29 renowned brands in Guangzhou City. Among which, the brand awareness and reputation of "BYS" have a greater impact and appeal among consumers in the country, and is one of the most valuable pharmaceutical brands in the country. After completion of the Major Assets Reorganization, the Group promoted the grand brand strategy on the basis of integrating brand resources, implementing 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 Great Health Industry by promoting the development of Great Commerce, expanding the Great Medical Care and cultivating the development of new forms like capital finance, e-commerce and medical equipment, the Group has extended its coverage of brand value from traditional medical products to Great health products.
- ii. Long history in Chinese traditional medicine history and cultural soft power. The Group has members who are certified as China Time-honored Brand, among which Chen Li Ji, Zhong Yi, Pan Gao Shou, Jing Xiu Tang, Cai Zhi Lin, Wang Lao Ji, Xing Qun, Qi Xing, Ming Xing and Guang Hua have been established for over a hundred years. Also, the Group has 6 items admitted as the nation's Intangible Cultural Heritage, namely "Xia Sang Ju" (夏桑菊) of Xing Qun, "Da Shen Kou Yan Qing" (大神口焱清) of BYS, Wang Lao Ji Herbal Tea, the traditional Chinese medicine culture of each of Chen Li Ji and Pan Gao Shou as well as the "Production Technology of Bao Zi Tang Bao Ying Dan" (保滋堂保嬰丹製作技藝) of Zhong Yi. The Group had established the Chen Li Ji Museum (陳李濟博物館), "Chen Li Ji Health Preservation Research Institute" (陳李濟健康養生研究院), "Lingnan Experience Centre of Chinese Medicine Culture" (嶺南中醫藥文化體驗館), Shen Nong Cottage (神農草堂), Cai Zhi Lin Museum (采芝林博物館) and Wang Lao Ji Herbal Tea Museum 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.

Company's Business Profile

C. ANALYSIS ON CORE COMPETITION CAPACITY DURING THE REPORTING PERIOD (Continued)

- iii. The Group has a relatively complete production chain system, including the existing major pharmaceutical assets. Through the 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 69 GAP herbs bases nationwide, which effectively ensure the quality and supply of Chinese herbs and controls the production costs. In respect of research and development of products, the Group continues to build a comprehensive technological innovation system. The Group has built an extensive collaborative network with renowned scientific research institutions at home and abroad to create a synergy effect between both sides for highly effective utilization of favourable resources from various parties, promoting development through the support of technology.
- iv. The Group has a large sales network and a broad and stable customer base. The Group has 60 retail chain pharmacy outlets, the Company is one of the first pharmaceutical trading enterprises in Guangdong Province that obtained the GSP certificate. The Group has also established the largest pharmaceutical 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 of thousands of customers across the country, including medium-and-large-sized hospitals, pharmaceutical wholesalers, distributors and retailers.
- v. The Group has an ever-improving technological innovation system. The Group has continuously strengthening the construction of platforms for many years, improving the scientific research innovation system. As at the date of this report, the Group has 7 state level research and development institutions, 7 provincial level corporate technical centers, 5 provincial-level key laboratories, 15 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 cephalosporins antibiotic APIs and core technology in national leading position such as sterile powder production technology and preparation agent technology.

Company's Business Profile

C. ANALYSIS ON CORE COMPETITION CAPACITY DURING THE REPORTING PERIOD (Continued)

- vi. The Group has a forward-thinking, high quality, reasonably structured and extremely innovative team of talents. In recent years, the Group has insisted on attracting talents with competitive work environment and remuneration package, nurturing them with its excellent corporate culture and motivating them with promising corporate visions. Currently, the Group has a strong high-level talent team with 2 Nobel Prize winners, 10 domestic academicians, 7 foreign academicians, 2 State Council Special Allowance experts in-service, 24 chief experts (scientists), 55 doctors and post doctors. The Group also has nearly 6,243 technology personnel, 1,423 of which have intermediate professional title or above.

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

Discussion and Analysis of Operation

A. MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, in accordance with the development concept of “year of quality and benefits”, the Group always adhered to emphasizing on improving its development quality and efficiency, proactively promoted the business development of the four principal sectors, i.e. Great Southern TCM, Great Health, Great Commerce and Great Medical Care, focused on improving the quality of the product, operation, service and talent, vigorously created product brand and enterprise brand, strived to improve the quality benefits and has achieved sustained and steady development of business performance. In the first half of 2017, the Group’s revenue amounted to RMB11,115,338,000, representing an increase of 2.38% as compared with the corresponding period of 2016; the total profit was RMB1,400,428,000, representing an increase of 32.22% as compared with the corresponding period of 2016; and the net profit attributable to shareholders of the Company was RMB1,158,140,000, representing an increase of 39.23% as compared with the corresponding period of 2016.

During the Reporting Period, the Group rigorously pushing the following works:

The first is to polish up China’s well-known trademarks and time-honored brands and enhance the quality benefits of Great Southern TCM. (1) Strengthened the efforts to channel construction and on products and brands with huge potentials, also follow up the weak growth key products, re-formulate sales programs and enhance the product marketing capability. During the Reporting Period, the sales income of key products including Shu Jin Jian Yao Pill and Zhuang Yao Jian Shen Pill of Chen Li Ji, Sildenafil Citrate Tablet (“Jin Ge”) of Baiyunshan General Factory, Cefditron Capsule of Guang Hua recorded a satisfactory year-on-year growth, Hua Tuo Zai Zao Pill of Qi Xing and Ke Te Ling series of Baiyunshan General Factory achieved a recovery growth. (2) Seized the opportunity of the implementation of Traditional Chinese Medicine Law and the State’s vigorous development of traditional Chinese medicine to propose the concept of developing “fashionable Chinese medicine”, strive to drive the transformation and development of traditional Chinese medicine segment through advanced technology and fashionable marketing. Zi Shen Yu Tai Pill of Zhong Yi firmly grasped the opportunity of the relaxation of “two-child” policy by the central government to carry out the evidence-based medical research to interpret its function and mechanism, gathered the authoritative reproductive medicine experts across China to carry out academic promotion, enabling it to be a new “fashionable Chinese medicine”, the sales income during the Reporting Period represented a year-on-year growth of over 50%. (3) Continued to implement the resource integration strategy. During the Reporting Period, Qi Xing successfully obtained the approval document of holders of marketing licenses, which effectively solved the problems of redundant development arising from the overall enterprise relocation, and provided favorable conditions for the subsequent strengthening resources integration. In addition, it promoted the marketing integration of Baiyunshan General Factory, Guang Hua and Jing Xiu Tang at a steady pace; exploited the delivery network and logistic advantages of Great Commerce and coordinated the closer cooperation of Great Southern TCM and Great Commerce to realize their mutual promoting and development.

Discussion and Analysis of Operation

A. MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

The second is to make Wang Lao Ji brand stronger and enhance the quality benefits of Great Health. In accordance with the “Triangle” strategy of “fashion, science and technology, culture”, in order to continuing consolidating and improving the market position of Wang Lao Ji in herbal tea industry and facilitate the development of the Great Health of the Group. (1) On the basis of channel construction, the Group further expanded the coverage of traditional channel, increased the development efforts on catering channels, established strong foundation for RTD markets, and commenced to cultivate more new gifts markets. (2) Promoted the modernization of science and technology, by leveraging on the project of “Medical herb DNA barcoding system for species identification”, Wang Lao Ji was granted the Second Prize of National Science and Technology Progress Award, and to be the first brand which awarded the honor in the herbal tea industry. (3) Promoted the diversity of singular product. During the Reporting Period, Guangzhou Wang Lao Ji Food & Beverage Management Development Co., Ltd. established the first national freshly brewed herbal tea concept store in Mall of the World, Zhujiang New Town, Guangzhou to try to tap into the market of “new-style tea”. The Dazhai Walnut Drink developed by WLJ Great Health and Shanxi Dazhai hand in hand was launched in June this year. (4) Promoted the differentiation of capacity layout, and adopted the method of combination of self-built base and establishing assetlight base to carry out the capacity layout. (5) Proactively promoting the international construction of Wang Lao Ji brand, by virtue of the discussion forum of “Chinese Herbal Tea Culture and Wang Lao Ji in the U.S. Market” in the Chicago roadshow activity of Fortune Global Forum, it further deepened the effective communication with internationally-renowned institutions, scholars and dealers.

The third is to optimize service brand and enhance the quality benefits of Great Commerce. (1) Optimized the logistics extension services. During the Reporting Period, the Group and the joint ventures of the Company proactively promoted the modern medicine logistics extension services project, there was a significant growth in the sales of business extension of hospital services as compared with the traditional hospital service. (2) Optimized retail service. During the Reporting Period, the Company reached a strategic cooperation with Yunnan Hongxiang Yixintang Pharmaceutical (Group) Holdings Co., Ltd., the Company will contribute RMB800 million for subscription of its A share issued non-publicly. GP Corp., a joint venture of the Company, changed its retail operation concept to focus on customers, 9 new-concept Jian Min with “product + service” were set up. Cai Zhi Lin, a wholly-owned subsidiary of the Company, worked jointly with Canton Tower to establish the Cai Zhi Lin window demonstration store, which further improved the impact of retail brand. (3) Optimized pharmaceutical e-commerce services. The traditional Chinese medicine intelligent decoction center established by Cai Zhi Lin officially came into operation, and provided traditional Chinese medicine decoction services for 16 medical institutions through the high-effective mode of “Internet + Internet of Things”. Baiyunshan Pharmaceutical Marketing proactively expanding the e-commerce sales of BYS Jin Ge, a greater growth year-on-year recorded in the channel sales from the e-commerce Jin Ge in the first half year. Guangyao Jian Min Network, the self-owned e-commerce and GYBYS shop on Tmall. com achieved a further development, the sales of which increased more than 30% year-on-year.

Discussion and Analysis of Operation

A. MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

The fourth is to establish BYS medical brand to enhance the quality benefits of the Great Medical. (1) Integrated resources to upgrade Guangzhou Baiyunshan Hospital, also improved the brand impact of hospital. (2) Explored the development, and gradually expand the health maintenance and elderly care industry. (3) Proactively cultivated a new form of medical equipment, by leveraging on the traction of the project to continue to consolidate the medical and medical equipment development foundation.

The fifth is to optimize the scientific research and product quality, enhance the quality benefits of Great Science and Technology. (1) Set “quality” as the core, enhance the overall quality management level, foster a strong sense of responsibility of “quality is the life of an enterprise”, and strengthened quality control on each process in the course of production. (2) Set “integration” as the main line, strengthen the construction of the innovation system, strengthened the overall assessment of scientific research, and made a further new step forward scientific research. During the Reporting Period, the Group and joint ventures newly added 2 provincial level engineering centers, 4 provincial level corporate technical centers, received 9 production approvals, applied for 7 domestic invention patents in total, 1 utility model patent, obtained 3 authorized domestic invention patents. The topic on the “industrialization of new injection lipid excipients and common key technological research and development of application, as well as the international registration” participated by Guangzhou Han Fang was elected for the National Science and Technology Major Project. HWBYS obtained “2016 National Demonstration Academician Expert Works”. The “Guangdong Engineering Research Center for Modern Traditional Chinese Medicine” of Zhong Yi was accredited by Guangdong Provincial Department of Science and Technology. The “Guangdong Engineering Research Center for Innovation Pharmaceutical Manufacturing Technology and Process Control” of Chemical Pharmaceutical Factory was accredited by Guangdong Provincial Department of Science and Technology. Guang Hua, Guangzhou Han Fang, Wang Lao Ji and Ming Xing obtained the accreditation from provincial level corporate technical centers. The “Technology Improvement and Application Research of Technique Quality Control of TCM Sub- Melting Double Gastrointestinal Pill” of Chen Li Ji was granted the third prize of Guangdong Province Science and Technology Award. The Phytogenic Antineoplastic Vinorelbine Tartrate of Guangzhou Han Fang received the Certification of Suitability to the Monographs of the European Pharmacopoeia Certification issued by European Directorate for the Quality Control of Medicines (EDQM). (3) Set “cooperation” as the starting point, promoted the establishment of major science and technology innovation projects, speed up the carrying out of consistency assessment and facilitate the construction of biological sample testing center project of Guangyao General Institute. The Group has approved and initiated a total of 56 consistency assessment projects as at the end of the Reporting Period.

The sixth is to optimize the quality of operation, expend great efforts in strategy, assessment, standardized, cost, safety and risk management, vigorously promote the information construction and enhance the quality benefits of the great management.

Discussion and Analysis of Operation

A. MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

(A) Analysis on principal operations

1. Analysis of changes in related subjects of the financial statements

Items	Reporting Period (RMB'000)	The corresponding period of 2016 (RMB'000)	Increase/ (Decrease) over the corresponding period of 2016 (%)
Revenue	11,115,338	10,857,269	2.38
Include: income from principal operations	11,033,456	10,779,757	2.35
Cost of sales	6,955,444	6,735,240	3.27
Include: cost from principal operations	6,935,670	6,715,930	3.27
Selling and distribution expenses	2,236,809	2,628,681	(14.91)
General and administrative expenses	709,790	694,103	2.26
Financial expenses ^(note a)	(85,059)	(29,833)	(185.12)
Net cash flow from operating activities ^(note b)	864,999	1,762,991	(50.94)
Net cash flow from investing activities ^(note c)	(1,867,173)	(353,548)	(428.12)
Net cash flow from financing activities ^(note d)	(16,513)	(173,287)	90.47
Research and development expenses	133,758	153,050	(12.60)

Notes:

- a. Financial expenses for the Reporting Period decreased as compared with the corresponding period of last year, which was mainly due to the improvement in the Group's fund management, reduction in bank borrowings, improvement in the efficiency of capital operation, increase in interest income and reduction in financial cost as a result of the Group's reasonable fund allocation and improvement in the structure of deposits.
- b. Net cash flow from operating activities for the Reporting Period decreased as compared with the corresponding period of last year, which was mainly due to the decrease in demolition compensation and government subsidies received by the Group and the increase in taxes and surcharges paid during the Reporting Period.
- c. Net cash flow from investing activities for the Reporting Period decreased as compared with the corresponding period of last year, which was mainly due to the increase in the structured deposits and financing products purchased by the Group during the Reporting Period.
- d. Net cash flow from financing activities for the Reporting Period increased as compared with the corresponding period of last year, which was mainly due to the decrease in repayment of bank borrowings by the Group during the Reporting Period.

Discussion and Analysis of Operation

A. MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

(A) Analysis on principal operations (Continued)

2. Analysis on industry, product and regional operation result

- 1) Results of principal operations by industry and principal operations by products during the Reporting Period

Operations	Results of principal operations by industry					
	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
	Income from principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2016 (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2016 (%)	Profit margin of principal operations (%)	Increase/(Decrease) over the same period of 2016 (percentage point)
Great Southern TCM	3,982,815	12.95	2,118,454	9.94	46.81	An increase of 1.46 percentage points
Great Health	4,999,155	6.33	2,940,968	22.31	41.17	A decrease of 7.69 percentage points
Great Commerce	2,015,425	(20.52)	1,845,028	(22.23)	8.45	An increase of 2.02 percentage points
Other	36,061	120.83	31,220	161.63	13.42	A decrease of 13.51 percentage points
Total	11,033,456	2.35	6,935,670	3.27	37.14	A decrease of 0.56 percentage point

Types of products	Results of principal operations by products					
	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
	Income from principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2016 (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2016 (%)	Profit margin of principal operations (%)	Increase/(Decrease) over the same period of 2016 (percentage point)
Chinese patent medicine	2,069,214	42.69	1,208,060	53.80	41.62	A decrease of 4.22 percentage points
Chemical medicine	1,913,601	(7.83)	910,394	(20.25)	52.43	An increase of 7.41 percentage points
Total of Great Southern TCM	3,982,815	12.95	2,118,454	9.94	46.81	An increase of 1.46 percentage points

Discussion and Analysis of Operation

A. MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

(A) Analysis on principal operations (Continued)

2. Analysis on industry, product and regional operation result (Continued)

2) The regional sales of the Group's business in the first half of 2017 are as follows:

Regions	Income from principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2016 (%)
Southern China	6,157,586	8.20
Eastern China	1,907,062	(1.24)
Northern China	1,191,187	(5.98)
North-Eastern China	173,791	2.27
South-Western China	1,222,052	(7.50)
North-Western China	374,843	4.46
Exports	6,935	(83.10)
Total	11,033,456	2.35

3. Others

1) Detailed description of major changes in the Company's profit composition or profit source

Applicable Not applicable

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

Applicable Not applicable

Discussion and Analysis of Operation

A. MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

(C) Analysis on Financial Conditions

i. Liquidity

As at 30 June 2017, the current ratio of the Group was 2.68 (31 December 2016: 2.69), and its quick ratio was 2.37 (31 December 2016: 2.25). Accounts receivable turnover rate was 21.19 times, representing an increase of 18.58% as compared with the corresponding period of 2016. Inventory turnover rate was 5.27 times, representing a decrease of 5.20% as compared with the corresponding period of 2016.

ii. Financial resources

As at 30 June 2017, cash and cash equivalents of the Group amounted to RMB11,568,573,000 (31 December 2016: RMB12,586,470,000), of which approximately 99.94% and 0.06% were denominated in Renminbi and foreign currencies, such as Hong Kong dollar, respectively.

As at 30 June 2017, the Group had bank borrowings of RMB43,347,000 (31 December 2016: RMB58,718,000), including short-term borrowings of RMB10,841,000 (31 December 2016: RMB25,216,000) current portion of non-current liabilities of RMB32,506,000 (31 December 2016: RMB0), and long-term borrowings of RMB0 (31 December 2016: RMB33,502,000).

iii. Capital structure

As at 30 June 2017, the Group's current liabilities amounted to RMB7,507,954,000 (31 December 2016: RMB7,422,448,000), representing an increase of 1.15% as compared with the beginning of 2017, and its long-term liabilities was RMB783,804,000 (31 December 2016: RMB820,932,000), with a decrease of 4.61% as compared with the beginning of 2017. Shareholders' equity attributable to the shareholders of the Company amounted to RMB18,047,163,000 (31 December 2016: RMB17,345,080,000), with an increase of 4.05% as compared with the beginning of 2017.

iv. Capital expenditure

The Group expects that the capital expenditure for 2017 to be approximately RMB987 million among which the expenditure in the first half of 2017 amounted to RMB135 million (in the first half of 2016: RMB135 million), which was mainly applied in the construction of production sites and information system. The Group will raise funds to meet the capital requirements of capital expenditure by resorting to its internal funds, bank loans, etc.

Discussion and Analysis of Operation

A. MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

(C) Analysis on Financial Conditions (Continued)

v. Assets and liabilities

Item	As at 30 June 2017 (RMB'000)	% of the total assets (%)	As at 31 December 2016 (RMB'000)	% of the total assets (%)	Increase/ (Decrease) as compared with the end of 2016 (%)	Reasons for changes
Other current assets	2,273,822	8.52	520,191	2.01	337.11	This is mainly due to the increase in the structured deposit and financing products purchased by the Group, and the decrease in enterprise income taxes prepaid by the subsidiaries as at 30 June 2017.
Development costs	1,700	0.01	3,017	0.01	(43.65)	This is mainly due to the partial transferred-out of the Group's development costs for the Reporting Period as at 30 June 2017.
Other non-current assets	0	0.00	35,970	0.14	(100.00)	This is mainly due to the property transfer procedures of the purchase of assets paid by the Company's subsidiaries have been completed as at 30 June 2017.
Short-term borrowings	10,841	0.04	25,215	0.10	(57.01)	This is mainly due to the decrease in bank borrowings as the Company's subsidiaries gradually repaid their banks loans as at 30 June 2017.
Notes payable	223,079	0.84	320,812	1.24	(30.46)	This is mainly due to the decrease in the amount of notes payable by the Group for the purchase of raw materials as at 30 June 2017.
Advance from customers	789,221	2.96	1,552,886	6.00	(49.18)	This is mainly due to the decrease in advances for goods from distributors by the Company's subsidiaries as at 30 June 2017.
Dividends payable	502,627	1.88	57,302	0.22	777.16	This is mainly due to dividends of 2016 not yet paid by the Company as at 30 June 2017.
Current portion of non-current liabilities	32,506	0.12	0	0.00	100.00	As at 30 June 2017, the long-term borrowings of the Company's subsidiaries due within one year measured at this account.
Long-term borrowings	0	0.00	33,502	0.13	(100.00)	As at 30 June 2017, the long-term borrowings of the Company's subsidiaries due within one year measured at current portion of noncurrent liabilities.

Discussion and Analysis of Operation

A. MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

(C) Analysis on Financial Conditions *(Continued)*

vi. Exposure to fluctuations in exchange rates

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

vii. Contingent liabilities

As at 30 June 2017, the Group had no material contingent liabilities.

viii. Charge on the Group's assets

As at 30 June 2017, Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, obtained overdraft amounted to HKD300,000, letter of credit and 90 days credit total amounted to HKD100,000,000 from Bank of China (Hong Kong) Co., Ltd. secured by the original value amounted to HKD8,893,000, the net value HKD6,381,000 of the buildings of fixed assets and the original value amounted to HKD6,843,000, the net value amounted to HKD3,819,000 of investment properties, and the issued but undue L/C amounted to USD384,000, YEN92,262,000.

ix. Bank loans, overdraft and other borrowings

As at 30 June 2017, the bank loans of the Group amounted to RMB43,347,000 (31 December 2016: RMB58,718,000), with a decrease of RMB15,371,000 as compared with the beginning of 2017. The above bank loans included short-term loans of RMB10,841,000 and current portion of non-current liabilities of RMB32,506,000.

x. Gearing ratio

As at 30 June 2017, the Group's gearing ratio (total liabilities/total assets × 100%) was 31.05% (31 December 2016: 31.83%).

xi. Material investment

As at 30 June 2017, the Group did not have any other material additional investment.

Discussion and Analysis of Operation

A. MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

(D) Issues and difficulties in operations and plans for the second half of 2017

In the first half of 2017, in the face of implementing and promoting new policies such as acceleration of medical and health reform, GPO pilot, integrated medical system, two-invoice system, removal of the price markups on medicine, medical expense growth control, restriction on adjuvant drugs, price adjustment for medical insurance payments, Medical Insurance Catalogue leaned toward innovative medicine with high performance price ratio, intensified secondary price negotiation and medicine price checking became normal, the traditional business development of the Group remained challenging.

In the second half of 2017, the Group will continue to implement various works of the “13th Five-year” Plan and the “year of quality and benefits”:

- i. Establish strong foundation for brand product, make advantageous variety stronger and enhance the quality benefits of the Great Southern TCM: polish up famous brands, continuously enhancing the brand awareness and impact; cultivate key variety to make good product echelon design; develop fashionable Chinese medicine, and increase the promotion efforts to famous and superior-quality proprietary Chinese medicine; strengthen the resource integration to give full play to the synergistic effect of the manufacturing enterprises and the trade enterprises and establish the marketing advantage of the Great Southern TCM.
- ii. Continuing the adherence to the “Triangle” strategy of “fashion, science and technology, culture”, promoting the construction of “popularization, mass-orientation, modernization and internationalization” of WLJ Great Health industry: accelerating the implementation and construction of Wang Lao Ji museum to make the Wang Lao Ji brand to be more popular; promoting the pop culture of drinking healthy beverage, and promoting the Wang Lao Ji product to be mass-oriented; strengthening the scientific works on functional research, product quality improvement, new product development of Wang Lao Ji, and realizing the Wang Lao Ji brand to be modernized; setting “aggregation and optimization” as the main line, and by leveraging on grand international gatherings such as the Fortune Global Forum to expand the brand impact and build up the internationalized “Chinese characteristics” of Wang Lao Ji brand.
- iii. Speeding up transformation, optimizing the modern medicine logistics extension services, terminal delivery services, retail service, pharmaceutical e-commerce services and logistics services to enhance the quality benefits of Great Commerce.

Discussion and Analysis of Operation

A. MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

(D) Issues and difficulties in operations and plans for the second half of 2017 *(Continued)*

- iv. Further promoting the upgrading and reconstruction of Guangzhou Baiyunshan Hospital, actively expanding and exploring the health maintenance and elderly care market and incubation development of medical equipment industry to enhance the quality benefits of the Great Medical.
- v. Set innovative medicine as the core, integrating generic medicine and innovative medicine, further promoting the cooperation of scientific resource integration and scientific project, improving the quality management level to enhance the quality benefits of science and technology.
- vi. Improving the management, making progress while ensuring stability, continuing to promote investment and acquisition projects of four major segments, and improving the investment management system to enhance the quality of the Great Capital benefits.
- vii. Scientifically planning and organizing the layout, further improving the capacity layout, strengthening the centralized management on the overall capacity development of the Group and speeding up the construction of production base projects.
- viii. Managing the Group strictly, reducing cost and increase the benefits to enhance the quality benefits of great management: improving the system, standardizing management; controlling expenses, improving centralized purchasing, integrating various resources, strengthening expenses control, reduce cost and increasing the benefits; increasing the efforts on resource integration, continuing the staging integration operation in a planned and systematic way; vigorously promoting the information construction to enhance the benefits.
- ix. Pooling resources, adopting dual innovation, taking the initiative to “go out” and actively “introduce” to promote the progress of internationalization.
- x. Promoting innovation, encourage startup, speeding up the implementation of mass innovation projects, exploring innovation and business start-up modes like shareholding by operators and internal crowd fund raising, speeding up development of institutional mechanisms for internal innovation and startup.

Discussion and Analysis of Operation

A. MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

(E) Analysis on investment

i. Overall analysis on foreign equity investment

As at the end of the Reporting Period, the external equity investment of the Company amounted to RMB2,384,561,000, with a growth of RMB94,118,000 as compared with the end of last year, 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 Company.

1) Significant equity investment

Applicable Not applicable

2) Significant non-equity investment

Applicable Not applicable

3) Financial assets evaluating at fair value

Applicable Not applicable

Stock investments

Number	Type of Stock	Stock Code	Stock name	Initial investment amount (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 as at the end of the Reporting Period (%)	Gain/(Loss) during the Reporting Period (RMB'000)
1	A Share of SSE	600038	AVIC Helicopter Co., Ltd.	1,806	57,810	2,646	54.77	(140)
2	A Share of SSE	600664	Harbin Pharmaceutical Group Co., Ltd.	3,705	376,103	2,185	45.23	(854)
Other stock investments held as at the end of the Reporting Period				-				
Gain/(Loss) of stock investments sold during the Reporting Period				-				
Total				5,511	433,913	4,831	100.00	(994)

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	-	2,431	-	125	Available-for-sale financial assets	Acquisition
601818	Everbright Bank	10,725	approximately 0.02	24,502	-	720	Available-for-sale financial assets	Acquisition

Discussion and Analysis of Operation

A. MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

(E) Analysis on investment (Continued)

i. Overall analysis on foreign equity investment (Continued)

4) Entrusted investment of the Group during the Reporting Period

Trustee	Types of entrusted wealth management	Amount of entrusted wealth management (RMB'000)	Commencement date of entrusted management	Ending date of	Manner of determination of return	Amount of principal returned (RMB'000)	Amount of return collected (RMB'000)	Have legal procedures been gone through or not	Amount withdrawn for impairment	Related transaction or not	Lawsuit involved or not	Source of funds and indication of whether it is raised funds	Relationship of the related parties
				entrusted wealth management activity									
Pazhou Sub-branch of Industrial and Commercial Bank of China	35-day RMB wealth management product of ICBC for legal person with stable income	1,000	24 March 2017	3 May 2017	Fixed return	1,000	3	Yes	0	No	No	Internal funds	/
Pazhou Sub-branch of Industrial and Commercial Bank of China	No fixed term of RMB wealth management product of ICBC "e Lingtong (e靈通)" for legal person with net value	900	5 May 2017	No fixed term	Floating return	300	5	Yes	0	No	No	Internal funds	/
Pazhou Sub-branch of Industrial and Commercial Bank of China	No fixed term of RMB wealth management product of ICBC "e Lingtong (e靈通)" for legal person with net value	3,000	28 June 2017	No fixed term	Floating return	0	0	Yes	0	No	No	Internal funds	/
Guangzhou Jincheng Sub-branch of Shanghai Pudong Development Bank Co., Ltd.	LI DUO DUO corporate structured deposit No. JG0673 of 2017 of Shanghai Pudong Development Bank	600,000	15 June 2017	15 December 2017	Fixed return	0	0	Yes	0	No	No	Raised funds	/
Guangzhou Baiyun Road Sub-branch of China Merchants Bank Co., Ltd.	Two-level 6-month structured deposit CGZ00292 linked to gold of China Merchants Bank	200,000	14 June 2017	11 December 2017	Floating return	0	0	Yes	0	No	No	Raised funds	/

Discussion and Analysis of Operation

A. MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

(E) Analysis on investment (Continued)

i. Overall analysis on foreign equity investment (Continued)

4) Entrusted investment of the Group during the Reporting Period (Continued)

Trustee	Types of entrusted wealth management	Amount of entrusted wealth management (RMB'000)	Commencement date of entrusted management	Ending date of entrusted wealth management activity	Manner of determination of return	Amount of principal returned (RMB'000)	Amount of return collected (RMB'000)	Have legal procedures been gone through or not	Amount withdrawn for impairment	Related transaction or not	Lawsuit involved or not	Source of funds and indication of whether it is raised funds	Relationship of the related parties
Guangzhou Branch of China CITIC Bank Corporation Limited	Gongying interest structure No. 17467 RMB structured wealth management products of CITIC Wealth Management	200,000	16 June 2017	20 December 2017	Floating return	0	0	Yes	0	No	No	Raised funds	/
Guangzhou Branch of China Everbright Bank Company Limited	Corporate structured deposit of China Everbright Bank	500,000	9 June 2017	9 December 2017	Fixed return	0	0	Yes	0	No	No	Raised funds	/
Guangzhou Dongfeng Sub-branch of China Everbright Bank	Structured deposit	20,000	8 February 2017	8 August 2017	Fixed return	0	0	Yes	0	No	No	Internal funds	/
Guangzhou Dongfeng Sub-branch of China Everbright Bank	Structured deposit	10,000	12 April 2017	22 October 2017	Fixed return	0	0	Yes	0	No	No	Internal funds	/
Guangzhou Dongfeng Sub-branch of China Everbright Bank	Structured deposit	20,000	4 November 2016	4 February 2017	Fixed return	20,000	295	Yes	0	No	No	Internal funds	/
Guangzhou Longkou Sub-branch of China Merchants Bank	Structured deposit	20,000	26 May 2017	26 June 2017	Fixed return	20,000	57	Yes	0	No	No	Internal funds	/
Guangzhou Jiangnan Avenue Central Sub-branch of Industrial and Commercial Bank of China	182-day RMB wealth management product of ICBC for legal person with stable income	20,000	27 July 2016	23 January 2017	Fixed return	20,000	274	Yes	0	No	No	Internal funds	/

Discussion and Analysis of Operation

A. MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

(E) Analysis on investment (Continued)

i. Overall analysis on foreign equity investment (Continued)

4) Entrusted investment of the Group during the Reporting Period (Continued)

Trustee	Types of entrusted wealth management	Amount of entrusted wealth management (RMB'000)	Commencement date of entrusted management	Ending date of entrusted wealth management activity	Manner of determination of return	Amount of principal returned (RMB'000)	Amount of return collected (RMB'000)	Have legal procedures been gone through or not	Amount withdrawn for impairment	Related transaction or not	Lawsuit involved or not	Source of funds and indication of whether it is raised funds	Relationship of the related parties
Guangzhou Jiangnan Avenue Central Sub-branch of Industrial and Commercial Bank of China	35-day RMB wealth management product of ICBC for legal person with stable income	10,000	3 February 2017	9 March 2017	Fixed return	10,000	25	Yes	0	No	No	Internal funds	/
Guangzhou Jiangnan Avenue Central Sub-branch of Industrial and Commercial Bank of China	35-day RMB wealth management product of ICBC for legal person with stable income	10,000	5 May 2017	12 June 2017	Fixed return	10,000	29	Yes	0	No	No	Internal funds	/
Guangzhou Branch of China Minsheng Banking	Structured deposit of China Minsheng Banking	50,000	29 March 2017	29 June 2017	Floating return	50,000	498	Yes	0	No	No	Internal funds	/
Guangzhou Zhongshan Second Road Sub-branch of China Merchants Bank Co., Ltd.	Corporate structured deposit of China Merchants Bank	30,000	30 March 2017	30 June 2017	Floating return	30,000	246	Yes	0	No	No	Internal funds	/
Guangzhou Branch of China Everbright Bank Company Limited	Structured deposit	100,000	23 November 2016	23 February 2017	Fixed return	100,000	742	Yes	0	No	No	Internal funds	/
Guangzhou Branch of China Everbright Bank Company Limited	Structured deposit	100,000	11 January 2017	11 April 2017	Fixed return	100,000	903	Yes	0	No	No	Internal funds	/
Guangzhou Branch of China Everbright Bank Company Limited	Structured deposit	30,000	5 April 2017	5 July 2017	Fixed return	0	0	Yes	0	No	No	Internal funds	/

Discussion and Analysis of Operation

A. MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

(E) Analysis on investment (Continued)

i. Overall analysis on foreign equity investment (Continued)

4) Entrusted investment of the Group during the Reporting Period (Continued)

Trustee	Types of entrusted wealth management	Amount of entrusted wealth management (RMB'000)	Commencement date of entrusted management	Ending date of entrusted wealth management activity	Manner of determination of return	Amount of principal returned (RMB'000)	Amount of return collected (RMB'000)	Have legal procedures been gone through or not	Amount withdrawn for impairment	Related transaction or not	Lawsuit involved or not	Source of funds and indication of whether it is raised funds	Relationship of the related parties
Guangzhou Branch of China Everbright Bank Company Limited	Structured deposit	100,000	14 April 2017	14 July 2017	Fixed return	0	0	Yes	0	No	No	Internal funds	/
Guangzhou Branch of China Everbright Bank Company Limited	Structured deposit	100,000	6 January 2017	6 July 2017	Fixed return	0	0	Yes	0	No	No	Internal funds	/
Guangzhou Branch of China Everbright Bank Company Limited	Structured deposit	50,000	3 March 2017	3 September 2017	Fixed return	0	0	Yes	0	No	No	Internal funds	/
Conghua Sub-branch of Guangzhou Rural Commercial Bank	Structured deposit	30,000	29 December 2016	29 December 2017	Fixed return	0	0	Yes	0	No	No	Internal funds	/
Conghua Sub-branch of Guangzhou Rural Commercial Bank	Structured deposit	30,000	29 December 2016	29 December 2017	Fixed return	0	0	Yes	0	No	No	Internal funds	/
Conghua Sub-branch of Guangzhou Rural Commercial Bank	Structured deposit	40,000	29 December 2016	29 December 2017	Fixed return	0	0	Yes	0	No	No	Internal funds	/
Conghua Sub-branch of Guangzhou Rural Commercial Bank	Structured deposit	50,000	17 February 2017	17 November 2017	Fixed return	0	0	Yes	0	No	No	Internal funds	/
Yangji Sub-branch of China Everbright Bank	Structured deposit	50,000	24 February 2017	24 November 2017	Fixed return	0	0	Yes	0	No	No	Internal funds	/
Yangji Sub-branch of China Everbright Bank	Structured deposit	50,000	24 February 2017	24 November 2017	Fixed return	0	0	Yes	0	No	No	Internal funds	/
Yangji Sub-branch of China Everbright Bank	Structured deposit	30,000	23 January 2017	23 July 2017	Fixed return	0	0	Yes	0	No	No	Internal funds	/

Discussion and Analysis of Operation

A. MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

(E) Analysis on investment (Continued)

i. Overall analysis on foreign equity investment (Continued)

4) Entrusted investment of the Group during the Reporting Period (Continued)

Trustee	Types of entrusted wealth management	Amount of entrusted wealth management (RMB'000)	Commencement date of entrusted wealth management	Ending date of entrusted wealth management activity	Manner of determination of return	Amount of principal returned (RMB'000)	Amount of return collected (RMB'000)	Have legal procedures been gone through or not	Amount withdrawn for impairment	Related transaction or not	Lawsuit involved or not	Source of funds and indication of whether it is raised funds	Relationship of the related parties
Yangji Sub-branch of China Everbright Bank	Structured deposit	30,000	6 January 2017	6 July 2017	Fixed return	0	0	Yes	0	No	No	Internal funds	/
Yangji Sub-branch of China Everbright Bank	Structured deposit	20,000	6 January 2017	6 July 2017	Fixed return	0	0	Yes	0	No	No	Internal funds	/
Yangji Sub-branch of China Everbright Bank	Structured deposit	30,000	21 December 2016	21 June 2017	Fixed return	30,000	480	Yes	0	No	No	Internal funds	/
Yangji Sub-branch of China Everbright Bank	Structured deposit	20,000	22 December 2016	22 June 2017	Fixed return	20,000	320	Yes	0	No	No	Internal funds	/
Total	/	2,554,900	/	/	/	411,300	3,877	/	0	/	/	/	/
Total amount of principal and return due but not received (RMB)				0									
Descriptions for entrusted wealth management activities				/									

ii. Significant assets and equity sales

Applicable Not applicable

Discussion and Analysis of Operation

A. MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

(E) Analysis on investment (Continued)

iii. Details of the main subsidiaries and joint ventures of the Company during the Reporting Period

Name of enterprise	Business nature	Major products or services	Registered capital (RMB'000)	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 pre-packaged food, dairy products, etc	100,000	100.00	5,062,001	1,907,204	358,877

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.

iv. Structured subject matter controlled by the Company

Applicable Not applicable

B. OTHER MATTERS

(A) Warning and explanation in relation to the net aggregated profits which may be a loss in respect of the period from the beginning of the year to the end of the next reporting period or material changes compared to the corresponding period of the last year

Applicable Not applicable

(B) Potential risks

Applicable Not applicable

(C) Other disclosures

Applicable Not applicable

Major Events

A. INFORMATION ON GENERAL MEETINGS OF SHAREHOLDERS

Session	Date of the meeting	Index on the designated websites for publication of the resolutions	The date of publication of the resolution
Annual General Meeting of 2016	23 June 2017	http://www.sse.com.cn http://www.hkex.com.hk	24 June 2017

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

Profit distribution scheme, plan on increase in share capital by transfer from capital reserve prepared for the half year

Any distribution or transfer	No
Number of bonus shares to be distributed for every ten shares (share)	/
Amount of dividends to be distributed for every ten shares (RMB) (inclusive of tax)	/
Number of shares to be transferred into share capital for every ten shares (shares)	/

C. PERFORMANCE OF UNDERTAKINGS

✓ Applicable Not applicable

(A) Undertaking in relation to maintaining the independence of the listed company given by the controlling shareholder

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, 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. 2. 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
Being complied with or not	Yes

Major Events

C. PERFORMANCE OF UNDERTAKINGS (Continued)

(B) Undertaking in relation to avoidance of competition given by the 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">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 shall 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
Being complied with or not	Yes

C. PERFORMANCE OF UNDERTAKINGS *(Continued)*

(C) Undertaking in relation to regulation of connected transactions given by the controlling shareholder

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 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.
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
Being complied with or not	Yes

Major Events

C. PERFORMANCE OF UNDERTAKINGS (Continued)

(D) Undertaking in relation to entrusted management of the patents not yet been injected given by the controlling shareholder

Item	Content
Background of the undertakings Party given the undertaking Undertakings	<p>Undertakings related to Major Assets Reorganization</p> <p>Controlling shareholder, the Company</p> <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: (i) embody the requirement for GPHL to pay the Company a basic custody fee of RMB1 million per year as set out in the Agreement; and (ii) specify that 20% of the new licenses fees will be the custody income for the Company and the remaining 80% will be retained by GPHL. Both parties further undertake that the Supplemental Agreement they entered into in the future under the above arrangement will comply with applicable provisions of the Listing Rules of HKEx and SSE (including but not limited to the requirements of Chapter 14A of the Listing Rules of HKEx and Chapter 10 of the Listing Rules of SSE relating to continuing connected transactions/connected transactions in the ordinary course of business, including that the Supplemental Agreement must specify its validity term, the estimated annual cap of custody income, other terms that must be set out, and etc.).
Time and period of the undertaking	Commitment made on 26 March 2012 and the period of validity is up to the date of completion of the undertakings.
Any period for performance	N/A
Whether timely and strictly performed	Being performed
Being complied with or not	Yes

C. PERFORMANCE OF UNDERTAKINGS *(Continued)*

(E) Undertaking in relation to defects of properties given by the controlling shareholder

Item	Content
Background of the undertakings Party given the undertaking Undertakings	<p>Undertakings related to Major Assets Reorganization Controlling shareholder</p> <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
Being complied with or not	Yes

Major Events

C. PERFORMANCE OF UNDERTAKINGS (Continued)

(F) Undertaking in relation to injection of trademarks given by the controlling shareholder

Item	Content
Background of the undertakings Party given the undertaking Undertakings	<p>Undertakings related to Major Assets Reorganization</p> <p>Controlling shareholder</p> <ol style="list-style-type: none"> GPHL undertakes that, within two years from the date of satisfaction of any one of the conditions set out below, it will legally transfer the trademarks in Wang Lao Ji series (25 in total) and 4 other trademarks (comprising trademarks with registration numbers of 125321, 214168, 538308 and 5466324) to the Company according to the requirements of laws and regulations then in force: (i) Upon the expiry on 1 May 2020, or earlier when the 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-emption. On the basis of the original undertaking letter, GPHL 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, GPHL 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 GPHL 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.
Time and period of the undertaking	The original undertaking was given on 29 February 2012. GPHL 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 Whether timely and strictly performed	<p>No</p> <p>In December 2014, the Company received the Letter of Amendment to the Undertakings of Injection of Wang Lao Ji Trademark Series from GPHL, 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.</p>
Being complied with or not	Yes

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

D. APPOINTMENT, DISMISSAL OR CHANGE IN APPOINTMENT OF AUDITORS

Appointment, dismissal or change in appointment of auditors

Applicable Not applicable

Change in appointment of auditors during the audit period

Applicable Not applicable

Explanation given by the Company on the "Non-standard audited report" by the auditors

Applicable Not applicable

Explanation given by the Company on the financial report in the last annual report which was qualified as "Non-standard audited report" by the auditors

Applicable Not applicable

E. MATTERS RELEVANT TO BANKRUPTCY AND SCHEME OF ARRANGEMENT

Applicable Not applicable

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

Applicable Not applicable

The litigation and arbitration of the Group, and the litigation and arbitration in relation to the Wang Lao Ji trademarks which GPLH (the controlling shareholder of the Company) was involved, After the Reporting Period.

The Company was informed that on 16 August 2017, the Supreme People's Court of the PRC (the "Supreme Court") announced the judgments on the case of disputes that Guangdong Jia Duo Bao Beverage and Food Company Limited* (廣東加多寶飲料食品有限公司) ("Guangdong Jia Duo Bao") sued WLJ Great Health, a wholly-owned subsidiary of the Company, for the unauthorised use of the specific packaging and decoration of well-known products ("Case No. 1") and the case of disputes that GPLH sued Guangdong Jia Duo Bao for the unauthorised use of the specific packaging and decoration of well-known products ("Case No. 2") publicly. On the same date, WLJ Great Health received the Civil Judgement [(2015) Min San Zhong Zi No. 2] in respect of Case No. 1 and GPLH received the Civil Judgement [(2015) Min San Zhong Zi No. 3] in respect of Case No. 2 issued by the Supreme Court.

Major Events

F. MATERIAL LITIGATION, ARBITRATION OR MATTERS SUBJECT TO DOUBT BY THE MEDIA (Continued)

1. According to the Civil Judgement of Case No. 1, the results of the judgment are as follows:

“The appeal was dismissed and the original judgement was upheld.

The acceptance fee of RMB196,600, evidence preservation fee of RMB30 and the audit expense of RMB400,000 for the first instance trial, and the acceptance fee of RMB196,600 for the second instance trial shall be borne by Guangdong Jia Duo Bao Beverage and Food Company Limited.

The judgement is final.”

2. According to the Civil Judgement of Case No. 2, the results of the judgment are as follows:

“I. Revoked the Civil Judgement ((2013) Yue Gao Fa Min San Chu Zi No. 2) issued by the People’s High Court of Guangdong Province* (廣東省高級人民法院);

II. Dismissed all the claims made by GPLH.

The acceptance fee of RMB796,800, evidence preservation fee of RMB30 and the audit expense of RMB420,000 for the first instance trial, and the acceptance fee of RMB793,126.05 for the second instance shall be borne by Guangzhou Pharmaceutical Holdings Limited.

The judgement is final.”

For details, please refer to the announcements dated 16 August 2017 published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報), the websites of SSE and HKEx.

Other than as disclosed in the above, the Group had neither been engaged in any material litigation or arbitration nor subject to any doubts by the media during the Reporting Period.

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

Applicable Not applicable

H. EXPLANATION ON THE INTEGRITY OF THE COMPANY AND ITS CONTROLLING SHAREHOLDER AND ACTUAL CONTROLLER DURING THE REPORTING PERIOD

Applicable Not applicable

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

Applicable Not applicable

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

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

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

Major Events

J. MAJOR CONNECTED TRANSACTIONS

(A) Details of the ordinary connected transactions

Connected parties	Relationship with the Company	Type of connected transactions	Contents of connected transactions	Pricing principle of the connected transactions	Amounts of connected transactions (RMB'000)	Percentage of similar transactions (%)	Settlement method of connected transactions
HWBYS	Joint Venture	Purchase of goods	Medicine or pharmaceutical products	Market price	15,764	0.28	Cash
GP Corp.	Joint Venture	Purchase of goods	Medicine or pharmaceutical products	Market price	168,234	2.94	Cash
Wang Lao Ji	Joint Venture	Purchase of goods	Medicine or pharmaceutical products	Market price	513,845	8.97	Cash
Hua Cheng	Wholly-owned subsidiary of the parent company	Purchase of goods	Medicine or pharmaceutical products	Market price	6,022	0.11	Cash
Subtotal					703,865	12.30	
GPHL	Parent company	Sale of products	Medicine or pharmaceutical products	Market price	761	0.01	Cash
HWBYS	Joint Venture	Sale of products	Medicine or pharmaceutical products	Market price	117,670	1.07	Cash
GP Corp.	Joint Venture	Sale of products	Medicine or pharmaceutical products	Market price	351,573	3.21	Cash
Wang Lao Ji	Joint Venture	Sale of products	Medicine or pharmaceutical products	Market price	283,652	2.59	Cash
Nuo Cheng	Joint Venture	Sale of products	Medicine or pharmaceutical products	Market price	15	0.00	Cash
Baxter Qiaoguang	Joint Venture	Sale of products	Medicine or pharmaceutical products	Market price	365	0.00	Cash
Hua Cheng	Wholly-owned subsidiary of the parent company	Sale of products	Medicine or pharmaceutical products	Market price	30,574	0.28	Cash
Subtotal					784,610	7.16	

J. MAJOR CONNECTED TRANSACTIONS (Continued)

(A) Details of the ordinary connected transactions (Continued)

Connected parties	Relationship with the Company	Type of connected transactions	Contents of connected transactions	Pricing principle of the connected transactions	Amounts of connected transactions (RMB'000)	Percentage of similar transactions (%)	Settlement method of connected transactions
HWBYS	Joint Venture	Provision of labour service	Advertising agency	Market price	20,154	43.59	Cash
GP Corp.	Joint Venture	Provision of labour service	Advertising agency	Market price	122	0.26	Cash
Wang Lao Ji	Joint Venture	Provision of labour service	Advertising agency	Market price	22,073	47.75	Cash
Baxter Qiaoguang	Joint Venture	Provision of labour service	Advertising agency	Market price	1	0.00	Cash
Wang Lao Ji	Joint Venture	Provision of labour service	Consigned processing	Market price	13,623	81.67	Cash
Subtotal					55,973		
GPHL	Parent company	Acceptance of patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	49,615	81.83	Cash
Wang Lao Ji	Joint Venture	Acceptance of patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	8,135	97.23	Cash
HWBYS	Joint Venture	Acceptance of patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	231	2.77	Cash
GPHL	Parent company	Others	Rental assets	Agreement price	361	0.68	Cash
GPHL	Parent company	Others	Leased assets	Agreement price	181	0.42	Cash
GP Corp.	Joint Venture	Others	Leased assets	Agreement price	2,196	5.11	Cash
Baxter Qiaoguang	Joint Venture	Others	Leased assets	Agreement price	1,500	3.49	Cash
Nuo Cheng	Joint Venture	Others	Leased assets	Agreement price	1,129	2.62	Cash
HWBYS	Joint Venture	Others	Leased assets	Agreement price	35	0.08	Cash
Total					1,607,831		

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 abilities to continue its operations.

Major Events

J. MARJOR CONNECTED TRANSACTIONS (Continued)

(B) Connected transactions occurred in acquisitions or disposals of assets or equity interests

Applicable Not applicable

(C) Joint overseas investments which constituted material connected transactions

Applicable Not applicable

(D) Debts of related parties

Related party	Relationship with the related parties	Funds provided to related parties			Funds provided by related parties to listed company		
		Balance as at the beginning of the Reporting Period (RMB'000)	Amount (RMB'000)	Balance as at the end of the Reporting Period (RMB'000)	Balance as at the beginning of the Reporting Period (RMB'000)	Amount (RMB'000)	Balance as at the end of the Reporting Period (RMB'000)
Bozhou Baiyunshan Pharmaceutical	Subsidiary of joint venture	18,139	(2,520)	15,619	-	-	-
Total		18,139	(2,520)	15,619	-	-	-

Reasons for the funds provided to/from related parties

The Company's other receivables from HWBYS for the Reporting Period included receivables of RMB15,619,000 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. Since the absorption and merger of Baiyunshan by the Company was completed in May 2013, HWBYS became a joint venture as well as a related party of the Company. The receivables emerged after the share transfer of Bozhou Baiyunshan had completed.

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

No significant impact

J. MARJOR CONNECTED TRANSACTIONS *(Continued)*

(E) Others

- i. 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 GPLL (“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.

- ii. 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 will be injected to Guangyao Baiyunshan Hong Kong 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 and the second phase of capital increase is currently in progress.
- iii. As approved at the 2nd meeting of the Strategic Development and Investment Committee of the Company in 2016, the Company contributed additional capital of RMB20.4 million to the Company’s subsidiary, Guangzhou Guangyao Yigan Biological Products Co., Ltd. (“Yi Gan”) according to shareholding ratio. After the capital increase, the registered capital of Yi Gan had been increased to RMB55 million. The capital increase of RMB5.1 million in the second phase has been completed in May 2017 and the aggregate of the first phase additional capital contribution and second phase additional capital contribution was RMB10.2 million.
- iv. As approved at the 5th meeting of the Strategic Development and Investment Committee 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 has been completed.

Major Events

J. MAJOR CONNECTED TRANSACTIONS *(Continued)*

(E) Others *(Continued)*

- v. As approved at the 5th meeting of the Strategic Development and Investment Committee of the Company 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”) signed 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.

In order to solve the funding issues, as approved at the 1st meeting of the Strategic Development and Investment Committee of the Company held on 24 January 2017, the Company agreed to contribute additional capital of RMB12.47 million in cash to Chemical & Pharmaceutical Technology Company for the purpose of the works related to the design and environment evaluation of the project.

At present, the project has commenced to conduct project planning design, foundation design and environment evaluation.

- vi. At the 7th meeting of the Strategic and Investment Committee of the Company in 2016, it was considered and approved that the Company would establish Medical Instrument Investment Company with a registered capital of RMB10 million. The establishment of Medical Instrument Investment Company has completed.
- vii. At the 7th meeting of the Strategic and Investment Committee of the Company in 2016, it was considered and approved that, the Company’s subsidiary, Guangyao Baiyunshan Hong Kong Company would establish a company in Macau with a registered capital of MOP 1 million. At present, the establishment of this company is in progress.
- viii. At the 7th meeting of the Strategic and Investment Committee of the Company in 2016, it was considered and approved that the proposal that the Company’s subsidiary, Chen Li Ji, would establish a joint venture named Guangzhou Chen Li Ji Great Health Company (“Chen Li Ji Great Health”) with Guangdong Juxiangzhai Great Health Industry Co., Ltd. and Guangzhou PushengDazheng Pharmaceutical Co., Ltd. Chen Li Ji Great Health has a registered capital of RMB15 million, of which Chen Li Ji contributed RMB6.6 million in cash, holding 44% stake. The establishment of Chen Li Ji Great Health has completed.

J. MARJOR CONNECTED TRANSACTIONS *(Continued)*

(E) Others *(Continued)*

- ix. At the 2nd meeting of the Strategic and Investment Committee of the Company in 2017, it was considered and approved that the Company contributed addition capital of RMB10.00 million to WLJ Investment, a wholly-owned subsidiary of the Company for the investment in the establishment of Wang Lao Ji Dazhai Beverages Co., Ltd. The aforesaid capital increase has been completed and the registered capital of WLJ Investment had been increased from RMB10 million to RMB20 million.
- x. At the 2nd meeting of the Strategic and Investment Committee of the Company in 2017, it was considered and approved that the subsidiaries of the Company (the lessee) entered into a new Guangzhou Tenancy Agreement with GPHL (the lessor) in respect of the use of properties including related lands, enterprise operated real estate and employees' housing, the annual property use fee of which shall not exceed RMB20.00 million, with a lease term of three years from 1 January 2017 up to 31 December 2019.
- xi. At the 2nd meeting of the Strategic and Investment Committee of the Company in 2017, it was considered and approved that the Company (the lessor) entered into a new Guangzhou Tenancy Agreement with GP Corp. (the lessee), a joint venture of the Company, in respect of the use of properties including related lands, enterprise operated real estate and employees' housing, the annual property use fee of which shall not exceed RMB3.50 million, with a lease term of three years from 1 January 2017 up to 31 December 2019.
- xii. At the 2nd meeting of the Strategic and Investment Committee of the Company in 2017, it was considered and approved that the Company (Buyer) entered into the Purchase Agreement of Additional Legal Properties at Rear Block, 282 Beijing Road with GPHL (Seller) in respect of the purchase of additional legal properties at Rear Block, 282 Beijing Road, the market value of which, the market value of which as at the valuation date and on an "as is" basis was RMB15.273 million, the actual amount of consideration paid was RMB14.5001 million after deducting the land-transferring fees and related taxes paid by GPHL.
- xiii. At the 3rd meeting of the Strategic and Investment Committee of the Company in 2017, it was considered and approved that the Company contributed additional capital of RMB30.00 million, which was by reference to the Company's 75% shareholdings, to Xing Zhu, of which the first phase of RMB22.71 million was contributed in cash. At present, the above project is under way.

Major Events

K. MATERIAL CONTRACTS AND THEIR PERFORMANCE

- (A) **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 Reporting Period.**

Save as the aforementioned, the Company was not involved in any material contracts during the Reporting Period.

- (B) **Guarantees**

Applicable Not applicable

L. NEEDY ALLEVIATION EFFORTS PERFORMED BY THE LISTED COMPANIES

Applicable Not applicable

i. **Plan of targeted approach to aid the needy**

Three subsidiaries of the Company, namely Xing Qun, Guang Hua and Cai Zhi Lin, are responsible for the implementation of the specified poverty alleviation initiatives. The aforementioned subsidiaries planned to achieve the objective of “no worries for two things, guaranteed on three aspects and meeting the average” by the end of 2018 in accordance with the guideline of “targeted approach to aid the needy towards each village and household with the industry driving the whole village forward” towards three targeted villages with a contribution of not less than 2 million for each village. The aforesaid objective is to put the poor village people in a stable condition that they no longer need to worry about food and clothes, basic medical services and residential safety are guaranteed and the index of the main areas of basic public services meets the average level in Guangdong Province.

ii. **Outline of targeted approach to aid the needy for the half year**

During the Reporting Period, in order to practically perform their duties in alleviating poverty in three poverty alleviation villages, Xing Qun, Guang Hua and Cai Zhi Lin, the subsidiaries of the Company prepared alleviate poverty measure to strive for early poverty alleviation and formed a general principle for poverty alleviation works of “accurate, early and special” with GPL characteristics and plan of targeted approach to aid the needy, established a team for targeted approach to aid the needy, and conduct field research for many times to facilitate the implementation of targeted approach to aid the needy project. The targeted approach to aid the needy works are being promoted in an orderly manner with following the general principle for work.

L. NEEDY ALLEVIATION EFFORTS OF LISTED COMPANIES (Continued)

iii. Statistical Table of the Targeted Poverty Alleviation by the Company during the Reporting Period

(RMB'0000)

Index	Number and implementation information of GYBYS
A. General information	
Including: 1. Fund	254.77
2. Materials traded	47.54
3. Number of poor people helped to be removed from administrative record for poverty registering (Person)	163
B. Itemized input	
1. Poverty alleviation through industrial development	
Including: 1.1 Type of industrial poverty alleviation projects	<input checked="" type="checkbox"/> Poverty alleviation through agriculture and forestry <input type="checkbox"/> Poverty alleviation through tourism <input type="checkbox"/> Poverty alleviation through E-commerce <input checked="" type="checkbox"/> Poverty alleviation through assets income <input checked="" type="checkbox"/> Poverty alleviation through science and technology <input type="checkbox"/> Others
1.2 Number of industrial poverty alleviation projects	11
1.3 Amount invested in industrial poverty alleviation projects	118.65
1.4 Number of poor people helped to be removed from administrative record for poverty registering (Persons)	0
2. Poverty alleviation through employment	
Including: 2.1 Amount invested in vocational training	0.51
2.2 Number of people received vocational training (Persons/Time)	52
2.3 Number of poor people in administrative record for poverty registering employed (Persons)	34
3. Poverty alleviation through relocation	
Including: 3.1 Number of relocated people employed (Persons)	0
4. Poverty alleviation through education	
Including: 4.1 Amount invested in subsidizing poor students	1.3
4.2 Number of students received allowance (Persons)	21
4.3 Amount invested in improvement of education resources in poverty area	0
5. Poverty alleviation through health enhancement	
Including: 5.1 Amount invested in medical and health resources in poverty area	31.77

Major Events

L. NEEDY ALLEVIATION EFFORTS OF LISTED COMPANIES *(Continued)*

iii. Statistical Table of the Targeted Poverty Alleviation by the Company during the Reporting Period *(Continued)*

Index	Number and implementation information of GYBYS
6. Poverty alleviation through ecological protection Including: 6.1 Name of project	<input type="checkbox"/> Launching ecological protection and construction <input type="checkbox"/> Establishing compensation for the ecological protection <input type="checkbox"/> Creating ecological and public welfare positions <input type="checkbox"/> Others
6.2 Amount invested	0
7. Protection for the most impoverished people Including: 7.1 Amount invested in helping the three left-behind groups	0
7.2 Number of people of the three left-behind groups helped (Persons)	0
7.3 Amount invested in helping poor people with disabilities	0
7.4 Number of poor people with disabilities helped (Persons)	0
8. Poverty alleviation in the society Including: 8.1 Amount invested in poverty alleviation in the eastern and western parts of the country	0
8.2 Amount invested in fixed-point poverty alleviation work	0
8.3 Poverty alleviation fund	0
9. Other projects Including: 9.1 Number of projects (Project)	11
9.2 Amount invested	102.54
9.3 Number of poor people helped to be removed from administrative record for poverty registering (Persons)	163
9.4 Details of other projects	Including: rebuilt (newly constructed) houses for people in poverty; renovation and maintenance of complex building of village committee; light improvement project; consolidation works of road; photovoltaic power generation and building the dam.
C. Awards (details and levels)	2016 Bronze Prize of Guangdong Poverty Relief Day Hongmian Cup; 2016 Silver Prize of Meizhou Poverty Relief Day Hongmian Cup; 2016 Silver Prize of Meizhou Poverty Relief

L. **NEEDY ALLEVIATION EFFORTS OF LISTED COMPANIES** *(Continued)*

iv. **Follow-up alleviation plan**

In the second half of 2017, the Group will make great efforts on industrial “blood creating” alleviation as well as educational and intellectual alleviation. These will be implemented across the whole village and the Group will plan new industrial poverty alleviation project according to different conditions, take extra care of the underprivileged and improve the residential environment. On top of improving the annual poverty alleviation plan, the Group will provide greater support to the poverty by proactively implementing the policy of “special policy to each household” in order to practically achieve the objective of targeted approach to aid the needy.

M. **CONVERTIBLE BONDS**

Applicable Not applicable

N. **PROJECT 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.

O. **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 codes and criteria for securities transactions by the 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 codes and criteria during the Reporting Period.

P. **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.

Major Events

P. CORPORATE GOVERNANCE *(Continued)*

During the Reporting Period, the Company complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules of HKEx (“CG Code”) and the code provisions of the CG Code except that Mr. Chen Mao, Ms. Liu Juyan, Mr. Ni Yidong, Mr. Wu Changhai and Mr. Wang Wenchu, all being the executive directors of the Company, Mr. Wong Lun Tak Patrick and Mr. Chu Xiaoping, both independent non-executive directors of the Company, were unable to attend the 2016 annual general meeting due to business matters which constituted a deviation from code provision A.6.7.

The Board kept monitoring and reviewing the Company’s corporate governance practices to ensure compliance with the provisions of 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 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 products; (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 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 positions of the Company for the first half of 2017 is set out in the section headed “Discussion and analysis of operation” in the interim report of this year.

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

- (A) The Company performed review on its internal control and fulfillment of social obligations for the year ended 31 December 2016 pursuant to the requirements of the “Notice on Proper Preparation of the 2016 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 2016” and the “Report on Corporate Social Responsibilities for 2016”, both of which were disclosed after being considered and approved at the Board meeting held on 15 March 2017.

P. CORPORATE GOVERNANCE *(Continued)*

- (B) During the Reporting Period, the Company continued to consolidate and improve the three lines of defense of “internal control system, risk control system and auditing supervision” in order to improve the risk prevention capacity of enterprise and reduce the operation management risk of enterprise, the Company carried out the following works:
- i. Organized the enterprise to implement the effectiveness valuation on annual risk management and internal control to ensure the effective operation of risk control system and internal control system of the enterprise.
 - ii. Issued and implemented the newly amended Internal Control Manual of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and the Manual on Scope of Powers of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited, enriched the internal control progress of “crisis events handling, intangible asset and property management” and other aspects on the basis of the original internal control system, so as to further improve the internal system of the Company.
 - iii. Established a comprehensive risk management system of the Company, promoted the establishment of significant risk management mechanism by the subsidiaries, strengthened the control efforts of enterprise on major decision-making matters and major projects.
 - iv. Followed up and monitored the key enterprises, focused on the risk management of large-amount accounts payable with credit period of one year, credit customer, risk accounts receivable of subsidiaries, risk control of major economic contracts to remind the enterprise to emphasis on the hidden risk and prepare effective measures to control risk.
 - v. Carried out self-inspection and self-correction in the whole Company, with an emphasis on self inspecting the compliance on the aspects of the use of funds and reimbursement of fees, inventories and fixed assets management, investment management, property lease, contract management, credit management, sales and procurement business and construction of major projects, and corrected timely in case of any loopholes found.

Q. THE AUDIT COMMITTEE OF THE SEVENTH SESSION OF THE BOARD IS COMPRISED OF FOUR INDEPENDENT NON-EXECUTIVE DIRECTORS AND ONE OF THEM POSSESSED APPROPRIATE PROFESSIONAL QUALIFICATION THE AUDIT COMMITTEE HAD REVIEWED THE GROUP’S ACCOUNTING PRINCIPLES, ACCOUNTING STANDARDS AND METHOD AS WELL AS DISCUSSED THE AUDIT AFFAIRS, RISK MANAGEMENT, INTERNAL CONTROLS AND FINANCIAL REPORT WITH THE MANAGEMENT, INCLUDING THE UNAUDITED INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2017.

Major Events

R. EXPLANATION ON THE ENVIRONMENTAL PROTECTION MEASURES UNDERTAKEN BY THE COMPANIES AND ITS SUBSIDIARIES WHICH WERE ANNOUNCED BY THE ENVIRONMENTAL PROTECTION AUTHORITIES AS KEY POLLUTANT DISCHARGING UNITS

✓ Applicable □ Not applicable

Chemical Pharmaceutical Factory, a branch of the Company, and Xing Zhu, a subsidiary of the Company, were among the key pollutant discharging units as announced by the Guangzhou Environmental Protection Bureau, the key item of waste emission being monitored was exhaust gas.

Company name	Names of major pollutants and characteristic pollutants	Emission mode	Number of emission ports	Distribution of emission ports	Annual average emission concentration (mg/m ³)	Implementation of pollutant emission standards (mg/m ³)	Total annual emissions (ton)	Approved total emissions (ton)	Excessive emissions
Chemical Pharmaceutical Factory	Sulfur dioxide	Interval	2	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC	0	"Integrated emission standard of air pollutants", ≤50	0	0.3	None
	Nitrogen oxides	Interval	2	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC	149	"Integrated emission standard of air pollutants", ≤200	0.764	1.3	None
	Particulate matter (smoke dust)	Interval	2	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC	16.2	"Integrated emission standard of air pollutants", ≤30	0.0849	0.2	None
	Total VOCs	Interval	7	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC	12.13	"Integrated emission standard of air pollutants", ≤120	0.0875	0.5	None
Xing Zhu	Sulfur dioxide	Interval	1	No. 4 Venture Avenue South, Pearl Industrial Park, Conghua, Guangzhou City, Guangdong Province	25	"Integrated emission standard of air pollutants", ≤50	1.588	3	None
	Nitrogen oxides	Interval	1	No. 4 Venture Avenue South, Pearl Industrial Park, Conghua, Guangzhou City, Guangdong Province	21	"Integrated emission standard of air pollutants", ≤120	1.353	7	None
	Particulate matter (smoke dust)	Interval	1	No. 4 Venture Avenue South, Pearl Industrial Park, Conghua, Guangzhou City, Guangdong Province	14.2	"Integrated emission standard of air pollutants", ≤30	0.911	1.2	None

R. EXPLANATION ON THE ENVIRONMENTAL PROTECTION MEASURES UNDERTAKEN BY THE COMPANIES AND ITS SUBSIDIARIES WHICH WERE ANNOUNCED BY THE ENVIRONMENTAL PROTECTION AUTHORITIES AS KEY POLLUTANT DISCHARGING UNITS
(Continued)

Chemical Pharmaceutical Factory and Xing Zhu, through various pollution preventive facilities and measures to ensure that the emission of exhaust gas did not exceed the permitted limit and strictly observed the relevant requirements under the Integrated Emission Standard for Air Pollutants. Details of the pollution preventive facilities and measures undertaken by Chemical and Pharmaceutical Factory and Xing Zhu and their implementations (exhaust gas) are as follows:

Company name	Name of pollution preventing facility	Put into use date	Pollution category	Procedures	Average daily processing capacity (m ³ /h)
Chemical Pharmaceutical Factory	BMF boiler flue gas treatment facility	2010.06.01	Exhaust gas	whirlwind dust-cleaning + bag dust-cleaning + urea denitrification	5,500
	202 production exhaust gas treatment facility	2007.10.01	Exhaust gas	alkali spraying + activated carbon adsorption	1,250
	205 cephalosporin sterile APIs production exhaust gas treatment facility	2009.06.01	Exhaust gas	condensation + absorber recycling	360
	203 oral APIs production exhaust gas treatment facility	2014.10.01	Exhaust gas	condensation + alkali spraying	1,100
	205 oral cephalosporin APIs production acidic organic gas treatment facility	2016.01.20	Exhaust gas	alkali spraying + photocatalytic oxidation	1,550
	205 oral cephalosporin APIs production dust and exhaust gas treatment facility	2016.01.20	Exhaust gas	cellulose thimble filtering	8,300
Xing Zhu	bag dust-cleaning + crushed granite and water film desulfurating dust separator	2014.1.8	Exhaust gas	Dusty smoke gets into the dust separator tangentially, spirals up along the inner wall and collides with water film from the tank, condensing. The dust is submerged by water and then the clean flue gas is discharged into the chimney after dehydration.	20,833.3

Major Events

S. EXPLANATIONS ON OTHER MAJOR MATTERS

(A) Changes in accounting policy compared with the previous accounting period, the reasons and the impact

Applicable Not applicable

Implementation of the Accounting Standards for Business Enterprises No. 42 – Non-current assets held for sale, disposal groups and discontinued operation and implementation of the Accounting Standards for Business Enterprises No. 16 – Government subsidies

In 2017, the Ministry of Finance issued the Accounting Standards for Business Enterprises No. 42 – Non-current assets held for sale, disposal groups and discontinued operation, and such accounting standards were implemented since 28 May 2017. For non-current assets held for sale, disposal groups and discontinued operation existing on the implementation day, the requirements are generally applied prospectively.

The Ministry of Finance made amendments to the Accounting Standards for Business Enterprises-Governmental Grants, No. 16 in 2017, the amended standards took effect on 12 June 2017, for the governmental subsidies existed on 1 January 2017 are required to be adopted prospectively; for the new governmental subsidies on 1 January 2017 to the effective date are also required to make adjustment according to the amended standards. The main impact of the implementation of the aforesaid standards on the Group is as follows:

Content and reasons of changes of accounting policies	Vetting process	Affected item and amount
The government subsidies in the ordinary course of business of the Group will be included in other income, and will no longer be included in the revenue from non-operation.	Approved by the board of directors	Other income: RMB29,495,598.22

(B) Changes in accounting estimation and calculation as compared to the last accounting period, the reasons and the impact

Applicable Not applicable

(C) Material accounting errors corrected during the Reporting Period and which are required to be dealt with retrospectively and to be restated, the amounts corrected, the reasons and the impact

Applicable Not applicable

Changes in Share Capital and Shareholders

A. CHANGES IN SHARE CAPITAL

(A) Changes in share capital

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

(B) Changes in shares subject to selling restrictions

Applicable Not applicable

Changes in Share Capital and Shareholders

B. INFORMATION ON SHAREHOLDERS

(A) As at 30 June 2017, there were 65,807 shareholders in total, out of which 65,780 were holders of domestically listed Reminbi-denominated ordinary shares (A shares) and 27 were holders of overseas listed foreign shares (H shares).

(B) Shareholdings of the top ten shareholders of the Company as at the end of the Reporting Period 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	732,305,103	45.04	148,338,467	172,390,000 ^{note}	Domestic shares
HKSCC Nominees Limited	6,000	219,605,469	13.51	0	0	H shares
GZ SOA Development	0	87,976,539	5.41	87,976,539	0	Domestic shares
GZ Chengfa	0	73,313,783	4.51	73,313,783	0	Domestic shares
China Securities Finance Corporation Limited	17,912,193	54,275,044	3.34	0	0	Domestic shares
Yufeng Investment	0	21,222,410	1.31	21,222,410	21,222,410	Domestic shares
Central Huijin Assets Management Co., Ltd.	0	15,260,700	0.94	0	0	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	0.61	0	0	Domestic shares
Abu Dhabi Investment Authority	9,551,065	9,551,065	0.59	0	0	Domestic shares
China Life Insurance Company Limited – Dividend – Individual dividends-005L-FH002 Hu	5,261,852	6,864,322	0.42	0	0	Domestic shares

Note: the 172,390,000 A shares held by GPHL and which were subject to pledge were released on 27 July 2017 and 28 July 2017 respectively. The relevant release registration has been completed at the Depository Corporation.

Changes in Share Capital and Shareholders

B. INFORMATION ON SHAREHOLDERS *(Continued)*

(B) Shareholdings of the top ten shareholders of the Company as at the end of the Reporting Period are set out as follows: *(Continued)*

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

Shareholders	Number of shares without selling restrictions (share)	Class of shares	Number of shares (share)
GPHL	583,966,636	Domestic shares	732,305,103
HKSCC Nominees Limited	219,605,469	H shares	219,605,469
China Securities Finance Corporation Limited	54,275,044	Domestic shares	54,275,044
Central Huijin Asset Management Co., Ltd.	15,260,700	Domestic shares	15,260,700
The Industrial and Commercial Bank of China Co., Ltd.-Southern Consumption Vitality Flexibly Configured Mixed Initiate Securities Investment Funds	9,945,228	Domestic shares	9,945,228
Abu Dhabi Investment Authority	9,551,065	Domestic shares	9,551,065
China Life Insurance Company Limited – Dividend – Personal dividends-005L-FH002 Hu	6,864,322	Domestic shares	6,864,322
National Social Security Fund 107 combination	6,096,196	Domestic shares	6,096,196
National Social Security Fund 115 combination	5,859,633	Domestic shares	5,859,633
Bank of China Co., Ltd. – Huaxia new economy flexible configuration of mixed-type securities investment fund	4,940,150	Domestic shares	4,940,150

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

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

Changes in Share Capital and Shareholders

B. INFORMATION ON SHAREHOLDERS *(Continued)*

(C) Number of shares held by the top ten shareholders subject to selling restrictions and the selling restrictions

Name of holders whose shares are subject to selling restrictions	Number of shares subject to selling restrictions (share)	Timing at which shares are permitted to trade	Circumstances under which shares subject to selling restrictions can be traded	
			Newly increased number of shares that are permitted to trade (share)	Selling restrictions undertaken
GPHL	148,338,467	17 August 2019	0	Note
GZ SOA Development	87,976,539	17 August 2019	0	Note
GZ Chengfa	73,313,783	17 August 2019	0	Note
Yufeng Investment	21,222,410	17 August 2019	0	Note
Placement Prosperous Age Exclusive Account No.66	3,860,500	17 August 2019	0	Note

Note: the A shares were offered by non-public offering to 5 investors, namely GPHL, Placement Prosperous Age Exclusive Account No.66, GZ SOA Development, GZ Chengfa and Yunfeng Investment. The registration and custody procedures for the newly-issued shares had been completed on 17 August 2016 at the Depository Corporation. The newly-offered shares are shares subject to trading restrictions with a lock-up period of 36 months and can be traded on the SSE on the second trading day following the expiration of the lock-up period.

Changes in Share Capital and Shareholders

B. INFORMATION ON SHAREHOLDERS *(Continued)*

(D) As at 30 June 2017, 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 required to be 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 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	732,305,103	Beneficial owner	52.09	–
GZ SOA Development	Domestic shares	87,976,539	Beneficial owner	6.26	–
GZ Chengfa	Domestic shares	73,313,783	Beneficial owner	5.21	–

As far as the directors of the Company are aware, as at 30 June 2017, other than those listed above, there was no other person or corporation having an interest or short position in the shares and underlying shares of the Company which were required to be notified to the Company and the HKEx pursuant to Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to maintained by the Company under Section 336 of the SFO.

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

D. PUBLIC FLOAT

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

E. 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.

F. 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.

The header features a light blue background with various geometric shapes and icons. On the left, there are two circular icons containing stylized plant or tree symbols. On the right, there is a small illustration of a traditional Chinese figure, possibly a scholar or doctor, sitting at a desk with a globe and books.

Relevant Information on Preferred Shares

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

Directors, Supervisors, Senior Management

A. CHANGES IN SHAREHOLDINGS

(A) As at the end of the Reporting Period, the interest of the directors, supervisors and senior managements in shares (A shares) of the Company were as follows:

Name	Position	Shares held as	Shares held as at	Reason for changes
		at the beginning of the Reporting Period (share)	the end of the Reporting Period (share)	
Li Chuyuan	Chairman	100,000	100,000	/
Chen Mao	Vice Chairman	50,000	50,000	/
Liu Juyan	Executive director	13,000	13,000	/
Cheng Ning	Executive director	21,500	21,500	/
Ni Yidong	Executive director	0	0	/
Wu Changhai	Executive director, standing deputy general manager	13,000	13,000	/
Wang Wenchu	Executive director	10,000	10,000	/
Chu Xiaoping	Independent non-executive director	0	0	/
Jiang Wenqi	Independent non-executive director	0	0	/
Wong Hin Wing	Independent non-executive director	0	0	/
Wang Weihong	Independent non-executive director	0	0	/
Wong Lung Tak Patrick	Independent non-executive director (term of office expired on 23 June 2017 and ceased to be a director thereupon)	0	0	/
Qiu Hongzhong	Independent non-executive director (term of office expired on 23 June 2017 and ceased to be a director thereupon)	0	0	/
Xian Jiaxiong	Chairman of the Supervisory Committee	11,000	11,000	/
Li Jinyun	Supervisor	10,000	10,000	/
Gao Yanzhu	Supervisor	5,000	5,000	/
Wu Yan	Supervisor (term of office expired on 23 June 2017 and ceased to be a supervisor thereupon)	0	0	/
Li Hong	General manager (appointed on 26 June 2017)	10,000	10,000	/
Zhang Chunbo	Deputy general manager	10,000	10,000	/
Huang Xuezhen	Secretary to the Board	2,500	2,500	/
Chen Jing	Secretary to the Board (resigned on 26 April 2017)	75,000	75,000	/

Note: the shares held by the directors, supervisors and senior management as set out in the above are held under the Employee Stock Ownership Scheme.

(B) Information on grant of incentive shares to the directors, supervisors and senior management during the Reporting Period.

Applicable Not applicable

Directors, Supervisors, Senior Management

A. CHANGES IN SHAREHOLDINGS (Continued)

(C) Interests and short positions of the directors, supervisors and senior management, underlying shares and debentures of the Company

- i. As at 30 June 2017, the directors, supervisors, senior management and their associates who had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which were notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which were required, pursuant to the Model Code, to be notified to the Company and the HKEx were as follows:

Director	Capacity	Company	Number of shares (long position) (share)	Percentage of issued A shares (%)
Li Chuyuan	Beneficial Owner	Company (A shares)	100,000	0.0071
Chen Mao	Beneficial Owner	Company (A shares)	50,000	0.0036
Liu Juyan	Beneficial Owner	Company (A shares)	13,000	0.0009
Cheng Ning	Beneficial Owner	Company (A shares)	21,500	0.0015
Wu Changhai	Beneficial Owner	Company (A shares)	13,000	0.0009
Wang Wenchu	Beneficial Owner	Company (A shares)	10,000	0.0007

Supervisors	Capacity	Company	Number of shares (long position) (share)	Percentage of issued A shares (%)
Xian Jiaxiong	Beneficial Owner	Company (A share)	11,000	0.0008
Li Jinyun	Beneficial Owner	Company (A share)	10,000	0.0007
Gao Yanzhu	Beneficial Owner	Company (A share)	5,000	0.0003

Senior management	Capacity	Company	Number of shares (long position) (share)	Percentage of issued A shares (%)
Li Hong	Beneficial Owner	Company (A share)	10,000	0.0007
Zhang Chunbo	Beneficial Owner	Company (A share)	10,000	0.0007
Huang Xuezhen	Beneficial Owner	Company (A share)	2,500	0.0002

Note: the shares held by the directors, supervisors and senior management as set out in the above are held under the Employee Stock Ownership Scheme.

Directors, Supervisors, Senior Management

A. CHANGES IN SHAREHOLDINGS *(Continued)*

(C) Interests and short positions of Directors, supervisors and senior management, underlying shares and debentures of the Company *(Continued)*

- ii. Saved as disclosed above, as at 30 June 2017, none of the directors, supervisors, senior management of the Company 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 its associated corporation (within the meaning of Part XV of the SFO) which were required 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.

B. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE REPORTING PERIOD

- (A) At the 2016 annual general meeting of the Company held on 23 June 2017, Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong, Mr. Wu Changhai and Mr. Wang Wenchu were elected as the executive directors of the seventh session of the Board, and Mr. Chu Xiaoping, Mr. Jiang Wenqi, Mr. Wong Hin Wing and Ms. Wang Weihong were elected as the independent non-executive directors of the seventh session of the Board of the Company. Mr. Xian Jiexiong and Ms. Gao Yanzhu were elected as the supervisors representing the shareholders of the seventh session of the Supervisory Committee, and Ms. Li Jinyun was elected as the supervisor representing the employees of the seventh session of the supervisory Committee at the meeting (enlarged) of the trade union committee of the Company.

The term of office of each director or supervisor of the Company who was elected as mentioned above commenced from the date of their respective appointments up to the date on which members of the new session of the Board and the Supervisor Committee are elected.

Mr. Wong Lung Tak Patrick and Mr. Qiu Hongzhong, formerly the members of the sixth session of the Board, ceased to be the directors of the Company from 23 June 2017. Ms. Wu Yan, formerly a member of the sixth session of the Supervisory Committee, ceased to be a supervisor of the Company from 23 June 2017.

Directors, Supervisors, Senior Management

B. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE REPORTING PERIOD *(Continued)*

- (B) At the first meeting of the seventh session of the Board held on 23 June 2017, Mr. Li Chuyuan was elected as the chairperson of the Company, and Mr. Chen Mao was elected as the vice chairperson of the Company.

At the same meeting, Mr. Li Hong was appointed as the general manager of the Company, Mr. Wu Changhai was appointed as the standing vice general manager of the Company, Mr. Zhang Chunbo was appointed as the vice general manager of the Company and Ms. Huang Xuezhen was appointed as the secretary to the Board.

The term of office for the above persons commenced from the date of their respective appointments up to the date on which the members of new session of the Board are elected.

- (C) At the first meeting of the seventh session of the Supervisory Committee held on 23 June 2017, Mr. Xian Jiexiong was elected as the chairperson of the seventh session of the Supervisory Committee, his term of office commenced from the date of his appointment up to the date on which the members of new session of the Supervisory Committee are elected.

Pursuant to Rule 13.51B(1) of the Listing Rules of HKEx, it is disclosed that after the publication of the annual report of the Company for the year ended on 31 December 2016, Mr. Wang Wenchu, an executive director of the Company, ceased to be a vice general manager of the Company from 23 June 2017.

C. AT THE END OF THE REPORTING PERIOD, THE NUMBER OF EMPLOYEES ON THE PAYROLL REGISTER OF THE GROUP WAS 21,334. THE REMUNERATION OF THE EMPLOYEES HAD NO SIGNIFICANT CHANGE COMPARED WITH THE PREVIOUS REPORTING PERIOD. THE TOTAL SALARY PAYMENT FOR THE FIRST HALF OF 2017 WAS APPROXIMATELY RMB1,041 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 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

Item	Note	30 June 2017 (unaudited)	31 December 2016 (audited)
Current assets			
Cash at bank and on hand	5(1)	11,758,073,861.04	12,821,007,880.23
Financial assets based on fair value to confirm profit or loss	5(2)	4,831,122.13	6,026,123.94
Notes receivable	5(3)	1,939,291,857.86	1,604,767,885.21
Accounts receivable	5(5)	1,182,115,179.32	1,108,363,607.29
Advances to suppliers	5(7)	367,279,773.28	414,073,610.15
Interest receivable		–	–
Dividends receivable	5(4)	49,513,297.59	52,938,523.45
Other receivables	5(6)	222,818,280.99	205,120,876.85
Inventories	5(8)	2,432,199,182.06	2,781,495,711.45
Current portion of non-current assets		–	–
Other current assets	5(9)	2,273,822,294.70	520,191,094.03
Total current assets		20,229,944,848.97	19,513,985,312.60
Non-current assets			
Available-for-sale financial assets	5(10)	328,890,205.37	327,889,324.24
Held-to-maturity investments		–	–
Long-term receivables		–	–
Long-term equity investments	5(11)	2,384,560,951.17	2,290,443,462.70
Investment properties	5(12)	223,147,016.97	228,575,391.31
Fixed assets	5(13)	2,055,595,111.00	2,107,109,957.69
Construction in progress	5(14)	256,925,957.23	255,276,101.16
Construction materials		–	–
Fixed assets pending for disposal		–	–
Intangible assets	5(15)	726,243,212.33	668,305,151.10
Development costs	5(16)	1,700,000.00	3,017,046.84
Goodwill	5(17)	11,499,562.74	11,499,562.74
Long-term prepaid expenses	5(18)	44,990,904.41	37,939,444.42
Deferred tax assets	5(19)	439,615,683.75	417,159,182.77
Other non-current assets	5(20)	–	35,970,282.97
Total non-current assets		6,473,168,604.97	6,383,184,907.94
TOTAL ASSETS		26,703,113,453.94	25,897,170,220.54

CONSOLIDATED BALANCE SHEET

As at 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

Item	Note	30 June 2017 (unaudited)	31 December 2016 (audited)
Current liabilities			
Short-term borrowings	5(22)	10,841,330.22	25,215,424.88
Financial liabilities based on fair value to confirm profit or loss		–	–
Notes payable	5(23)	223,078,749.78	320,811,521.98
Accounts payable	5(24)	2,386,242,882.72	2,267,279,067.87
Advances from customers	5(25)	789,221,034.07	1,552,885,731.40
Employee benefits payable	5(26)	452,351,563.04	546,523,380.87
Taxes payable	5(27)	292,213,746.82	384,192,155.39
Interest payable	5(28)	263,829.48	257,658.10
Dividends payable	5(19)	502,626,786.42	57,301,541.02
Other payables	5(30)	2,818,607,613.98	2,267,981,520.69
Current portion of non-current liabilities	5(31)	32,506,207.76	–
Other current liabilities		–	–
Total current liabilities		7,507,953,744.29	7,422,448,002.20
Non-current liabilities			
Long-term borrowings	5(32)	–	33,502,083.03
Debentures payable		–	–
Long-term payables	5(33)	20,558,783.65	20,558,783.65
Payables for specific projects	5(34)	16,659,375.74	16,842,773.80
Provisions	5(35)	57,275,220.91	61,045,873.15
Deferred income	5(36)	598,040,813.52	612,084,162.58
Deferred tax liabilities	5(19)	90,210,671.97	76,581,360.14
Long-term Employee benefits payable	5(37)	339,036.11	316,733.72
Total non-current liabilities		783,083,901.90	820,931,770.07
Total liabilities		8,291,037,646.19	8,243,379,772.27

CONSOLIDATED BALANCE SHEET

As at 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

Item	Note	30 June 2017 (unaudited)	31 December 2016 (audited)
Shareholders' equity			
Share capital	5(38)	1,625,790,949.00	1,625,790,949.00
Capital surplus	5(39)	9,875,172,584.68	9,875,172,584.68
Less: Treasury share		–	–
Other comprehensive Income	5(40)	8,952,876.05	9,788,066.97
Surplus reserves	5(41)	1,052,034,418.97	1,052,034,418.97
Undistributed profits	5(42)	5,485,212,311.81	4,782,293,720.24
Total equity attributable to shareholders of parent Company		18,047,163,140.51	17,345,079,739.86
Equities of minority shareholders	5(43)	364,912,667.24	308,710,708.41
Total shareholders' equity		18,412,075,807.75	17,653,790,448.27
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		26,703,113,453.94	25,897,170,220.54

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Li Hong

Person in charge of
accounting department:

Yao Zhizhi

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

Item	Note	For the six months ended 30 June 2017 (unaudited)	For the six months ended 30 June 2016 (unaudited)
1. Revenue	5(44)	11,115,338,459.91	10,857,269,320.09
Less: Cost of sales	5(45)	6,955,444,360.97	6,735,239,535.84
Taxes and surcharges	5(44)	117,008,678.16	85,932,181.25
Selling and distribution expenses	5(46)	2,236,809,098.97	2,628,680,980.38
General and administrative expenses	5(47)	709,789,679.18	694,102,526.60
Financial expenses	5(48)	(85,059,169.79)	(29,832,547.34)
Asset impairment losses	5(49)	(1,915,856.60)	1,775,639.95
Add: Profit arising from the changes in fair value	5(50)	(1,195,001.81)	(983,936.93)
Investment income	5(51)	150,934,202.49	145,285,375.91
Including: Share of profit of associates and jointly controlled entities		146,838,206.96	145,271,601.20
Other income	5(52)	29,495,598.22	–
2. Operating profit		1,362,496,467.92	885,672,442.39
Add: Non-operating income	5(53)	72,252,526.12	203,668,662.82
Including: Gains on disposal of non-current assets		10,800.00	313,315.04
Less: Non-operating expenses	5(54)	34,320,902.67	30,205,246.28
Including: Losses on disposal of non-current assets		1,170,321.15	698,504.23
3. Total profit		1,400,428,091.37	1,059,135,858.93
Less: Income tax expenses	5(55)	209,458,422.85	196,007,762.41
4. Net profit		1,190,969,668.52	863,128,096.52
– Attributable to owners of the parent company		1,158,140,057.29	831,806,521.89
– Minority interests		32,829,611.23	31,321,574.63

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

Item	Note	For the six months ended 30 June 2017 (unaudited)	For the six months ended 30 June 2016 (unaudited)
5. Other comprehensive net income after tax	5(40)	(832,843.32)	9,695,211.21
Other comprehensive net income after tax attributable to shareholders' equity of the parent company		(835,190.92)	9,700,086.99
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		-	-
II. Items will be classified into profit or loss when satisfied with certain conditions at following accounting period		(835,190.92)	9,700,086.99
(1). Portion of items will be classified into profit or loss when under equity method		-	76,864.68
(2). Profit or loss arising from changes in fair value of available for sale financial assets		842,720.43	7,360,090.00
(3). Differences arising from translation of foreign currency financial statements		(1,677,911.35)	2,263,132.31
Other comprehensive net income after tax attributable to minority shareholders' equity		2,347.60	(4,875.78)
6. Total comprehensive income		1,190,136,825.20	872,823,307.73
(1) Total comprehensive income attributable to shareholders' equity of parent company		1,157,304,866.37	841,506,608.88
(2) Total comprehensive income attributable to minority shareholders' equity		32,831,958.83	31,316,698.85
7. Earnings per share			
(1) Basic earnings per share	5(56)(a)	0.712	0.644
(2) Diluted earnings per share	5(56)(b)	0.712	0.644

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Li Hong

Person in charge of
accounting department:

Yao Zhizhi

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

Item	Note	For the six months ended 30 June 2017 (unaudited)	For the six months ended 30 June 2016 (unaudited)
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		8,420,269,278.47	8,748,923,614.83
Refund of taxes and surcharges		3,425,619.33	4,036,656.18
Cash received relating to other operating activities	5(57)(a)	285,268,625.48	822,342,867.15
Sub-total of cash inflows		8,708,963,523.28	9,575,303,138.16
Cash paid for goods and services		3,879,767,881.34	4,175,481,534.21
Cash paid to and on behalf of employees		1,667,126,515.75	1,596,366,880.50
Payments of taxes and surcharges		1,124,565,900.94	882,689,124.57
Cash paid relating to other operating activities	5(57)(b)	1,172,504,724.54	1,157,775,010.50
Sub-total of cash outflows		7,843,965,022.57	7,812,312,549.78
Net cash flows from operating activities	5(58)(a)	864,998,500.71	1,762,990,588.38
2. Cash flows from investing activities			
Cash received from disposal of investments		411,300,000.00	64,009,818.38
Net cash received from disposal of subsidiaries		–	–
Cash received from returns on investments		45,750,675.77	13,774.71
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		40,995.97	463,956.70
Cash received relating to other investing activities	5(57)(c)	639,938.98	5,391,663.23
Sub-total of cash inflows		457,731,610.72	69,879,213.02
Cash paid to acquire fixed assets, intangible assets and other long-term assets		60,004,149.64	115,436,346.77
Cash paid to acquire investments		2,264,900,000.00	306,000,000.00
Net cash paid to acquire subsidiaries		–	–
Cash paid relating to other investing activities	5(57)(d)	–	1,990,385.70
Sub-total of cash outflows		2,324,904,149.64	423,426,732.47
Net cash flows from investing activities		(1,867,172,538.92)	(353,547,519.45)

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

Item	Note	For the six months ended 30 June 2017 (unaudited)	For the six months ended 30 June 2016 (unaudited)
3. Cash flows from financing activities			
Cash received from capital contributions		10,320,000.00	100,000.00
Including: Cash received from capital contributions by minority shareholders to subsidiaries		10,320,000.00	100,000.00
Cash received from borrowings		10,791,330.22	224,243,267.41
Cash received relating to other financing activities		–	–
Sub-total of cash inflows		21,111,330.22	224,343,267.41
Cash repayments of borrowings		26,161,300.15	375,739,422.94
Cash payments for interest expenses and distribution of dividends or profits		11,462,634.18	21,642,387.88
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		9,896,220.32	8,931,341.57
Cash payments relating to other financing activities	5(57)(e)	–	248,927.11
Sub-total of cash outflows		37,623,934.33	397,630,737.93
Net cash flows from financing activities		(16,512,604.11)	(173,287,470.52)
4. Effect of foreign exchange rate changes on cash and cash equivalents		789,777.60	(181,407.87)
5. Net increase/(decrease) in cash and cash equivalents	5(58)(a)	(1,017,896,864.72)	1,235,974,190.54
Add: Cash and cash equivalents at beginning of year	5(58)(b)	12,586,469,786.51	3,807,603,553.98
6. Cash and cash equivalents at end of year	5(58)(b)	11,568,572,921.79	5,043,577,744.52

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Li Hong

Person in charge of
accounting department:

Yao Zhizhi

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

Item	Current period												
	Attributable to shareholders of the Company											Total shareholders' equity	
	Other equity instruments				Less: Treasury share	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Minority Shareholders' equity		
Share capital	Preferred shares	Sustainable debts	Others	Capital surplus									
1. Balance at 31 December 2016	1,625,790,949.00	-	-	-	9,875,172,584.68	-	9,788,066.97	-	1,052,034,418.97	-	4,782,293,720.24	308,710,708.41	17,653,790,448.27
Add:													
Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Business combination involving enterprises under common control	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2017	1,625,790,949.00	-	-	-	9,875,172,584.68	-	9,788,066.97	-	1,052,034,418.97	-	4,782,293,720.24	308,710,708.41	17,653,790,448.27
3. Movements for the six months ended 30 June 2017 (less: "-")													
(1) Total comprehensive income	-	-	-	-	-	-	(835,190.92)	-	-	-	702,918,591.57	56,201,958.83	758,285,359.48
(2) Capital contribution and withdrawal by shareholders	-	-	-	-	-	-	-	-	-	-	-	23,370,000.00	23,370,000.00
1. Common stock by shareholders	-	-	-	-	-	-	-	-	-	-	-	23,370,000.00	23,370,000.00
2. Capital contribution by owner of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment charged to equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	-	-	-	(455,221,465.72)	-	-	(455,221,465.72)
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Appropriation to general risk provision	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	(455,221,465.72)	-	-	(455,221,465.72)
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	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Balance at 30 June 2017 (unaudited)	1,625,790,949.00	-	-	-	9,875,172,584.68	-	8,952,876.05	-	1,052,034,418.97	-	5,485,212,311.81	364,912,667.24	18,412,075,807.75

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Li Hong

Person in charge of
accounting department:

Yao Zhizhi

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 2015	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:

Li Hong

Person in charge of
accounting department:

Yao Zhizhi

BALANCE SHEET

As at 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

Item	Note	30 June 2017 (unaudited)	31 December 2016 (audited)
Current assets			
Cash at bank and on hand		6,392,923,011.50	8,358,861,097.11
Financial assets based on fair value to confirm profit or loss		4,831,122.13	6,026,123.94
Notes receivable		824,498,686.78	586,068,682.00
Accounts receivable	18(1)	257,897,046.15	334,495,199.70
Advances to suppliers		9,343,953.24	6,765,642.36
Interest receivable		–	–
Dividends receivable		182,551,192.19	227,303,087.42
Other receivables	18(2)	1,531,713,693.78	1,497,826,949.82
Inventories		391,702,299.95	350,901,854.94
Current portion of non-current assets		–	–
Other current assets		1,500,498,065.65	311,191.58
Total current assets		11,095,959,071.37	11,368,559,828.87
Non-current assets			
Available-for-sale financial assets		325,231,253.51	324,384,253.51
Held-to-maturity investments		–	–
Long-term receivables		–	–
Long-term equity investments	18(3)	5,151,582,424.48	4,150,739,999.55
Investment properties		212,580,707.79	216,673,097.32
Fixed assets		476,003,010.40	492,475,829.83
Construction in progress		21,591,993.24	10,418,008.58
Construction materials		–	–
Fixed assets pending for disposal		–	–
Intangible assets		374,034,986.89	376,892,173.85
Development costs		900,000.00	2,217,046.84
Goodwill		–	–
Long-term prepaid expenses		2,044,960.82	2,303,114.09
Deferred tax assets		58,199,543.56	58,199,543.56
Other non-current assets		–	–
Total non-current assets		6,622,168,880.69	5,634,303,067.13
TOTAL ASSETS		17,718,127,952.06	17,002,862,896.00

BALANCE SHEET

As at 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

Item	Note	30 June 2017 (unaudited)	31 December 2016 (audited)
Current liabilities			
Short-term borrowings		80,000,000.00	184,431,644.92
Financial liabilities based on fair value to confirm profit or loss		–	–
Notes payable		510,609.91	–
Accounts payable		181,714,812.09	189,679,883.62
Advances from customers		40,981,603.74	14,149,991.14
Employee benefits payable		54,713,204.05	55,444,007.49
Taxes payable		79,296,228.17	84,161,748.85
Interest payable		–	–
Dividends payable		455,445,765.19	224,299.47
Other payables		788,959,782.35	597,717,008.34
Current portion of non-current liabilities		–	–
Other current liabilities		–	–
Total current liabilities		1,681,622,005.50	1,125,808,583.83
Non-current liabilities			
Long-term borrowings		–	–
Debentures payable		–	–
Long-term payables		7,802,224.39	7,802,224.39
Payables for specific projects		–	–
Provisions		137,659,237.19	98,550,055.19
Deferred income		98,155,664.68	74,971,856.94
Deferred tax liabilities		4,190,605.02	4,063,555.02
Long-term Employee benefits payable		–	–
Total non-current liabilities		247,807,731.28	185,387,691.54
Total liabilities		1,929,429,736.78	1,311,196,275.37

BALANCE SHEET

As at 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

Item	Note	30 June 2017 (unaudited)	31 December 2016 (audited)
Shareholders' equity			
Share capital		1,625,790,949.00	1,625,790,949.00
Capital surplus		9,820,175,495.89	9,820,175,495.89
Less: Treasury share		–	–
Other comprehensive income		11,907,371.73	11,187,421.73
Surplus reserve		679,425,984.37	679,425,984.37
Undistributed profits		3,651,398,414.29	3,555,086,769.64
Total shareholders' equity		15,788,698,215.28	15,691,666,620.63
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		17,718,127,952.06	17,002,862,896.00

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Li Hong

Person in charge of
accounting department:

Yao Zhizhi

INCOME STATEMENT

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

Item	Note	For the six months ended 30 June 2017 (unaudited)	For the six months ended 30 June 2016 (unaudited)
1. Revenue	18(4)	1,601,680,758.68	1,461,292,268.92
Less: Cost of sales	18(4)	687,595,444.80	677,551,338.65
Taxes and surcharges		24,961,522.32	22,912,202.94
Selling and distribution expenses		271,667,986.88	260,249,540.52
General and administrative expenses		176,683,500.17	195,477,003.66
Financial expenses		(50,923,328.92)	4,427,995.45
Asset impairment losses		(1,551,076.14)	1,550,604.58
Add: Profit arising from changes in fair value		(1,195,001.81)	(983,936.93)
Investment income	18(5)	123,063,272.63	128,942,185.23
Including: Share of profit of associates and jointly controlled entities	18(5)I	122,861,924.93	132,284,947.45
Other income		1,877,535.00	–
2. Operating profit		616,992,515.39	427,081,831.42
Add: Non-operating income		3,824,269.17	12,288,137.46
Including: Gain on disposal of non-current assets		800.00	16,230.48
Less: Non-operating expenses		1,261,477.07	720,220.76
Including: Losses on disposal of non-current assets		754,045.53	6,699.94
3. Total profit		619,555,307.49	438,649,748.12
Less: Income tax expenses		68,022,197.12	43,029,639.29
4. Net Profit		551,533,110.37	395,620,108.83
5. Other comprehensive income		719,950.00	(2,391,535.32)
-Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period		–	–
-Items will be classified into profit or loss when satisfied with certain conditions at following accounting period		719,950.00	(2,391,535.32)
(1).Portion of items will be classified into profit or loss when under equity method		(127,050.00)	76,864.68
(2).Profit or loss arising from changes in fair value of available for sale financial assets		847,000.00	(2,468,400.00)
6. Total comprehensive income		552,253,060.37	393,228,573.51
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:

Li Hong

Person in charge of
accounting department:

Yao Zhizhi

CASH FLOW STATEMENT

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

Item	Note	For the six months ended 30 June 2017 (unaudited)	For the six months ended 30 June 2016 (unaudited)
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		788,108,053.71	893,277,258.88
Refund of taxes and surcharges		-	-
Cash received relating to other operating activities		173,147,674.17	244,803,597.83
Sub-total of cash inflows		961,255,727.88	1,138,080,856.71
Cash paid for goods and services		119,237,054.82	160,044,181.56
Cash paid to and on behalf of employees		206,482,708.19	318,630,590.54
Payments of taxes and surcharges		235,383,316.26	211,966,402.59
Cash paid relating to other operating activities		98,004,824.35	95,861,727.51
Sub-total of cash outflows		659,107,903.62	786,502,902.20
Net cash flows from operating activities	18(6)	302,147,824.26	351,577,954.51
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		262,717,583.87	69,555,661.46
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		900.00	58,800.00
Cash received relating to other investing activities		571,795,206.85	361,812,250.47
Sub-total of cash inflows		834,513,690.72	431,426,711.93
Cash paid to acquire fixed assets, intangible assets and other long-term assets		16,596,750.70	4,098,495.73
Cash paid to acquire investments		2,427,980,500.00	121,500,000.00
Net cash paid to acquire subsidiaries		-	-
Cash paid relating to other investing activities		551,200,000.00	395,554,929.69
Sub-total of cash outflows		2,995,777,250.70	521,153,425.42
Net cash flows from investing activities		(2,161,263,559.98)	(89,726,713.49)

CASH FLOW STATEMENT

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

Item	Note	For the six months ended 30 June 2017 (unaudited)	For the six months ended 30 June 2016 (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
Cash received relating to other financing activities		–	–
Sub-total of cash inflows		–	134,431,644.92
Cash repayments of borrowings		104,431,644.92	80,000,000.00
Cash payments for interest expenses and distribution of dividends or profits		2,992,082.82	1,402,875.01
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		–	–
Cash payments relating to other financing activities		–	9,204,812.06
Sub-total of cash outflows		107,423,727.74	90,607,687.07
Net cash flows from financing activities		(107,423,727.74)	43,823,957.85
4. Effect of foreign exchange rate changes on cash and cash equivalents		9.58	–
5. Net increase/(decrease) in cash and cash equivalents	18(6)	(1,966,539,453.88)	305,675,198.87
Add: Balance of cash and cash equivalents at beginning of year		8,326,923,391.07	960,889,437.00
6. Cash and cash equivalents at end of year		6,360,383,937.19	1,266,564,635.87

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Li Hong

Person in charge of
accounting department:

Yao Zhizhi

STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

Item	Current period										
	Other equity instruments				Capital surplus	Less: Treasury share	Other comprehensive income	Special reserves	Surplus reserve	Undistributed profits	Total shareholders' equity
	Share capital	preferred shares	Sustainable debt	Others							
1. Balance at 31 December 2016	1,625,790,949.00	-	-	-	9,820,175,495.89	-	11,187,421.73	-	679,425,984.37	3,555,086,789.64	15,691,666,620.63
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2017	1,625,790,949.00	-	-	-	9,820,175,495.89	-	11,187,421.73	-	679,425,984.37	3,555,086,789.64	15,691,666,620.63
3. Movements For the six months ended 30 June 2017	-	-	-	-	-	-	719,950.00	-	-	96,311,644.65	97,031,594.65
(1) Total comprehensive income	-	-	-	-	-	-	719,950.00	-	-	551,533,110.37	552,253,060.37
(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	-	-	-	-	-	-	-	-	-	(455,221,465.72)	(455,221,465.72)
Appropriation to surplus reserves	-	-	-	-	-	-	-	-	-	-	-
Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	(455,221,465.72)	(455,221,465.72)
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	-	-	-	-	-	-	-	-	-	-	-
4. Balance at 30 June 2017 (unaudited)	1,625,790,949.00	-	-	-	9,820,175,495.89	-	11,907,371.73	-	679,425,984.37	3,651,398,414.29	15,788,698,215.28

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Li Hong

Person in charge of
accounting department:

Yao Zhizhi

STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 2015	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											
(less: *)	-	-	-	-	-	-	(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	-	-	-	-	-	-	-	-	-	-	-
(6) 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:

Li Hong

Person in charge of
accounting department:

Yao Zhizhi

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 Company has offered non-public A share amounted to 334,711,699 in year 2016, capital stock was increased 334,711,699 shares, and the total capital stock of the Company is 1,625,790,949 shares.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

1 GENERAL INFORMATION *(Continued)*

(1) Summarization of the Company *(Continued)*

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

The Company and its consolidated subsidiaries (together, the “Group”) are principally engaged in the manufacture of (1) Western and Chinese patent drug, chemical raw material medicine, natural medicine, biological medicine, research and development for intermediate product of API, manufacturing and sales. (2) The wholesale, retail, import and export of western pharmaceutical products, CPM and medical apparatus and the wholesale. (3) Research, development, manufacturing and sales of Great Health products. (4) Investment of medical, health management and youth preservation.

The major CPM products of the Group include Xiao Ke Pill (“消渴丸”), Xia Sang Ju (“夏桑菊”), Wu Ji Bai Feng Pill (“烏雞白鳳丸”), Hua Tuo Zai Zao Pill (“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. 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, 2 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 18 August 2017.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

1 GENERAL INFORMATION (Continued)

(2) Scope of consolidated financial statements

As at 30 June 2017, subsidiaries in the scope of consolidated financial statements are as below:

Name of subsidiary	Control
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
Guangzhou Baiyunshan Han Fang Contemporary 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 Wang Lao Ji Great Health Industry Co., Ltd. (WLJ Great Health)	Direct subsidiary
Guangxi Baiyunshan Ying Kang Pharmaceutical Co., Ltd. (Guangxi Ying Kang) (Note 1)	Direct subsidiary
Guangzhou Guang Yao Yi Gan Biological Product Co., Ltd.	Direct subsidiary
Guangzhou Baiyunshan Xing Zhu Pharmaceutical Co., Ltd.(Xing Zhu)	Direct subsidiary
Guangzhou Baiyunshan Medical and Healthcare Industry Investment Co., Ltd. (Baiyunshan Medical and Healthcare Industry Company)	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
Guangzhou WLJ Investment Co., Ltd. (WLJ Investment)	Direct subsidiary
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

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

1 GENERAL INFORMATION (Continued)

(2) Scope of consolidated financial statements (Continued)

Name of subsidiary	Control
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
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 Industry (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
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 Xing Qun Health Technology Co., Ltd.	Indirect subsidiary
Guangzhou Baiyunshan Hospital Co., Ltd. (Guangzhou Baiyunshan Hospital)	Indirect subsidiary
Guangzhou Baiyunshan Jinge Male Health Consulting Co., Ltd.	Indirect subsidiary
Guangzhou Wang Lao Ji Food & Beverage Management Development Co., Ltd.	Indirect subsidiary
Guangzhou Chen Li Ji Great Health Industry Co., Ltd.	Indirect subsidiary
Wang Lao Ji Dazhai Beverages Co., Ltd.	Indirect subsidiary
Guangzhou Wang Lao Ji Dazhai Beverages Co., Ltd.	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 Technological)	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

Note 1: Guangxi Ying Kang Pharmaceutical Co., Ltd. has been renamed to Guangxi Baiyunshan Ying Kang Pharmaceutical Co., Ltd.

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

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 2017 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position AS AT 30 JUNE 2017 and the operating results, cash flows and other information for the six months ended 30 June 2017 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 2017 to 30 June 2017.

(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 FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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

(7) Classification of accounting method and the joint arrangements (Continued)

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.

- (1) The Company's solely-held assets, and the Company's share of any assets held jointly;
- (2) The Company's solely-assumed liabilities, and the Company's share of any liabilities incurred jointly;
- (3) The Company's revenue from the sale of its share of the output arising from the joint operation.
- (4) The Company's share of the revenue from the sale of the output by the joint operation; and
- (5) Its solely-incurred expenses and the Company's share of any expenses incurred jointly.

As at 30 June 2017, 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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

(9) Foreign currency translation (Continued)

(a) Foreign currency transactions (Continued)

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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

(10) Financial Instruments (Continued)

(a) Financial assets (Continued)

(i) Classification (Continued)

- 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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(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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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(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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

(11) Receivables (Continued)

(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).
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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.
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(b) Receivables that are combined into certain groups and subject to provision by groups

Basis for determination of groups is as follow:

Group name	Criteria
Group 1	Except for the accounts receivable and other receivables that are subject to separate provision, the Group determines the ratios of provision for bad debts based on historical loss experience for the groups of receivables with similar credit risk characteristics by aging and taking into consideration of the current circumstances.
Group 2	Receivables with extremely low credit risk based on measurement of historical evidence
Group 3	Other receivables due from related parties
Group 4	Deposits and staff advances

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For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 (Continued)

Method for provision by groups are summarized as followed:

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

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

Ageing	Ratios for provision for bad debts
Within 1 year	1%
1 to 2 years	10%
2 to 3 years	30%
3 to 4 years	50%
4 to 5 years	80%
Over 5 years	100%

- (c) Receivables which are individually insignificant but subject to separate provision

For individually insignificant receivables with specific credit risk characteristics, if there is objective evidence that the receivables are impaired and the provision for bad debts using aging analysis method cannot reflect the actual circumstances, such receivables shall be subject to separate impairment assessment. The impairment loss and the provision for bad debts are determined based on the amount of the present value of the future cash flows expected to be derived from the asset below the carrying amount.

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(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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

(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 realizable value. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

(d) Inventory system

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 Group recognizes non-current assets or disposal groups which meet the following conditions at the same time as assets held for sale:

- (a) The non-current assets or disposal groups must be under the current conditions only according to the usual terms of the sale of such part, then sell immediately;

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(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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

(13) Classified as assets held for sale (Continued)

- (b) The sales of non-current assets and disposal groups has potential to occur within 1 year that the Group has been offered a resolution with an affirmatory purchase commitment for sales plan. If regulation needs to be approved by relevant authoritative organization or regulator, it has approved by relevant authoritative organization or regulator.

(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.

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.

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For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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

(14) Long-term equity investments (Continued)

(b) Initial recognition (Continued)

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

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.

(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.

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For the six months ended 30 June 2017

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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

(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.

(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.

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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)

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".

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.

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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 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.

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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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

(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.

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For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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

(16) Fixed assets (Continued)

(a) Recognition, initial measurement and depreciation method of fixed assets (Continued)

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.

(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%

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For the six months ended 30 June 2017

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

(16) Fixed assets (Continued)

(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.

(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 borrowing during the capitalisation period.

For the general borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average effective interest rate of general borrowings used, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which estimated future cash flows during the period of expected duration or shorter period applied discounted to the initial amount of the borrowings.

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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

(19) Intangible assets (Continued)

(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.

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:

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

(19) Intangible assets (Continued)

(d) Research and development (Continued)

- 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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

(20) Impairment of long-term assets (Continued)

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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

(22) Employee benefits (Continued)

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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)

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.

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 2017, 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 FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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.

(c) Rendering of services

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

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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

(24) Revenue (Continued)

(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.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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

(25) Government grants (Continued)

(b) Accounting treatment

The assets-related government grants shall reduce assets-related book value or shall be recognized as deferred income. For those recognized as deferred income, charged into current gain or loss on stages using reasonable and systemic methods during its assets-related useful lives (government grants related to normal business of the Group shall be charged into other income; those not related to normal business of the Group shall be charged into non-operating income);

The income-related government grants for compensation to the related expenses or loss of the Group at subsequent periods shall be recognized as deferred income and current gain or loss during the recognition of related expenses or loss (government grants related to normal business of the Group shall be charged into other income; those not related to normal business of the Group shall be charged into non-operating income) or shall offset related expenses or loss; those for compensation to the related expenses or loss incurred of the Group shall be recognized as current gain or loss (government grants related to normal business of the Group shall be charged into other income; those not related to normal business of the Group shall be charged into non-operating income) or shall offset related expenses or loss.

The Group dealt with the policy preferential interest subsidy in 2 conditions as follows:

- (1) The Group confirm the borrowings that are actual received as entry value, which were provided by the bank with policy preferential interest rate from government, and calculate relevant borrowing expenses according to principle and policy preferential interest rate.
- (2) The Group offset relevant borrowing expenses by the state interest subsidy that are appropriated.

(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.

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For the six months ended 30 June 2017

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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 FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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.

(28) Changes in significant accounting policies and accounting estimates

(a) Changes in accounting policies

- (i) *Implement Accounting Standards for Enterprises No. 42 – Non-Current Assets Held for Sale, Disposal Groups and Discontinued Operations and Accounting Standards for Enterprises No. 16 – Government Grants*

The Chinese Ministry of Finance issued *Accounting Standards for Enterprises No. 42 – Non-Current Assets Held for Sale, Disposal Groups and Discontinued Operations* in year 2017 and it has been performed since 28 May 2017, the non-current assets held for sale, disposal groups and discontinued operations which existed since implementation date are required to be dealt with prospective application.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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

(28) Changes in significant accounting policies and accounting estimates (Continued)

(a) Changes in accounting policies (Continued)

- (i) *Implement Accounting Standards for Enterprises No. 42 – Non-Current Assets Held for Sale, Disposal Groups and Discontinued Operations and Accounting Standards for Enterprises No. 16 – Government Grants (Continued)*

The Chinese Ministry of Finance revised Accounting Standards for Enterprises No. 16 – Government Grants in year 2017 and it has been performed since 12 June 2017, the government grants which existed since 1 January 2017 are required to be dealt with prospective application; the government grants which existed during the period from 1 January 2017 to implementation date are required to be dealt with this revised accounting standards. The main impact of the Group's implementation of the provisions is as follows:

Content and changes of accounting policies	Vetting process	Affected item and amount
(1) Government grants related to the normal business are measured into other income instead of non-operating Income	Approved by board of directors	Other income: RMB29,495,598.22

- (ii) *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.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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

(30) Other significant accounting policies (Continued)

(a) Segment information (Continued)

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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4 TAXATION

(1) Major turnover tax and tax rate

Taxable item	Type	Tax rate
Sales of goods	VAT	13%, 17%
Income from sales of materials	VAT	17%
Income from rendering of services	VAT	6%
Rental income	VAT	5%, 11%
Income from transferring technology	VAT	3%, 6%
Balance of owner-occupied real estates	Real-estate tax	1.2%
Rental income	Real-estate tax	12%
Income from occupancy expenses of capital	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%

(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 (No.GR201444000631),Jing Xiu Tang(No.GR201444001464),Qi Xing (No. GR201444001047),Chen Li Ji (No. GR201444001125), Tian Xin(No.GR201444000895), Guang Hua(No. GR201544000485). Ming Xing(No. GR201444001349), Guangxi Ying Kang(No. GR201545000083), Wang Lao Ji Great Health(No. GR201644006480).

The certificates of the 8 companies, were issued in 2014 with 3 year's term of validity. Since the certificates have expired in the year of 2016, the 8 companies have applied for renewal. Preferential enterprise income tax rate of 15% is applicable temporarily. Including: the Company, Zhong Yi, Guangzhou Han Fang, Jing Xiu Tang, Qi Xing, Chen Li Ji, Tian Xin, Ming Xing.

In accordance with The Chinese Ministry of Finance Customs Head Office the Notice on Taxation Policy Issues concerning the In-depth Implementation of the Western Development Strategy, Wang Lao Ji Great Health Industry (Ya'an) Co., Ltd. has 15% of tax preference.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	30 June 2017			31 December 2016		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash on hand -						
RMB			1,169,162.20			1,137,275.82
			<u>1,169,162.20</u>			<u>1,137,275.82</u>
Bank deposits						
RMB			11,670,479,582.50			12,678,716,010.18
US Dollars	752,908.80	6.7744	5,100,505.37	1,839,846.62	6.9370	12,763,016.00
HKD	2,458,916.83	0.8679	2,134,143.09	4,567,844.69	0.8945	4,085,982.75
Yen	-	-	-	-	-	-
			<u>11,677,714,230.96</u>			<u>12,695,565,008.93</u>
Other deposits -						
RMB			79,150,640.52			124,268,293.98
HKD	45,888.28	0.8679	39,827.36	41,700.49	0.8945	37,301.50
			<u>79,190,467.88</u>			<u>124,305,595.48</u>
			<u>11,758,073,861.04</u>			<u>12,821,007,880.23</u>
Including: overseas account			<u>7,263,241.28</u>			<u>9,476,334.55</u>

Details of restricted cash are listed as follows:

	30 June 2017	31 December 2016
Cash deposit of notes payable	72,503,571.69	117,152,696.58
Blocked account	116,412,064.48	115,964,284.07
Housing fund	585,303.08	585,303.08
Deposit of letter of guarantee	-	835,809.99
	<u>189,500,939.25</u>	<u>234,538,093.72</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	30 June 2017	31 December 2016
Financial assets held for trading	4,831,122.13	6,026,123.94
Including: Investments in equity instruments	4,831,122.13	6,026,123.94

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 2017	31 December 2016
Bank acceptance notes	1,932,648,133.44	1,584,422,063.73
Commercial acceptance notes	6,643,724.42	20,345,821.48
	1,939,291,857.86	1,604,767,885.21

(b) As at 30 June 2017 and 31 December 2016, there are no notes receivable that are being pledged of the Group.

(c) As at 30 June 2017, 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	1,878,802,680.12	-
Commercial acceptance notes	-	-
	<u>1,878,802,680.12</u>	<u>-</u>
Notes receivable that are not matured at balance sheet date but have been discounted		
Bank acceptance notes	74,446,264.88	-
Commercial acceptance notes	-	-
	<u>74,446,264.88</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Notes receivable (Continued)

(c) As at 30 June 2017, notes receivable that are not matured at balance sheet date but have been discounted or endorsed are summarized as follows: (Continued)

(i) As at 30 June 2017, the bank acceptance notes receivable that are not matured but have been endorsed amounted to RMB1,878,803 thousand (As at 31 December 2016: RMB2,608,336 thousand), the top five of which are summarized as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2016-12-23	2017-07-23	22,003,200.00
Entity 2	2017-06-06	2017-12-06	13,150,000.00
Entity 3	2017-06-27	2018-01-08	11,400,000.00
Entity 4	2017-06-27	2018-01-08	10,000,000.00
Entity 5	2017-06-27	2018-01-08	10,000,000.00

(ii) As at 30 June 2017 and 31 December 2016, there are no commercial acceptance notes that are not matured but have been endorsed of the Group.

(iii) As at 30 June 2017, the bank acceptance notes that are not matured but have been discounted amounted to RMB74,446 thousand (As at 31 December 2016: RMB50,443 thousand), and the top five of which are summarized as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2017-06-22	2017-12-22	10,000,000.00
Entity 2	2017-06-22	2017-12-22	10,000,000.00
Entity 3	2017-01-17	2017-07-17	5,000,000.00
Entity 4	2017-05-26	2017-08-26	5,000,000.00
Entity 5	2017-05-18	2017-08-18	4,072,582.30

(iv) As at 30 June 2017 and 31 December 2016, there are no commercial acceptance notes that are not matured but have been discounted.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Notes receivable (Continued)

(d) As at 30 June 2017 and 31 December 2016, there are no notes receivable that are reclassified to accounts receivable due to inability of the companies of issuance.

(e) As at 30 June 2017, balance of notes receivable will expire before 30 June 2018.

(4) Dividends receivable

Item	31 December 2016	Current increase	Current decrease	30 June 2017
Dividends receivable within 1 year aging	52,938,523.45	51,574,774.14	55,000,000.00	49,513,297.59
Including: Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited (HWBYS)	–	50,000,000.00	50,000,000.00	–
Guangzhou Promise Biological Products Co.,Ltd(Nuo Cheng)	52,938,523.45	–	5,000,000.00	47,938,523.45
Chuang Mei Pharmaceutical Co., Ltd.	–	1,574,774.14	–	1,574,774.14

(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 2017	31 December 2016
Within 1 year	1,060,157,608.11	982,667,101.58
1 to 2 years	37,868,562.99	36,338,691.74
2 to 3 years	139,237,113.99	138,822,487.95
3 to 4 years	1,479,813.64	9,523,619.45
4 to 5 years	2,126,837.04	2,646,065.97
Over 5 years	12,894,301.19	12,868,153.61
	1,253,764,236.96	1,182,866,120.30
Less: provision for bad debts	71,649,057.64	74,502,513.01
	1,182,115,179.32	1,108,363,607.29

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

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

	30 June 2017				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	159,714,533.09	12.74%	45,563,850.41	28.53%	114,150,682.68
Subject to provision by groups:					
Group 1	1,086,744,776.96	86.68%	19,062,127.96	1.75%	1,067,682,649.00
Individually insignificant but subject to separate provision	7,304,926.91	0.58%	7,023,079.27	96.14%	281,847.64
	<u>1,253,764,236.96</u>	<u>100.00%</u>	<u>71,649,057.64</u>	<u>5.71%</u>	<u>1,182,115,179.32</u>

	31 December 2016				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	159,014,881.32	13.44%	46,156,185.58	29.03%	112,858,695.74
Subject to provision by groups:					
Group 1	1,016,239,740.06	85.92%	21,041,676.15	2.07%	995,198,063.91
Individually insignificant but subject to separate provision	7,611,498.92	0.64%	7,304,651.28	95.97%	306,847.64
	<u>1,182,866,120.30</u>	<u>100.00%</u>	<u>74,502,513.01</u>	<u>6.30%</u>	<u>1,108,363,607.29</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

- (c) As at 30 June 2017, 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	56,087,565.40	5,608,756.54	10.00%	Involving litigation, detail refers to Note16 (1)(a)(i).
Customer 2	37,710,221.64	3,771,022.16	10.00%	Involving litigation, detail refers to Note16 (1)(a)(i).
Customer 3	18,697,130.20	4,419,264.36	23.64%	No legal action, there is a possibility that the amount could not be fully recovered.
Customer 4	11,547,785.00	5,773,892.50	50.00%	No legal action, there is a possibility that the amount could not be fully recovered.
Customer 5	10,541,832.00	5,270,916.00	50.00%	Involving litigation, detail refers to Note16 (1)(a)(i).
Customer 6	5,306,097.60	5,306,097.60	100.00%	Litigation is being executed.
Customer 7	5,191,200.00	5,191,200.00	100.00%	Involving litigation, detail refers to Note16 (1)(b)(i).
Customer 8	5,028,313.75	5,028,313.75	100.00%	It is declared bankrupt in accordance with the law, there is low possibility that the amount could be recovered.
Customer 9	4,900,000.00	490,000.00	10.00%	Involving litigation, detail refers to Note16 (1)(a)(i).
Customer 10	3,204,387.50	3,204,387.50	100.00%	That company is difficult to repay, there is a possibility that the amount could not be fully recovered.
Customer 11	1,500,000.00	1,500,000.00	100.00%	Won the lawsuit, there is low possibility that the amount could be recovered.
	<u>159,714,533.09</u>	<u>45,563,850.41</u>	28.53%	

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 2017			31 December 2016		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
Within 1 year	1,051,700,460.89	96.78%	10,510,435.28	969,656,864.13	95.41%	9,692,320.57
1 to 2 years	23,677,742.41	2.18%	2,367,774.26	33,176,752.76	3.26%	3,317,675.32
2 to 3 years	6,311,240.92	0.58%	1,893,372.29	5,235,052.48	0.52%	1,570,515.76
3 to 4 years	1,022,634.94	0.09%	511,317.48	2,744,890.37	0.27%	1,372,445.21
4 to 5 years	1,267,345.77	0.12%	1,013,876.63	1,687,305.18	0.17%	1,349,844.15
Over 5 years	2,765,352.03	0.25%	2,765,352.02	3,738,875.14	0.37%	3,738,875.14
	1,086,744,776.96	100.00%	19,062,127.96	1,016,239,740.06	100.00%	21,041,676.15

- (e) As at 30 June 2017, 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	896,921.60	896,921.60	100.00%	It is expected that the amount could not be recovered.
Customer 2	563,695.28	281,847.64	50.00%	Litigation is being conducted, there is low possibility that the amount could not be recovered
Customer 3	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 4	470,000.00	470,000.00	100.00%	It is expected that the amount could not be recovered.
Customer 5	467,462.40	467,462.40	100.00%	It is expected that the amount could not be recovered.
Customer 6	457,178.70	457,178.70	100.00%	Accessed judicial procedures, there is low possibility that the amount could not be recovered
Others	3,940,779.93	3,940,779.93	100.00%	It is expected that the amount could not be recovered.
	7,304,926.91	7,023,079.27	96.14%	

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

- (f) As at 30 June 2017 and 31 December 2016, there is no material accounts receivable which have past due but not impaired.
- (g) Accounts receivable that are subject to full provision or in large proportion 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	Strengthened the work of accounts receivable, recovered debts.	It is expected that the amount could not be recovered	275,897.12	275,897.12	275,897.12
Customer 2	Strengthened the work of accounts receivable, recovered debts.	It is expected that the amount could not be recovered	62,532.18	62,532.18	62,532.18
Customer 3	Strengthened the work of accounts receivable, recovered debts.	It is expected that the amount could not be recovered	54,930.09	54,930.09	54,930.09
Customer 4	Strengthened the work of accounts receivable, recovered debts.	It is expected that the amount could not be recovered	52,240.00	52,240.00	52,240.00
Customer 5	Strengthened the work of accounts receivable, recovered debts.	It is expected that the amount could not be recovered	51,565.00	51,565.00	51,565.00
Customer 6	Strengthened the work of accounts receivable, recovered debts.	It is expected that the amount could not be recovered	31,197.55	31,197.55	31,197.55
Customer 7	Strengthened the work of accounts receivable, recovered debts.	It is expected that the amount could not be recovered	30,193.88	30,193.88	30,193.88
Customer 8	Strengthened the work of accounts receivable, recovered debts.	It is expected that the amount could not be recovered	29,320.00	29,320.00	29,320.00
Others	Strengthened the work of accounts receivable, recovered debts.	It is expected that the amount could not be recovered	269,753.48	297,920.40	269,753.48
			857,629.30	885,796.22	857,629.30

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

- (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.
- (j) As at 30 June 2017, the top five of accounts receivable are analyzed as follows:

	Relationship with the Company	Carrying amount	Aging	% of total balance	Ending balance of provision for bad debts
Customer 1	Related party	105,514,548.16	Within 1 year, 4-5 years	8.42%	1,443,165.04
Customer 2	Related party	66,041,653.71	Within 1 year, 1-2 years, over 5 years	5.27%	662,941.04
Customer 3 (Note 1)	Third party	56,087,565.40	2-3 years	4.47%	5,608,756.54
Customer 4	Related party	40,149,124.46	Within 1 year, 2-3 years	3.20%	419,110.65
Customer 5 (Note 1)	Third party	37,710,221.64	2-3 years	3.01%	3,771,022.16
		<u>305,503,113.37</u>		<u>24.37%</u>	<u>11,904,995.43</u>

Note1: These 2 customers are 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 2017, there are no securitizations that targeted at accounts receivable.

(6) Other receivables

	30 June 2017	31 December 2016
Petty cash	10,734,527.04	7,951,413.85
Deposits	45,778,050.93	48,183,579.03
Staff advances	30,019,978.36	27,690,804.76
Receivables due from external parties	112,207,089.53	112,537,515.04
Receivables due from related parties (Note 12)	27,734,047.50	19,946,308.42
Tax refund for exports	2,876,155.10	2,342,851.84
Others	19,992,841.72	12,852,371.60
	<u>249,342,690.18</u>	<u>231,504,844.54</u>
Less: provision for bad debts	26,524,409.19	26,383,967.69
	<u>222,818,280.99</u>	<u>205,120,876.85</u>

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

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

	30 June 2017			31 December 2016		
	Carrying amount	% of total balance	Provision for bad debts	Carrying amount	% of total balance	Provision for bad debts
Within 1 year	183,465,348.19	73.59%	6,691,309.18	154,486,665.41	66.74%	6,245,579.28
1 to 2 years	6,668,751.60	2.67%	257,713.45	22,393,557.45	9.67%	1,164,789.92
2 to 3 years	12,669,096.39	5.08%	1,042,280.61	9,268,549.79	4.00%	457,582.17
3 to 4 years	5,295,441.28	2.12%	588,559.66	4,380,060.05	1.89%	580,556.91
4 to 5 years	2,065,161.75	0.83%	579,765.94	2,963,559.72	1.28%	614,506.62
Over 5 years	39,178,890.97	15.71%	17,364,780.35	38,012,452.12	16.42%	17,320,952.79
	249,342,690.18	100.00%	26,524,409.19	231,504,844.54	100.00%	26,383,967.69

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

	30 June 2017				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	24,752,570.61	9.93%	19,014,142.71	76.82%	5,738,427.90
Subject to provision by groups:					
Group 1	14,653,712.47	5.88%	2,894,607.29	19.75%	11,759,105.18
Group 2	91,290,555.28	36.61%	-	-	91,290,555.28
Group 3	27,634,047.50	11.08%	-	-	27,634,047.50
Group 4	86,396,145.13	34.65%	-	-	86,396,145.13
Individually insignificant but subject to separate provision	4,615,659.19	1.85%	4,615,659.19	100.00%	-
	249,342,690.18	100.00%	26,524,409.19	11.40%	222,818,280.99

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

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

	31 December 2016				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	24,752,570.61	10.69%	19,014,142.71	76.82%	5,738,427.90
Subject to provision by groups:					
Group 1	14,941,500.64	6.45%	2,694,165.79	18.03%	12,247,334.85
Group 2	83,363,008.04	36.01%	-	-	83,363,008.04
Group 3	19,946,308.42	8.62%	-	-	19,946,308.42
Group 4	83,825,797.64	36.21%	-	-	83,825,797.64
Individually insignificant but subject to separate provision	4,675,659.19	2.02%	4,675,659.19	100.00%	-
	<u>231,504,844.54</u>	100.00%	<u>26,383,967.69</u>	11.40%	<u>205,120,876.85</u>

(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	6,247,153.26	5,666,575.36	90.71%	It is expected that the amount could not be recovered.
	<u>24,752,570.61</u>	<u>19,014,142.71</u>	76.82%	

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 2017			31 December 2016		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	9,726,987.55	66.38%	97,066.32	9,833,640.18	65.82%	98,336.42
1 to 2 years	310,242.40	2.12%	31,024.25	1,602,102.94	10.72%	160,210.30
2 to 3 years	1,775,125.20	12.11%	532,537.56	634,826.81	4.25%	190,448.04
3 to 4 years	1,166,556.32	7.96%	583,278.16	1,161,613.82	7.77%	580,806.91
4 to 5 years	120,500.00	0.82%	96,400.00	224,763.87	1.50%	179,811.10
Over 5 years	1,554,301.00	10.61%	1,554,301.00	1,484,553.02	9.94%	1,484,553.02
	14,653,712.47	100.00%	2,894,607.29	14,941,500.64	100.00%	2,694,165.79

- (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 receivable 1	85,500.00	85,500.00	100.00%	It is expected that the amount could not be recovered
Other receivable 2	78,580.00	78,580.00	100.00%	It is expected that the amount could not be recovered
Other receivable 3	71,739.00	71,739.00	100.00%	It is expected that the amount could not be recovered
Other receivable 4	65,846.20	65,846.20	100.00%	It is expected that the amount could not be recovered
Other receivable 5	60,080.00	60,080.00	100.00%	It is expected that the amount could not be recovered
Others	4,253,913.99	4,253,913.99	100.00%	It is expected that the amount could not be recovered
	4,615,659.19	4,615,659.19	100.00%	

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

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

Other 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
Other receivable 1	Fully recovered	It is expected that the amount could not be recovered	60,000.00	60,000.00	60,000.00

- (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.
- (i) As at 30 June 2017, 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	Third party	16,829,087.00	Within 1 year, 1-2 years	6.75%	-
Other receivables 2	Related party	15,937,152.46	Within 1 year, 1-2 years, over 5 years	6.39%	-
Other receivables 3	Third party	10,315,700.00	Within 1 year	4.14%	5,157,850.00
Other receivables 4	Third party	9,839,202.00	Within 1 year	3.95%	-
Other receivables 5	Third party	7,852,223.34	Within 1 year	3.15%	-
		<u>60,773,364.80</u>		<u>24.38%</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 2017, there are no securitizations that targeted at other receivables.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 2017		31 December 2016	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	345,690,751.22	94.11%	404,729,338.67	97.74%
1 to 2 years	14,019,323.10	3.82%	4,322,832.06	1.04%
2 to 3 years	4,134,682.12	1.13%	1,969,316.74	0.48%
Over 3 years	3,435,016.84	0.94%	3,052,122.68	0.74%
	367,279,773.28	100.00%	414,073,610.15	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	131,843,392.34	Within 1 year	Normal purchases
Supplier 2	Third party	41,807,307.61	Within 1 year	Normal purchases
Supplier 3	Third party	11,139,046.06	Within 1 year	Normal purchases
Supplier 4	Third party	11,120,516.07	Within 1 year	Normal purchases
Supplier 5	Third party	8,227,253.31	Within 1 year	Normal purchases
		204,137,515.39		

(c) As at 30 June 2017 and 31 December 2016, there is no significant advance to suppliers with aging over one year.

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(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Inventories

(a) Classification of inventories:

	30 June 2017			31 December 2016		
	Ending balance	Provision for declines in value of inventories	Carrying amount	Ending balance	Provision for declines in value of inventories	Carrying amount
Raw materials	691,176,160.37	4,336,475.89	686,839,684.48	617,473,227.23	1,867,600.58	615,605,626.65
Work in progress	120,951,147.53	-	120,951,147.53	145,353,372.23	-	145,353,372.23
Semi-finished goods	163,563,738.43	891,968.80	162,671,769.63	123,806,242.81	891,968.80	122,914,274.01
Finished goods	652,731,857.94	8,853,656.33	643,878,201.61	1,094,080,138.38	15,169,840.97	1,078,910,297.41
Low-value consumables	7,869,410.57	-	7,869,410.57	8,070,757.95	-	8,070,757.95
Packaging materials	113,762,669.32	-	113,762,669.32	112,326,438.56	-	112,326,438.56
Goods In processing contract	5,810,003.01	-	5,810,003.01	15,875,163.96	-	15,875,163.96
Commodity Stocks	700,137,163.58	10,256,228.81	689,880,934.77	691,576,886.45	10,256,228.81	681,320,657.64
Others	535,361.14	-	535,361.14	1,119,123.04	-	1,119,123.04
	2,456,537,511.89	24,338,329.83	2,432,199,182.06	2,809,681,350.61	28,185,639.16	2,781,495,711.45

(b) Provision for declines in the value of inventories

Item	31 December 2016	Current additions	Current reductions			30 June 2017
			Reversal	Write-off	Other reductions	
Raw materials	1,867,600.58	2,468,875.31	-	-	-	4,336,475.89
Work in progress	891,968.80	-	-	-	-	891,968.80
Finished goods	15,169,840.97	1,701,357.62	4,371,196.80	3,646,345.46	-	8,853,656.33
Packaging materials	-	-	-	-	-	-
Commodity stocks	10,256,228.81	-	-	-	-	10,256,228.81
	28,185,639.16	4,170,232.93	4,371,196.80	3,646,345.46	-	24,338,329.83

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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
Finished goods	Carrying amount over net realizable value	Increase in market price	0.67%

(9) Other current assets

	30 June 2017	31 December 2016
Deductible Input VAT	19,799,082.19	9,499,111.01
Provisional Income Tax paid	72,893,851.64	104,647,042.86
Unverified input tax	1,523,735.82	3,397,599.64
Unpaid VAT	–	76,637,211.58
Bank financing products	3,600,000.00	20,000,000.00
Structured deposits	2,140,000,000.00	270,000,000.00
Undisposed assets for whole relocation	35,719,734.27	35,719,734.27
Others	285,890.78	290,394.67
	2,273,822,294.70	520,191,094.03

In accordance with the notice of Haifuzhengfang[2015]No.2, Haizhengbankexiezi [2015] No. 01 and Haizhengbankexiezi [2016]No.1, Guangzhou Qi Xing Pharmaceutical Factory and Qi Xing, 2 subsidiaries of the Company, have stopped production and moved out of the building for whole relocation before September 2015. As the values of the lands and houses, machines and equipment and inventory for compensation shall be evaluated and issued report by evaluation company, as at 30 June 2017, evaluated amount is not yet confirmed, report is not yet issued.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Available-for-sale financial assets

(a) Details are as follows:

Item	30 June 2017			31 December 2016		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Available-for-sale equity instruments						
Including: Measured at fair value	26,933,032.72	-	26,933,032.72	25,932,151.59	-	25,932,151.59
Measured at cost	306,510,723.88	4,553,551.23	301,957,172.65	306,510,723.88	4,553,551.23	301,957,172.65
Total	333,443,756.60	4,553,551.23	328,890,205.37	332,442,875.47	4,553,551.23	327,889,324.24

(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	11,249,958.40
Fair value	26,933,032.72
Accumulated movement of fair value charged as other comprehensive income (written down related deferred income tax liabilities)	13,259,339.49
Accumulated movement of differences arising from foreign translation charged as other comprehensive incomes	-
Accumulated movement of fair value charged as deferred tax liabilities	2,423,734.83
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.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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	Opening amount	Book balance			Ending amount	Opening amount	Provision for impairment			% of Equity interest held	Current cash dividends
		Current increase	Current decrease	Ending amount			Current increase	Current decrease	Ending amount		
Shanghai Jiuhetang 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%	-	
Yi Lin Biological	200,000.00	-	-	200,000.00	-	-	-	-	10.00%	-	
Zhong Yi Fund (Note 2)	50,000,000.00	-	-	50,000,000.00	-	-	-	-	24.75%	-	
Total	306,510,723.88	-	-	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 measured using the cost method.

Note 2: The Company participated in establishing Zhong Yi Funds, which is total amounted to RMB0.60606 billion, the contribution of the Company amounted to RMB150 million, accounting for 24.75%. Yi Lin Biological is general partner, the Company is limited partner. Decision-making body is an investment decision committee, which is consists of 7 members, in accordance with the partnership agreement, there are no person in the committee from the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 2016	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 2017	Provision for impairment	Current provision for impairment
1. Jointly controlled entities											
Guangzhou Pharmaceutical Corporation (GP Corp.)	396,589,139.78	1,269,733,819.29	-	70,140,855.05	-	-	-	-	1,339,874,674.34	-	-
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. ("Wang Lao Ji") (note 1)	102,035,124.44	378,455,100.76	-	5,281,600.35	-	-	-	-	383,736,701.11	-	-
Nuo Cheng	42,000,000.00	81,955,813.17	-	22,858,258.10	-	-	-	-	104,814,071.27	-	-
HWBYS	100,000,000.00	416,467,068.40	-	41,834,438.08	-	-	(50,000,000.00)	-	408,301,506.48	-	-
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. (Baxter Qiaoguang)	37,000,000.00	36,324,856.06	-	(1,251,491.46)	-	-	-	-	35,073,364.60	-	-
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	43,886,532.54	-	7,022,217.71	-	-	-	-	50,908,750.25	-	-
Wei Yi Co., Ltd.	2,020,000.00	1,996,197.47	-	8,492.09	-	-	-	-	2,004,689.56	-	-
Chuangmei Holdings Co., Ltd. ("Chuangmei")	60,823,012.51	61,624,075.01	-	1,629,715.87	-	-	(1,574,774.14)	(1,831,823.18)	59,847,193.56	-	-
Subtotal	791,672,276.73	2,290,443,462.70	-	147,524,085.79	-	-	(51,574,774.14)	(1,831,823.18)	2,384,560,951.17	-	-

Note1: 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 Tongxing Pharmaceutical Co., Ltd. to transfer 48.0465% equity interest in Wang Lao Ji to the Company. Arbitration Committee has accepted it (case No. SHENT2014811). Latest progress of the case refer to Note16 (1)(c)(x). 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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Investment properties

(a) Investment properties measured at cost method:

	Buildings	Land use right	Total
1. Cost			
(1) Opening balance	381,220,482.99	18,344,900.69	399,565,383.68
(2) Current increase	–	–	–
(3) Current decrease	214,384.76	–	214,384.76
(i) Changes of exchange rate	214,384.76	–	214,384.76
(4) Ending balance	381,006,098.23	18,344,900.69	399,350,998.92
2. Accumulated depreciation and amortization			
(1) Opening balance	162,253,496.71	8,736,495.66	170,989,992.37
(2) Current increase	5,171,624.88	127,723.44	5,299,348.32
(i) Provision or amortization	5,171,624.88	127,723.44	5,299,348.32
(3) Current decrease	85,358.74	–	85,358.74
(i) Changes of exchange rate	85,358.74	–	85,358.74
(4) Ending balance	167,339,762.85	8,864,219.10	176,203,981.95
3. Provision for impairment			
(1) Opening balance	–	–	–
(2) Current increase	–	–	–
(3) Current decrease	–	–	–
(4) Ending balance	–	–	–
4. Book value			
(1) Ending book value	213,666,335.38	9,480,681.59	223,147,016.97
(2) Opening book value	218,966,986.28	9,608,405.03	228,575,391.31

(i) Depreciation charges for the six months ended 30 June 2017 amounted to RMB5,172 thousand. (For the six months ended 30 June 2016: RMB5,354 thousand); Amortization charges for the six months ended 30 June 2017 amounted to RMB128 thousand (For the six months ended 30 June 2016: RMB128 thousand).

(ii) As for the six months ended 30 June 2017, the decrease of original cost and accumulated depreciation of the investment properties arising from the fluctuations in exchange rate is RMB214 thousand and RMB85 thousand respectively (as for the six months ended 30 June 2016: decrease RMB136 thousand and RMB51 thousand respectively).

(iii) The land use right among the investment properties is located in Mainland China, and the useful life is 10-50 years.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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	2,052,117,268.17	1,874,196,861.30	87,110,928.57	148,301,346.00	115,775,946.99	42,937,172.64	4,320,439,523.67
(2) Current increase	18,949,621.43	25,974,100.20	1,309,683.86	4,372,127.71	3,692,543.72	277,926.00	54,576,002.92
(i) Purchase	250,000.00	12,237,441.96	399,589.09	3,609,154.27	1,909,912.02	277,926.00	18,684,023.34
(ii) Reclassified from constructions in progress	18,699,621.43	13,736,658.24	910,094.77	762,973.44	1,782,631.70	-	35,891,979.58
(3) Current decrease	378,643.56	40,511,282.34	3,205,373.00	5,756,339.49	1,323,035.95	-	51,174,674.34
(i) Disposal or scrap	142,181.48	40,511,282.34	3,205,373.00	5,756,339.49	1,305,441.28	-	50,920,617.59
(ii) Changes of exchange rate	236,462.08	-	-	-	17,594.67	-	254,056.75
(4) Ending balance	2,070,688,246.04	1,859,659,679.16	85,215,239.43	146,917,134.22	118,145,454.76	43,215,098.64	4,323,840,852.25
2. Accumulated depreciation							
(1) Opening balance	815,072,952.13	1,115,870,840.62	59,983,474.95	96,595,516.78	77,769,522.29	25,810,411.64	2,191,102,718.41
(2) Current increase	29,710,500.22	61,104,471.85	2,316,480.17	4,216,694.18	5,014,568.12	2,124,835.74	104,487,550.28
(i) Provision	29,710,500.22	61,104,471.85	2,316,480.17	4,216,694.18	5,014,568.12	2,124,835.74	104,487,550.28
(3) Current decrease	144,032.61	32,437,299.95	3,093,906.67	5,572,703.20	1,166,910.17	-	42,414,852.60
(i) Disposal or scrap	78,195.10	32,437,299.95	3,093,906.67	5,572,703.20	1,152,521.15	-	42,334,626.07
(ii) Changes of exchange rate	65,837.51	-	-	-	14,389.02	-	80,226.53
(4) Ending balance	844,639,419.74	1,144,538,012.52	59,206,048.45	95,239,507.76	81,617,180.24	27,935,247.38	2,253,175,416.09
3. Provision for impairment							
(1) Opening balance	8,821,420.06	11,608,933.92	158,224.47	1,635,422.74	2,846.38	-	22,226,847.57
(2) Current increase	-	-	-	-	-	-	-
(3) Current decrease	54,218.09	7,102,304.32	-	-	-	-	7,156,522.41
(i) Disposal or scrap	54,218.09	7,102,304.32	-	-	-	-	7,156,522.41
(4) Ending balance	8,767,201.97	4,506,629.60	158,224.47	1,635,422.74	2,846.38	-	15,070,325.16
4. Book value							
(1) Ending book value	1,217,281,624.33	710,615,037.04	25,850,966.51	50,042,203.72	36,525,428.14	15,279,851.26	2,055,595,111.00
(2) Opening book value	1,228,222,895.98	746,717,086.76	26,969,229.15	50,070,406.48	38,003,578.32	17,126,761.00	2,107,109,957.69

(i) As for the six months ended 30 June 2017, the fixed assets transferred from construction in progress amounted to RMB35,892 thousand (For the six months ended 30 June 2016: RMB89,659 thousand).

(ii) As for the six months ended 30 June 2017, the decrease of original cost and accumulated depreciation of fixed assets is due to fluctuations in exchange rate amounted to RMB254 thousand and RMB80 thousand respectively (For the six months ended 30 June 2016: RMB163 thousand and RMB81 thousand respectively).

(iii) Depreciation expenses for the six months ended 30 June 2017 amounted to RMB104,488 thousand in total (For the six months ended 30 June 2016: RMB100,548 thousand), of which RMB68,074 thousand, RMB1,443 thousand and RMB34,971 thousand were charged to cost of sales, selling and distribution expenses and general and administrative expenses, respectively (For the six months ended 30 June 2016: RMB66,907 thousand, RMB1,544 thousand and RMB32,097 thousand respectively).

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Fixed assets and accumulated depreciation (Continued)

(b) As at 30 June 2017, fixed assets are temporarily idle, which are analysed as follows:

	Cost	Accumulated depreciation	Provision for impairment	Carrying amount
Buildings	6,353,833.50	1,576,679.36	4,564,769.37	212,384.77
Machinery	2,136,895.99	1,030,610.15	271,398.17	834,887.67
Electrical equipment	147,897.48	69,184.00	78,713.48	–

(c) As at 30 June 2017, fixed assets which were lack of ownership certificate are summarised as follows:

	Carrying amount	Reason	Estimated date of obtaining the ownership certificate
Buildings	33,110,350.48	Procedures are not completed, certificates are not handled	Uncertain

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

	30 June 2017 Carrying amount	31 December 2016 Carrying amount
Buildings	12,741,741.58	11,292,912.78

(e) As at 30 June 2017, Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, acquired the overdraft amounted to HKD300 thousand, letter of credit and 90 days credit total amounted to HKD100,000 thousand from Bank of China (Hong Kong) Co., Ltd., secured by the original value amounted to HKD8,893 thousand, the net value HKD6,381 thousand of the buildings of fixed assets and the original value amounted to HKD6,843 thousand, the net value amounted to HKD3,819 thousand of investment properties, and the issued undue L/C amounted to USD384 thousand, JPY92,262 thousand.

(14) Construction in progress

	30 June 2017			31 December 2016		
	Book balance	Provision for impairment	Carrying amount	Provision for impairment	Carrying amount	Book balance
Construction in progress	258,047,010.11	1,121,052.88	256,925,957.23	256,397,154.04	1,121,052.88	255,276,101.16

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Construction in progress (Continued)

(a) Movement of construction in progress

	Budget	31 December 2016	Current increase	Current decrease		30 June 2017	Source of funds	% contribution in budget
				Transferred to fixed assets	Other decrease			
3rd GMP construction of modernization of traditional Chinese medicine	82,894,600.00	-	505,660.38	-	-	505,660.38	Self-funded, loan	0.61%
Pill line of water-honeyed pill and piller	3,500,000.00	1,084,000.00	350,000.00	-	-	1,434,000.00	Self-funded	40.97%
HMPL-004 special production line	3,000,000.00	218,363.76	-	-	-	218,363.76	Self-funded	7.28%
Project of rebuilding raw-food materials with characteristic function and product workshop	5,905,000.00	125,833.39	23,584.91	-	-	149,418.30	Self-funded	2.35%
New project of warehouse	17,056,000.00	164,150.94	49,169.38	-	-	213,320.32	Self-funded	1.25%
Project of No.5, No.36 Saiba Rd(iron warehouse)	1,318,365.27	-	712,629.88	-	-	712,629.88	Self-funded	54.05%
Office building	10,000,000.00	313,237.78	810,280.74	1,123,518.52	-	-	Self-funded	11.24%
Decoting center	2,800,000.00	2,187,199.19	-	-	-	2,187,199.19	Self-funded	78.11%
Si Ai Pu	15,000,000.00	4,731,245.97	1,566,782.76	-	-	6,298,028.73	Self-funded	48.20%
Research of Bio Vaccine & Industrialization Platform	29,300,000.00	15,937,838.57	1,737,597.58	16,815,122.98	860,313.17	-	Self-funded	97.90%
Wang Lao Ji Ya'an manufacturing project	298,000,000.00	948,663.89	-	948,663.89	-	-	Self-funded	70.47%
Properties in Nansha district	10,000,000.00	7,476,840.11	237,383.15	-	1,600.00	7,712,623.26	Self-funded	77.14%
Base of Wang lao Ji Great Health Industry (Meizhou) Co., Ltd.	400,000,000.00	17,498,200.32	676,854.67	-	17,498,200.32	676,854.67	Self-funded	4.54%
GMP improvement project of 4 workshops	6,920,000.00	25,014.44	-	-	-	25,014.44	Self-funded	73.74%
Tongtai Building	8,000,000.00	3,516,481.46	421,173.30	-	3,766,624.47	171,030.29	Self-funded	49.22%
Recover Building C	30,000,000.00	764,640.85	1,560,661.57	-	-	2,325,302.42	Self-funded	7.75%
Program of a building with 6 floors	3,500,000.00	3,064,795.73	750,879.16	-	3,261,270.69	554,404.20	Self-funded	108.94%
Tibetan Health Castle Project	45,000,000.00	34,375,364.88	1,739,004.23	-	-	36,114,369.11	Self-funded	80.25%
Chinese medicine treatment before extraction of the modernization of products of stage 1 of GMP improvement	97,564,100.00	1,866,220.53	12,259,933.11	-	-	14,126,153.64	Self-funded	94.95%
Oral cephalosporins workshop GMP improvement	47,800,000.00	478,027.80	2,414,876.57	-	-	2,892,904.37	Self-funded	33.81%
Zhongluotian Wulonggang AB0807098-1 block	159,750,000.00	2,948,549.00	-	-	-	2,948,549.00	Self-funded	16.59%
Li Wan oculentum GMP improvement (2017)	11,600,000.00	-	2,716,485.61	-	-	2,716,485.61	Self-funded	23.42%
Xinshi factory VI improvement	2,800,000.00	-	379,021.40	-	-	379,021.40	Self-funded	13.54%
Tian Xin Wei D 2 Tartaric Acid Inj.	15,000,000.00	200,000.00	-	-	-	200,000.00	Self-funded	1.33%
Tian Xin Powder Injector & Screw Arbor Line	19,800,000.00	600,000.00	-	-	-	600,000.00	Self-funded	8.87%
Technology improvement for penicillin oral solid dosage forms workshop	3,000,000.00	10,387.87	1,484,263.94	-	-	1,494,651.81	Self-funded	49.82%
Productivity improvement for oral solid dosage forms workshop	5,130,000.00	-	371,550.00	-	-	371,550.00	Self-funded	7.24%
Ming Xing equipment improvement	40,000,000.00	621,817.77	2,003,099.88	960,726.24	4,854.37	1,659,337.04	Self-funded	65.21%
Ming Xing Decoration	2,000,000.00	189,611.10	-	-	-	189,611.10	Self-funded	82.69%
Ming Xing relocation improvement	475,620,000.00	81,516,983.64	584,847.08	-	-	82,101,830.72	Self-funded	17.26%
Construction of Guangyao Baiyunshan Chemical Pharmaceutical (Zhuhai) Co., Ltd.	722,689,100.00	-	3,367,526.40	-	-	3,367,526.40	Self-funded	0.47%
Sterile production line	54,000,000.00	40,216,189.51	7,330,788.99	-	3,453,069.20	44,093,909.30	Self-funded	88.05%
Others	904,787,660.41	35,317,495.54	26,985,315.97	16,043,947.95	4,651,602.79	41,607,260.77		
		256,397,154.04	71,039,370.66	35,891,979.58	33,497,535.01	258,047,010.11		

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For the six months ended 30 June 2017

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Construction in progress (Continued)

(b) There are no borrowing costs eligible for capitalization in current period.

(c) Provision for impairment of construction in progress

Name of construction	31 December 2016	Current increase	Current decrease	30 June 2017	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
Base of Wang Lao Ji Great Health (Meizhou) Co., Ltd.	In construction stage
Tibetan Health Castle Project	In construction stage
Ming Xing relocation improvement	In construction stage
Production line of asepsis material	In debugging stage
1st GMP construction of modernization of traditional Chinese medicine	In debugging stage
Base of Wang Lao Ji Great Health (Ya'an) Co., Ltd.	Completed

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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	620,802,632.45	15,801,190.39	28,648,857.20	159,241,280.74	20,010,769.21	844,504,729.99
(2) Current increase	17,498,750.32	160,000.00	36,017,386.85	13,050,000.00	2,409,701.63	69,135,838.80
(i) Purchase	17,498,750.32	160,000.00	36,017,386.85	-	2,092,654.79	55,768,791.96
(ii) Internal research & development	-	-	-	-	317,046.84	317,046.84
(iii) Others	-	-	-	13,050,000.00	-	13,050,000.00
(3) Current decrease	-	-	-	-	116,905.98	116,905.98
(i) Disposal	-	-	-	-	116,905.98	116,905.98
(4) Ending balance	638,301,382.77	15,961,190.39	64,666,244.05	172,291,280.74	22,303,564.86	913,523,662.81
2. Accumulated amortization						
(1) Opening balance	105,117,438.14	8,722,423.87	15,116,448.94	32,595,688.44	13,610,663.46	175,162,662.85
(2) Current increase	7,021,926.99	261,018.86	2,388,928.99	-	1,525,902.73	11,197,777.57
(i) Provision	7,021,926.99	261,018.86	2,388,928.99	-	1,525,902.73	11,197,777.57
(3) Current decrease	-	-	-	-	116,905.98	116,905.98
(i) Disposal	-	-	-	-	116,905.98	116,905.98
(4) Ending balance	112,139,365.13	8,983,442.73	17,505,377.93	32,595,688.44	15,019,660.21	186,243,534.44
3. Provision for impairment						
(1) Opening balance	-	453,343.04	-	583,573.00	-	1,036,916.04
(2) Current increase	-	-	-	-	-	-
(3) Current decrease	-	-	-	-	-	-
(4) Ending balance	-	453,343.04	-	583,573.00	-	1,036,916.04
4. Book value						
(1) Ending book value	526,162,017.64	6,524,404.62	47,160,866.12	139,112,019.30	7,283,904.65	726,243,212.33
(2) Opening book value	515,685,194.31	6,625,423.48	13,532,408.26	126,062,019.30	6,400,105.75	668,305,151.10

At current period, the amortization of intangible assets amounted to RMB11,198 thousand (For the six months ended 30 June 2016: RMB7,865 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.

The recoverable amount of trademarks without useful life is calculated at income method, which is to evaluate the present value of perspective incomes for target trademark assets by appropriate discount rate. Perspective income is calculated with the following formula: Perspective income $R_i = (\text{Charging base of trademark use} \times \text{trademark use rate}) - \text{taxes and surcharges} - \text{business income taxes}$. The key parameter including: (1) Discount rate here is 14%; (2) Rate of increase for sales income is generally 2%, and 10%-15% for a few enterprises; (3) Supernormal profit rate multiplied by trademark contribution rate is trademark use rate, supernormal profit rate is the average of historical data for recent 4 years, trademark contribution rate is calculated by analytic hierarchy process (AHP), and trademark use rate is between 0.62%-1.37% accordingly.

After tests, there are no impairment in the trademarks of Baiyunshan, Dashen product, Xing Qun series, Zhong Yi series, Pan Gao Shou series, Chen Li Ji series, Jing Xiu Tang series, Qi Xing series.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Development costs

	31 December 2016	Current increase		Current transferred-out		30 June 2017
		Internal research expenses	Recognized in current profit or loss	Recognized as intangible assets	Others	
Capitalized expenditures	3,017,046.84	-	-	317,046.84	1,000,000.00	1,700,000.00
Expensed expenditures	-	133,758,130.04	133,758,130.04	-	-	-
	3,017,046.84	133,758,130.04	133,758,130.04	317,046.84	1,000,000.00	1,700,000.00

(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
Guangzhou Baiyunshan Hospital	9,216,610.56	-	-	-	-	9,216,610.56
Total	11,975,319.66	-	-	-	-	11,975,319.66

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(17) Goodwill (Continued)

(b) Provision for impairment of goodwill

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

The Company calculated Guangyao Haima, a subsidiary of the Company, as a group of assets, on the basis of the free net cash flow in certain years calculated by industry qualification, target market, historical financial data, earnings forecast in next 5 years of Guangyao Haima, management of the Company obtained total value of shareholders' equity using the following method: A sum of the value of business assets which calculated at appropriate discount rate, value of surplus assets and value of non-business assets minus interest-bearing debts and non-business liabilities equals total value of shareholders' equity. The discount rate here is 14.37%. After tests, there are no impairments of the goodwill arising from purchasing stock right of Guangyao Haima.

The Company calculated Guangzhou Baiyunshan Hospital, a subsidiary of the Company, as a group of assets, on the basis of the free net cash flow in certain years calculated by industry qualification, target market, historical financial data, earnings forecast in next 5 years of Guangzhou Baiyunshan Hospital, management of the Company obtained total value of shareholders' equity using the following method: A sum of the value of business assets which calculated at appropriate discount rate, value of surplus assets and value of non-business assets minus interest-bearing debts and non-business liabilities equals total value of shareholders' equity. The discount rate here is 12.84%. After tests, there are no impairments of the goodwill arising from purchasing stock right of Guangzhou Baiyunshan Hospital.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(18) Long-term prepaid expenses

	31 December 2016	Current increase	Current amortization	30 June 2017
Building decoration and fixtures	20,489,491.84	10,310,960.37	2,616,749.93	28,183,702.28
GMP improvement fee	2,958,511.59	323,582.16	425,691.02	2,856,402.73
Maintaining and decoration for outer wall of raw-materials warehouse	326,666.75	–	55,999.98	270,666.77
Installation for electric wire of Lishui warehouse	111,055.52	–	–	111,055.52
Authentication of AAALAC	192,068.39	–	22,596.30	169,472.09
Verify project of building ABC (rectify and reform for houses)	5,487,801.19	–	233,239.26	5,254,561.93
Decoration of Tongtai building	3,310,998.28	–	179,805.73	3,131,192.55
Expense for computer system	119,234.80	–	20,440.25	98,794.55
Others	4,943,616.06	800,418.06	828,978.13	4,915,055.99
	<u>37,939,444.42</u>	<u>11,434,960.59</u>	<u>4,383,500.60</u>	<u>44,990,904.41</u>

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

(a) Deferred income tax assets that are not offset

	30 June 2017	31 December 2016
Provision for impairment of construction in progress	168,157.94	168,157.94
Provision for declines in values of inventories	4,567,617.66	4,567,617.66
Provision for bad debts	22,724,888.95	23,202,539.89
Long-term prepaid expenses	–	32,819.69
Provision for impairment of fixed assets	2,871,576.11	2,871,576.11
Difference arising from accounting and tax depreciations of fixed assets	1,968,924.35	1,968,924.35
Provision for impairment of available-for-sale financial assets	472,500.00	587,551.22
Employee benefits payable	18,330,956.48	10,082,002.00
Provisions	14,782,508.28	15,031,508.28
Other payables	304,952,169.11	278,416,886.29
Deferred income	17,949,045.07	17,957,060.69
Deductible tax losses	20,998,684.03	29,471,228.92
Provision for impairment of intangible assets	–	–
Difference arising from accounting and tax amortizations of intangible assets	267,985.07	267,985.07
Elimination of unrealized profits arising from the inter-company transaction	29,238,272.06	31,725,375.71
Others	322,398.64	807,948.95
	<u>439,615,683.75</u>	<u>417,159,182.77</u>

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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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 2017	31 December 2016
Other receivables-rental	496,781.73	496,781.73
Changes in fair value of financial assets held for trading	77,212.30	77,212.30
Changes in fair value of available-for-sale financial assets	2,423,734.83	2,267,921.73
Depreciation balance of fixed assets revaluation	295,074.00	295,074.00
Difference arising from accounting and tax depreciations of fixed assets	127,590.07	127,590.07
Compensation from relocation	51,153,503.01	47,457,299.79
Amortization balance of intangible assets revaluation	1,254,912.00	1,254,912.00
Other receivables-distribution of income	34,289,761.50	24,512,466.00
Others	92,102.53	92,102.53
	90,210,671.97	76,581,360.15

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

	30 June 2017	31 December 2016
Deductible temporary differences	45,652,907.61	45,652,907.61
Deductible tax losses	144,623,112.10	128,623,767.45
	190,276,019.71	174,276,675.06

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

	30 June 2017	31 December 2016
2017	11,271,752.25	11,583,901.80
2018	24,638,012.06	24,726,169.44
2019	25,792,065.32	25,792,065.32
2020	31,102,837.77	31,102,837.77
2021	35,399,376.92	35,418,793.12
2022	16,419,067.79	-
	144,623,112.11	128,623,767.45

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

	30 June 2017	31 December 2016
Provision of impairment of construction in progress	1,121,052.88	1,121,052.88
Provision for declines in values of inventories	23,689,651.32	23,689,651.32
Provision for bad debts	96,762,669.80	100,499,470.33
Long-term prepaid expenses	–	218,797.93
Provision of impairment of fixed assets	18,871,677.90	18,871,677.90
Difference arising from accounting and tax depreciations of fixed assets	11,514,000.38	11,514,000.38
Provision for impairment of Available-for-sale financial assets	3,150,000.00	3,610,204.88
Employee benefits payable	91,678,626.65	58,682,808.73
Other payables	1,144,760,688.92	1,370,684,511.76
Deferred income	116,983,454.02	116,994,141.52
Deductible tax losses	133,570,538.21	190,054,170.81
Elimination of unrealized profits arising from the inter-company transaction	117,702,930.77	128,608,754.50
Provision for impairment of intangible assets	–	–
Difference arising from accounting and tax amortizations of intangible assets	1,589,876.35	1,589,876.35
Provisions	98,550,055.19	100,210,055.19
Others	2,149,324.33	5,386,326.35
	1,862,094,546.72	2,131,735,500.83

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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 2017	31 December 2016
Other receivables-rental	3,311,878.17	3,311,878.17
Changes in fair value of financial assets held for trading	514,748.64	514,748.64
Changes in fair value of available-for-sale financial assets	15,683,074.32	14,350,072.78
Depreciation balance of fixed assets revaluation	1,967,160.00	1,967,160.00
Difference arising from accounting and tax depreciations of fixed assets	850,600.48	850,600.48
Compensation from relocation	302,122,496.03	277,481,141.16
Amortization balance of intangible assets revaluation	8,366,080.00	8,366,080.00
Other receivables-distribution of income	137,159,046.00	98,049,864.00
Others	614,016.87	614,016.87
	470,589,100.51	405,505,562.10

(20) Other non-current assets

	30 June 2017	31 December 2016
Specialized Technologies for medical manufacture	-	35,970,282.97

In current period, the Company has obtained the certificate of Specialized Technologies for medical manufacture and it has been charged into intangible assets.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(21) Provision for impairment of assets

	31 December 2016	Current increase (note)	Other decrease			30 June 2017
			Reversal	Written-off	Other decrease	
Provision for bad debts	100,886,480.70	(797,263.43)	917,629.30	-	998,121.14	98,173,466.83
Provision for declines in value of inventories	28,185,639.16	4,170,232.93	4,371,196.80	3,646,345.46	-	24,338,329.83
Provision for impairment of available for sale financial assets	4,553,551.23	-	-	-	-	4,553,551.23
Provision for impairment of fixed assets	22,226,847.57	-	-	7,156,522.41	-	15,070,325.16
Provision for impairment of construction in progress	1,121,052.88	-	-	-	-	1,121,052.88
Provision for impairment of intangible assets	1,036,916.04	-	-	-	-	1,036,916.04
Provision for impairment of goodwill	475,756.92	-	-	-	-	475,756.92
	<u>158,486,244.50</u>	<u>3,372,969.50</u>	<u>5,288,826.10</u>	<u>10,802,867.87</u>	<u>998,121.14</u>	<u>144,769,398.89</u>

(22) Short-term borrowings

	30 June 2017	31 December 2016
Credit borrowings	50,000.00	50,000.00
Discount of commercial acceptance notes	4,021,554.22	15,000,000.00
Inward documentary bills	6,769,776.00	10,165,424.88
	<u>10,841,330.22</u>	<u>25,215,424.88</u>

- (a) As at 30 June 2017 and 31 December 2016, there are no overdue borrowings.
- (b) As at 30 June 2017, there are no pledged bank borrowings.
- (c) As at 30 June 2017, the weighted average interest rate of short-term borrowings is 2.5257% per annum (As at 31 December 2016: 3.5620% per annum).

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(23) Notes payable

	30 June 2017	31 December 2016
Bank acceptance notes	218,195,424.13	277,890,397.46
Commercial acceptance notes	4,883,325.65	42,921,124.52
	223,078,749.78	320,811,521.98

As at 30 June 2017, notes payable amounted to RMB223,079 thousand were expected to be due within 1 year (As at 31 December 2016: RMB320,812 thousand).

(24) Accounts payable

(a) Details of accounts payable:

	30 June 2017		31 December 2016	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	2,215,617,771.92	92.85%	2,073,358,531.89	91.45%
Over 1 year	170,625,110.80	7.15%	193,920,535.98	8.55%
	2,386,242,882.72	100.00%	2,267,279,067.87	100.00%

(b) As at 30 June 2017, accounts payable that are individually significant aging over 1 year are as below (As at 31 December 2016: RMB102,740 thousand):

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)
	88,421,089.60	

(25) Advances from customers

(a) Details of advances from customers:

	30 June 2017		31 December 2016	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	759,274,773.68	96.21%	1,519,493,443.20	97.85%
Over 1 year	29,946,260.39	3.79%	33,392,288.20	2.15%
	789,221,034.07	100.00%	1,552,885,731.40	100.00%

(b) As at 30 June 2017 and 31 December 2016, there are no advances from customers that are individually significant aging are over 1 year.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(26) Employee benefits payable

	31 December 2016	Current increase	Current decrease	30 June 2017
1. Short-term employee benefits	543,036,794.16	1,439,265,328.31	1,539,352,719.60	442,949,402.87
Wages and salaries, bonuses, allowances and subsidies	517,312,049.34	1,237,777,011.02	1,334,141,911.42	420,947,148.94
Including: Service fee	86,163,929.68	196,725,923.98	204,303,520.22	78,586,333.44
Staff welfare	-	33,783,363.85	33,783,363.85	-
Including: Funds of bonus and welfare of Foreign Invested Enterprises	-	-	-	-
Social insurances	285,454.63	59,937,852.27	59,740,833.34	482,473.56
Including: Medical insurance	291,371.42	52,971,583.62	52,891,369.54	371,585.50
Work injury insurance	1,850.24	2,371,269.56	2,366,839.78	6,280.02
Maternity insurance	(7,767.03)	4,594,999.09	4,482,624.02	104,608.04
Housing funds	217,189.70	73,432,753.31	73,635,274.31	14,668.70
Labor union funds	5,019,977.19	14,881,048.50	16,638,257.69	3,262,768.00
Employee education funds	3,735,346.18	6,152,933.45	5,961,777.68	3,926,501.95
Non-monetary welfare	-	-	-	-
Housing allowance	15,048,942.84	7,779,015.22	9,242,082.50	13,585,875.56
Staff reward and welfare funds	-	-	-	-
Short-term paid absences	-	13,906.87	13,906.87	-
Other short-term benefits	1,417,834.28	5,507,443.82	6,195,311.94	729,966.16
2. Post-employment benefits	3,486,586.71	132,487,069.74	126,571,496.28	9,402,160.17
Defined contribution plans	3,486,586.71	132,487,069.74	126,571,496.28	9,402,160.17
Including: Basic pension insurance	172,245.61	95,303,310.58	95,284,475.29	191,080.90
Unemployment	4,341.10	3,913,099.79	3,911,809.15	5,631.74
Annuity	3,310,000.00	29,528,866.45	23,633,418.92	9,205,447.53
Others	-	3,741,792.92	3,741,792.92	-
Defined benefits plans	-	-	-	-
3. Termination benefits	-	1,202,299.87	1,202,299.87	-
Compensation for lay-off	-	1,202,299.87	1,202,299.87	-
Others	-	-	-	-
4. Other long-term employee benefits	-	-	-	-
Long-term paid absences	-	-	-	-
Long-term disability benefits	-	-	-	-
Long-term profit-sharing scheme	-	-	-	-
Other long-term benefits	-	-	-	-
	546,523,380.87	1,572,954,697.92	1,667,126,515.75	452,351,563.04

As at 30 June 2017, employee benefits payable mainly include the wages, bonus and service fee of June 2017 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 2017.

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For the six months ended 30 June 2017

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(27) Taxes payable

	30 June 2017	31 December 2016
VAT	159,510,903.48	94,792,580.01
Business tax	16,163.34	33,574.53
City maintenance and construction tax	14,018,384.55	6,174,412.56
Education surcharge	6,123,224.45	2,647,120.75
Local education surcharge	4,082,493.45	1,767,074.63
Enterprise income tax	93,684,120.86	267,270,554.20
Individual income tax	4,211,542.26	8,734,156.41
Real-estate tax	6,058,618.16	1,496,755.63
Land use tax	3,408,211.95	113,683.34
Stamp duty	997,019.11	1,161,430.85
Others	103,065.21	812.48
	292,213,746.82	384,192,155.39

(28) Interest payable

Item	30 June 2017	31 December 2016
Interest payable of short-term borrowings	–	–
Interest payable of long-term borrowings	263,829.48	257,658.10
	263,829.48	257,658.10

(29) Dividends payable

Investor	30 June 2017	31 December 2016
Public shares	250,400,291.34	224,254.46
BYS Group	45.01	45.01
Minority shareholders	47,181,021.23	57,077,241.55
State shares	205,045,428.84	–
	502,626,786.42	57,301,541.02

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For the six months ended 30 June 2017

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(30) Other payables

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

	30 June 2017	31 December 2016
Within 1 year	2,624,717,736.78	2,102,824,489.13
Over 1 year	193,889,877.20	165,157,031.56
	2,818,607,613.98	2,267,981,520.69

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

	30 June 2017	31 December 2016
Deposits	130,917,785.19	103,478,187.84
Technology development expenses	2,000,000.00	334,955.10
Rental expenses	1,588,691.32	1,248,612.55
Payables to third parties	142,618,220.94	140,980,833.21
Amount due to employees	7,323,793.44	21,515,364.61
Payables to related parties (Note 12)	67,013,088.72	36,163,673.93
Accruals for purchase of fixed assets	23,860,043.06	21,525,224.68
Sales rebate	933,722,896.09	849,082,213.00
Accrued expenses	1,467,253,722.54	1,063,800,929.12
Others	42,309,372.68	29,851,526.65
	2,818,607,613.98	2,267,981,520.69

(c) Details of accrued expenses:

	30 June 2017	31 December 2016
Rental expenses	6,800,977.75	4,522,268.70
Agent fees	2,088,680.32	701,560.82
Advertising and promotional expenses	485,627,281.15	732,272,953.34
Utilities	8,541,476.49	7,392,034.18
Transportation expenses	125,028,616.74	153,637,191.96
Conference expenses	9,637,593.70	4,832,154.62
Research and development expenses	9,654,654.09	29,014,068.19
Marketing expenses	734,874,104.84	27,936,624.70
Travelling expenses	10,739,047.89	15,104,647.64
Consulting expenses	432,950.00	1,235,000.00
Trademark expenses	3,900,000.00	3,900,000.00
Others	69,928,339.57	83,252,424.97
	1,467,253,722.54	1,063,800,929.12

(d) As at 30 June 2017 and 31 December 2016, significant other payables whose aging are over 1 year mainly include unsettled balance for purchase of fixed assets and intangible assets, and purchase deposit.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(31) Current portion of non-current liabilities

Category of borrowings	30 June 2017	31 December 2016
Long-term borrowings due within 1 year	32,506,207.76	–

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

(32) Long-term borrowings

Category of borrowings	30 June 2017	31 December 2016
Credit borrowings	–	33,502,083.03

(33) Long-term payables

	30 June 2017	31 December 2016
State fund	17,208,759.82	17,208,759.82
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	780,597.36	780,597.36
	20,558,783.65	20,558,783.65

(34) Payables for specific projects

	31 December 2016	Current increase	Current decrease	30 June 2017	Reason
Compensation of relocation due to policies	16,842,773.80	–	183,398.06	16,659,375.74	Compensation of relocation due to policies

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(35) Provisions

	30 June 2017	31 December 2016	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	51,811,520.37	52,344,808.84	Note 1
Unemployed fee for relocation of Qi Xing	4,963,509.35	6,540,873.12	Note 2
Economic compensation for staffs of Jing Xiu Tang	–	1,660,000.00	Note 3
	57,275,220.91	61,045,873.15	

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, 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 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 are estimated consequently.

Note3: In year 2016, the case of economic compensation of Jing Xiu Tang is not yet judged, the economic compensation for staffs of Jing Xiu Tang was estimated amounted to RMB1,660 thousand accordingly. On 27 April 2017, this case has been judged and its details refer to Note16 (1)(c)(vii), Jing Xiu Tang has paid 4 staffs economic compensation in April, 2017.

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For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(36) Deferred income

Item	31 December 2016	Current increase of grants	Current revenue		Current offset to costs	For cooperation	Other movement	30 June 2017	Reason
			from non- operation	Current charge into other income					
Government grants related to assets:	127,075,005.02	1,774,236.53	3,098,851.66	3,424,020.01	-	-	-	122,326,369.88	
Including:									
Technology funds granted by government	74,403,677.31	1,750,136.53	2,742,923.56	2,386,353.56	-	-	-	71,024,536.72	Received appropriation from government
Relocation compensation	1,625,989.81	-	182,822.22	-	-	-	(492,682.55)	950,485.04	Received appropriation from government
Financial discount	1,737,085.35	-	-	35,933.46	-	-	-	1,701,151.89	Received appropriation from government
Special fund of environmental protection	3,227,672.55	-	-	165,819.16	-	-	492,682.55	3,554,535.94	Received appropriation from government
Innovating platform construction	12,746,966.62	-	-	235,730.77	-	-	-	12,511,235.85	Received appropriation from government
Land support fund from government	9,438,741.01	-	-	-	-	-	-	9,438,741.01	Received appropriation from government
Support fund for industrial development	18,000,000.00	-	-	117,390.00	-	-	-	17,882,610.00	Received appropriation from government
Others	5,894,872.37	24,100.00	173,105.88	482,793.06	-	-	-	5,263,073.43	Received appropriation from government
Government grants related to income:	485,009,157.56	80,755,216.53	63,978,352.24	26,071,578.21	-	-	-	475,714,443.64	
Including:									
Technology funds granted by government	65,464,151.84	54,420,694.99	-	22,201,192.08	-	-	-	97,683,654.75	Received appropriation from government
Special fund of technology exports	94,962.06	-	-	-	-	-	-	94,962.06	Received appropriation from government
Medical industrial research project	9,488,092.34	7,283,698.01	-	3,455,151.58	-	-	-	13,316,638.77	Received appropriation from government
Special fund of energy-saving improvement	696,150.00	-	-	6,300.00	-	-	-	689,850.00	Received appropriation from government
Special fund of innovative firms	3,650.68	-	-	2,190.36	-	-	-	1,460.32	Received appropriation from government
Compensation of relocation	407,346,436.46	-	47,978,352.24	-	-	-	-	359,368,084.22	Received appropriation from government
Enterprise development fund	-	16,000,000.00	16,000,000.00	-	-	-	-	-	Received appropriation from government
Others	1,915,714.18	3,050,823.53	-	406,744.19	-	-	-	4,559,793.52	Received appropriation from government
Total	612,084,162.58	82,529,453.06	67,077,203.90	29,495,598.22	-	-	-	598,040,813.52	

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For the six months ended 30 June 2017

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(37) Long-term employee benefits payable

Item	30 June 2017	31 December 2016
Post-employment benefits-Provision for long-term service bonus	339,036.11	316,733.72

(38) Share capital

	31 December 2016		Current increase (+) decrease (-)					30 June 2017	
	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	236,315,006.00	14.54	-	-	-	-	-	236,315,006.00	14.54
Other domestic shares	98,396,693.00	6.05	-	-	-	-	-	98,396,693.00	6.05
Including:									
Domestic non-state-owned legal person shares	-	-	-	-	-	-	-	-	-
Domestic natural person shares	-	-	-	-	-	-	-	-	-
Others	98,396,693.00	6.05	-	-	-	-	-	98,396,693.00	6.05
Foreign shares	-	-	-	-	-	-	-	-	-
Including:									
Foreign legal person shares	-	-	-	-	-	-	-	-	-
Foreign natural person shares	-	-	-	-	-	-	-	-	-
Shares subject to selling restrictions - subtotal	334,711,699.00	20.59	-	-	-	-	-	334,711,699.00	20.59
Shares subject to no selling restrictions:									
RMB ordinary shares	1,071,179,250.00	65.88	-	-	-	-	-	1,071,179,250.00	65.88
Foreign shares listed in the PRC	-	-	-	-	-	-	-	-	-
Foreign shares listed out of the PRC	219,900,000.00	13.53	-	-	-	-	-	219,900,000.00	13.53
Others	-	-	-	-	-	-	-	-	-
Shares subject to no selling restrictions - subtotal	1,291,079,250.00	79.41	-	-	-	-	-	1,291,079,250.00	79.41
Total share capital	1,625,790,949.00	100.00	-	-	-	-	-	1,625,790,949.00	100.00

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(38) Share capital (Continued)

	31 December 2015		Current increase (+) decrease (-)				31 December 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	236,315,006.00	-	-	(34,839,645.00)	201,475,361.00	236,315,006.00	14.54
Other domestic shares	-	-	98,396,693.00	-	-	-	98,396,693.00	98,396,693.00	6.05
Including:									
Domestic non-state-owned legal person shares	-	-	-	-	-	-	-	-	-
Domestic natural person shares	-	-	-	-	-	-	-	-	-
others	-	-	98,396,693.00	-	-	-	98,396,693.00	98,396,693.00	6.05
Foreign shares	-	-	-	-	-	-	-	-	-
Including:									
Foreign legal person shares	-	-	-	-	-	-	-	-	-
Foreign natural person shares	-	-	-	-	-	-	-	-	-
Shares subject to selling restrictions – subtotal	34,839,645.00	2.70	334,711,699.00	-	-	(34,839,645.00)	299,872,054.00	334,711,699.00	20.59
Shares subject to no selling restrictions:									
RMB ordinary shares	1,036,339,605.00	80.27	-	-	-	34,839,645.00	34,839,645.00	1,071,179,250.00	65.88
Foreign shares listed in the PRC	-	-	-	-	-	-	-	-	-
Foreign shares listed out of the PRC	219,900,000.00	17.03	-	-	-	-	-	219,900,000.00	13.53
Others	-	-	-	-	-	-	-	-	-
Shares subject to no selling restrictions – subtotal	1,256,239,605.00	97.30	-	-	-	34,839,645.00	34,839,645.00	1,291,079,250.00	79.41
Total share capital	1,291,079,250.00	100.00	334,711,699.00	-	-	-	334,711,699.00	1,625,790,949.00	100.00

(39) Capital surplus

	31 December 2016	Current increase	Current decrease	30 June 2017
Share premium	9,058,363,544.42	-	-	9,058,363,544.42
Other capital surplus	816,809,040.26	-	-	816,809,040.26
Including: Transfer of capital surplus recognized under the previous accounting system	24,955,836.66	-	-	24,955,836.66
	9,875,172,584.68			9,875,172,584.68
	31 December 2015	Current increase	Current decrease	31 December 2016
Share premium	1,529,628,715.09	7,528,734,829.33	-	9,058,363,544.42
Other capital surplus	816,806,393.55	2,646.71	-	816,809,040.26
Including: Transfer of capital surplus recognized under the previous accounting system	24,955,836.66	-	-	24,955,836.66
	2,346,435,108.64	7,528,737,476.04	-	9,875,172,584.68

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For the six months ended 30 June 2017

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(40) Other comprehensive income

Item	Opening balance	Current Amount					Ending 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.	8,339,885.16	(677,030.22)	-	155,813.10	(835,190.92)	2,347.60	7,504,694.24
Including: Portion of items will be classified into profit or loss when under equity method	196,496.73	-	-	-	-	-	196,496.73
Profit or loss arising from the changes in fair value of available for sale financial assets	12,387,506.92	1,000,881.13	-	155,813.10	842,720.43	2,347.60	13,230,227.35
Differences arising from translation of foreign currency	(4,244,118.49)	(1,677,911.35)	-	-	(1,677,911.35)	-	(5,922,029.84)
Total other comprehensive income	9,788,066.97	(677,030.22)	-	155,813.10	(835,190.92)	2,347.60	8,952,876.05

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(41) Surplus reserve

	31 December 2016	Current increase	Current decrease	30 June 2017
Statutory surplus reserve	933,108,801.48	-	-	933,108,801.48
Discretionary surplus reserve	118,925,617.49	-	-	118,925,617.49
	<u>1,052,034,418.97</u>	<u>-</u>	<u>-</u>	<u>1,052,034,418.97</u>

	31 December 2015	Current increase	Current decrease	31 December 2016
Statutory surplus reserve	811,596,644.87	121,512,156.61	-	933,108,801.48
Discretionary surplus reserve	118,925,617.49	-	-	118,925,617.49
	<u>930,522,262.36</u>	<u>121,512,156.61</u>	<u>-</u>	<u>1,052,034,418.97</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.

(42) Undistributed profits

	The six months ended 30 June 2017	For the six months ended 30 June 2016
Undistributed profits at the beginning of the year (before adjustments)	4,782,293,720.24	3,883,510,490.48
Adjustments of undistributed profits at the beginning of the year (Add: positive; Less: negative)	-	-
Undistributed profits at the beginning of the year (after adjustments)	4,782,293,720.24	3,883,510,490.48
Add: Net profit for current period	1,158,140,057.29	831,806,521.89
Less: Appropriation for surplus reserve	-	-
Less: Distributed dividends	455,221,465.72	-
Less: Others	-	-
Undistributed profits at the end of period	<u>5,485,212,311.81</u>	<u>4,715,317,012.37</u>

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(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(42) Undistributed profits (Continued)

- (a) As at 30 June 2017, surplus reserves of the Company's subsidiaries amounted to RMB592,865 thousand was included in undistributed profits (As at 31 December 2016: RMB592,865 thousand).
- (b) In accordance with the resolution of shareholders meeting of 2016 on 23 June 2017, the Company distributed cash dividends total amounted to RMB455,221 thousand, RMB0.28 per share, which was calculated by issued shares amounted to 1,625,790,949 to all shareholders.

(43) Minority interests

Investee	Investment relationship with the Company	30 June 2017	31 December 2016
Xing Qun	Direct subsidiary	24,563,101.99	22,505,216.93
Guangzhou Chen Li Ji Great Health Industry Co., Ltd.	Indirect subsidiary	4,200,000.00	-
Guangzhou Han Fang	Direct subsidiary	70,491.65	69,558.44
Jing Xiu Tang	Direct subsidiary	18,688,496.42	17,633,764.53
Pan Gao Shou	Direct subsidiary	25,330,448.47	24,683,887.64
Tibet Lin Zhi Guangyao Development Co., Ltd.	Indirect subsidiary	17,510.89	167,591.71
Guangxi Ying Kang	Direct subsidiary	17,355,863.96	16,358,401.99
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd.	Indirect subsidiary	3,970,258.17	3,289,403.54
Guangzhou Guang Yao Yi Gan Biological Product Co., Ltd.	Direct subsidiary	(468,784.68)	278,706.31
Xing Zhu	Direct subsidiary	17,101,190.78	17,860,472.70
Tian Xin	Direct subsidiary	38,981,069.28	34,222,695.43
Guang Hua	Direct subsidiary	25,547,815.94	20,573,323.98
Baiyunshan Pharmaceutical Technology	Direct subsidiary	104,332,885.33	83,570,171.43
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	109,389.22	109,389.22
Wang Lao Ji Dazhai Beverage Co., Ltd.	Indirect subsidiary	15,949,109.82	-
Jingyu Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	2,465,156.33	2,468,409.89
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	2,214,262.32	2,216,957.28
Heilongjiang Sen Gong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	1,454,019.43	1,351,437.12
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	1,871,567.38	1,469,848.81
Zhejiang Guang Kang Hospital Co., Ltd.	Indirect subsidiary	22,666,040.80	20,187,323.86
Guang Hua Health	Indirect subsidiary	487,788.98	236,160.45
Guangzhou Baiyunshan Hospital	Indirect subsidiary	36,801,576.97	37,565,360.55
Guangzhou Wang Lao Ji Food & Beverage Management Development Co., Ltd.	Indirect subsidiary	1,203,407.79	1,892,626.60
		364,912,667.24	308,710,708.41

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(44) Revenue and cost of operation

	For the six months ended 30 June 2017		
	Principal operation	Other operation	Subtotal
Revenue	11,033,455,701.37	81,882,758.54	11,115,338,459.91
Cost of operation	6,935,669,520.85	19,774,840.12	6,955,444,360.97
Gross profit	4,097,786,180.52	62,107,918.42	4,159,894,098.94

	For 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

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

	Revenue of principal operation		Cost of principal operation	
	For the six months ended 30 June 2017	For the six months ended 30 June 2016	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Great Southern TCM	3,982,815,061.64	3,526,248,345.26	2,118,454,388.07	1,926,959,639.65
Great Health	4,999,154,853.29	4,701,483,232.19	2,940,968,465.70	2,404,490,017.46
Great Commerce	2,015,425,114.52	2,535,695,589.52	1,845,026,355.61	2,372,547,294.10
Other	36,060,671.92	16,329,808.27	31,220,311.47	11,932,959.75
	11,033,455,701.37	10,779,756,975.24	6,935,669,520.85	6,715,929,910.96

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(44) 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	
	For the six months ended 30 June 2017	For the six months ended 30 June 2016	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Southern China	6,157,585,574.77	5,690,766,032.32	4,163,939,683.45	3,746,381,801.93
Eastern China	1,907,062,262.70	1,931,021,414.85	1,092,632,566.21	1,134,362,402.56
Northern China	1,191,186,835.43	1,266,962,352.24	658,653,905.09	657,140,863.94
Northeastern China	173,790,755.07	169,925,219.94	99,295,936.47	97,722,019.26
Southwestern China	1,222,052,153.31	1,321,185,868.80	711,741,546.07	856,819,191.68
Northwestern China	374,843,391.18	358,852,476.42	202,791,112.37	185,321,734.98
Other countries	6,934,728.91	41,043,610.67	6,614,771.19	38,181,896.61
	11,033,455,701.37	10,779,756,975.24	6,935,669,520.85	6,715,929,910.96

(c) Top five of the revenue of the Group amounted to RMB1,084,635 thousand in total (For the six months ended 30 June 2016: RMB1,422,220 thousand), which accounts for 9.83% of the total revenue of the Group (For the six months ended 30 June 2016: 13.19%).

	Revenue of the principal operation	Percentage of the total revenue of the principal operation of the Group
Customer 1	351,573,455.77	3.19%
Customer 2	283,652,068.38	2.57%
Customer 3	176,285,051.50	1.60%
Customer 4	152,329,424.92	1.38%
Customer 5	120,794,795.51	1.09%
	1,084,634,796.08	9.83%

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(44) Revenue and cost of operation (Continued)

(d) Revenue from other operation

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Leases of assets	43,014,536.97	39,396,430.60
Sales of materials	1,706,196.59	3,841,266.82
Trademark fee income	8,518,482.44	7,090,421.16
Consulting fee income	850,467.17	1,761,378.96
Medicine slotting fee income	287,387.19	240,422.55
Technology services income	272,508.97	44,009.44
Utilities expense collected on behalf	3,767,256.25	5,009,010.00
Management fee	2,058,136.76	3,277,569.72
Labor income	1,891,554.69	725,206.05
License fee	12,922,988.70	12,761,083.02
Others	6,593,242.81	3,365,546.53
	81,882,758.54	77,512,344.85

(e) Expenses from other operation

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Depreciation of assets leased out	6,962,700.21	10,354,393.13
Cost of materials sold	58,748.70	543,413.82
Service fee for technology	2,358,284.95	-
Utilities expense collected on behalf	5,155,066.40	5,515,202.32
Labor fee	3,268,796.53	725,206.05
Management fee	38,747.18	39,393.42
Others	1,932,496.15	2,132,016.14
	19,774,840.12	19,309,624.88

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(45) Taxes and surcharges

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Business tax	–	3,530,203.84
City maintenance and construction tax	52,171,030.76	45,675,378.07
Education surcharge	22,579,173.57	19,744,739.82
Local education surcharge	15,109,211.76	13,171,834.52
Increment tax on land value	40,864.86	–
Real-estate tax	11,573,573.72	3,784,024.24
Vehicle and vessel use tax	152,961.64	–
Land use tax (fee)	4,529,885.66	–
Stamp duty	10,697,706.78	–
Others	154,269.41	26,000.76
	117,008,678.16	85,932,181.25

Basis of calculation: refer to Note 4

(46) Selling and distribution expenses

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Employee benefit	817,896,993.84	825,761,031.18
Sales service fee	992,768,195.23	504,814,400.23
Transportation expenses	60,247,628.13	74,378,404.00
Office expenses	7,898,305.74	8,005,873.23
Freight and miscellaneous charges	198,972,446.35	219,419,572.51
Rental expenses	11,540,762.75	8,993,565.37
Conference expenses	18,283,088.34	19,452,001.11
Advertising and promotion fees	93,651,305.99	944,330,129.07
Consulting fees	4,156,358.01	2,031,971.54
Depreciation charges	1,442,553.33	1,544,082.61
Others	29,951,461.26	19,949,949.53
	2,236,809,098.97	2,628,680,980.38

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(47) General and administrative expenses

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Employee benefit	346,618,205.10	326,149,543.27
Insurance premium	1,661,706.30	1,412,574.76
Depreciation charges	25,729,078.43	23,944,291.85
Utilities	4,387,092.63	4,165,437.22
Administrative expenses	30,009,479.03	10,633,461.61
Travelling expenses	9,634,039.83	6,689,430.77
Freight and miscellaneous charges	8,056,720.96	7,355,558.89
Repairing expenses	7,522,598.86	6,098,785.17
Rental expenses	17,236,749.47	18,604,801.22
Conference expenses	2,920,651.04	1,741,718.28
Research and development expenses	133,758,130.04	153,049,875.75
Taxation charges	34,403.96	21,561,089.64
Amortization	14,878,627.12	13,270,295.55
Professional service fees	7,806,802.05	5,608,546.65
Including: Audit fees	-	-
Consulting fees	1,809,728.17	2,959,103.86
Trademark License fees	60,630,277.52	57,735,907.05
Others	37,095,388.67	33,122,105.06
	709,789,679.18	694,102,526.60

(48) Financial expenses

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Interest expenses	813,546.77	10,043,303.16
Discount interest expenses of notes	1,186,953.42	2,808,977.48
Interest income	(88,281,084.13)	(44,356,336.09)
Exchange (gains)/losses	(264,675.55)	(550,330.19)
Bank charges	1,136,913.15	1,879,514.50
Cash discounts	228,482.77	50,670.59
other	120,693.78	291,653.21
	(85,059,169.79)	(29,832,547.34)

The interest expenses for the six months ended 30 June 2017 and For the six months ended 30 June 2016 is the last term of interest on borrowings which repayment date within 5 years.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(49) Losses on impairment of assets

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Losses for bad debts	(1,714,892.73)	(1,072,629.58)
Losses for declines in values of inventories	(200,963.87)	2,848,269.53
	<u>(1,915,856.60)</u>	<u>1,775,639.95</u>

(50) Profit arising from changes in fair value

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Gains arising from changes in fair value of listed shares of Zhongzhi	(153,196.50)	(650,362.50)
Gains arising from changes in fair value of listed shares of Harbin Pharmaceutical Group Co., Ltd. held by the Group	(1,041,805.31)	(333,574.43)
	<u>(1,195,001.81)</u>	<u>(983,936.93)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(51) Investment income

(a) Details of investment incomes:

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Investment income from financial assets: Investment income in the period of holding of financial assets based on fair value to confirm profit or loss	201,347.70	–
Investment income in the period of holding of available-for-sale financial assets	17,968.60	13,774.71
Income from wealth finance products and structured deposits interest	3,876,679.23	–
	4,095,995.53	13,774.71
Income from long-term equity investment: Income from long-term equity investment measured by equity method	146,838,206.96	145,271,601.20
	146,838,206.96	145,271,601.20
	150,934,202.49	145,285,375.91

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(52) Other income

Item	Current amount	Prior amount	Related to assets/income
Technology funds granted from government	2,386,353.56	–	Related to assets
Government grants	35,933.46	–	Related to assets
Specific funds of environmental protection	165,819.16	–	Related to assets
Innovating platform construction	235,730.77	–	Related to assets
Enterprise development fund	117,390.00	–	Related to assets
Others	482,793.06	–	Related to assets
Subtotal	3,424,020.01	–	
Technology funds granted by government	22,201,192.08	–	Related to income
Medical industrial research project	3,455,151.58	–	Related to income
Special fund of energy-saving improvement	6,300.00	–	Related to income
Special fund of innovative firms	2,190.36	–	Related to income
Others	406,744.19	–	Related to income
Subtotal	26,071,578.21	–	
Total	29,495,598.22	–	

(53) Non-operating income

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Gains on disposal of non-current assets	10,800.00	313,315.04
Including: Gains on disposal of fixed assets	10,800.00	313,315.04
Gains on disposal of intangible assets	–	–
Government grants	67,077,203.90	188,530,247.36
Penalty income	40,198.15	120,668.08
Sales of scraps	1,793,833.15	2,212,132.13
Waived funds	28,789.82	164,428.08
Compensation for relocation	310,937.41	266,517.77
Indemnity income	815,712.22	6,109,076.27
Expatriates benefits	925,701.89	2,380,285.77
Others	1,249,349.58	3,571,992.32
	72,252,526.12	203,668,662.82

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(53) Non-operating income (Continued)

Details of government grants are as below:

Item	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Government grants related to assets: Including:		
Technology funds granted from government	2,742,923.56	3,801,639.96
Compensation for relocation	182,822.22	182,822.22
Financial discount	–	35,933.46
Specific funds of environmental protection	–	220,579.16
Innovating platform construction	–	1,105,051.02
Government grants for land	–	174,221.64
Others	173,105.88	92,335.08
	3,098,851.66	5,612,582.54
Government grants related to income: Including:		
Technology funds granted from government	–	20,936,482.49
Special funds of technology export	–	–
Special funds for project of medical industrial research	–	3,247,583.00
Special funds of reconstruction for energy saving	–	6,300.00
Special funds of innovating enterprises	–	1,949.88
Compensation of relocation	47,978,352.24	27,629,745.06
Special funds for “Enterprises Development”	16,000,000.00	130,480,000.00
Others	–	615,604.39
	63,978,352.24	182,917,664.82
Total	67,077,203.90	188,530,247.36

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(54) Non-operating expenses

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Losses on disposal of non-current assets	1,170,321.15	698,504.23
Including: Losses on disposal of fixed assets	1,170,321.15	698,504.23
Public welfare donations	3,238,170.53	1,085,216.88
Losses on relocation	23,336,997.41	27,629,745.06
Penalty and overdue fines	5,703,024.66	267,143.39
Reward of family planning	16,000.00	–
Other	856,388.92	524,636.72
	34,320,902.67	30,205,246.28

(55) Income tax expenses

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Current income tax	218,441,425.10	223,515,051.50
Deferred income tax	(8,983,002.25)	(27,507,289.09)
	209,458,422.85	196,007,762.41

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(55) 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:

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Total profit	1,400,428,091.37	1,059,135,858.93
Income tax expenses calculated at 25%	350,107,022.84	264,783,964.73
Tax effect of different rates applicable to subsidiaries	(119,441,088.67)	(54,033,382.75)
Adjust effect for income tax of previous period	(3,408,680.42)	(424,602.52)
Gain or loss belong to associates & joint venture	(24,412,756.39)	(22,610,061.00)
Non-taxable revenue	(332,243.91)	(202,154.14)
Expenses not deductible for tax purposes	2,946,333.23	5,516,803.95
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	4,104,766.95	3,035,942.08
Tax effect of unrecognized deferred income tax assets	(104,930.78)	(58,747.94)
Income tax expenses	209,458,422.85	196,007,762.41

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(56) 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:

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Consolidated net profit attributable to ordinary shareholders of the Company	1,158,140,057.29	831,806,521.89
Weighted average number of ordinary shares outstanding:	1,625,790,949	1,291,079,250
Weighted average basic earnings per share	0.712	0.644

(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:

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Consolidated net profit attributable to ordinary shareholders of the Company	1,158,140,057.29	831,806,521.89
Number of ordinary shares outstanding:	1,625,790,949	1,291,079,250
Overall diluted basic earnings per share	0.712	0.644

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(56) Earnings per share (Continued)

(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 2017, there were no potential ordinary shares (For the six months ended 30 June 2016: nil), diluted earnings per share is equal to basic earnings per share.

(57) Notes to the cash flow statement

(a) Cash received relating to other operating activities:

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Non-operating income	5,135,732.40	14,654,070.89
Other operation income	81,882,758.54	77,512,344.85
Government grants	82,529,453.06	684,751,336.59
Interest income	88,281,084.13	44,356,336.09
Received guarantee and others	27,439,597.35	1,068,778.73
	285,268,625.48	822,342,867.15

(b) Cash paid relating to other operating activities:

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Cash payments of selling and distribution expenses	865,815,939.41	920,404,516.82
Cash payments of general and administrative expenses	244,946,756.66	218,069,917.05
Financial expenses – bank charges	1,136,913.15	1,879,514.50
Others	60,605,115.32	17,421,062.13
	1,172,504,724.54	1,157,775,010.50

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(c) Cash received relating to other investing activities:

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Net cash received from acquire subsidiaries	–	5,391,663.23
Interest return	19,976.53	–
Interest received from internal borrowings	619,962.45	–
	639,938.98	5,391,663.23

(d) Cash paid relating to other investing activities:

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Business tax and surcharge for payment of entrusted loans and interests of internal borrowings	–	1,990,385.70
	–	1,990,385.70

(e) Cash paid relating to other financing activities:

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Withholding tax paid for overseas financing	–	248,927.11
	–	248,927.11

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(58) Supplementary information of cash flow statements

(a) Supplementary information of cash flow statements

(i) Reconciliation of net profit to cash flow operating activities

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Net profit	1,190,969,668.52	863,128,096.52
Add: Provision for assets impairment	(1,915,856.60)	1,775,639.95
Depreciation of fixed assets, and depreciation and amortization of Investment properties	109,786,898.60	106,029,314.70
Amortization of intangible assets	11,197,777.57	7,865,063.62
Amortization of long-term prepaid expenses	4,383,500.60	5,087,975.26
Loss (less: gain) on disposal of fixed assets, intangible assets and other long-term assets	1,159,521.15	385,189.19
Loss on scrapping of fixed assets	-	-
Loss (less: gain) on changes in fair value	1,195,001.81	983,936.93
Financial expenses (less: increase)	1,439,205.36	13,084,359.10
Investment gain (less: increase)	(150,934,202.49)	(145,285,375.91)
Decrease (less: increase) in deferred tax assets	(22,456,500.98)	(34,175,186.58)
Increase (less: decrease) in deferred tax liabilities	13,473,498.73	6,667,897.49
Decrease in inventories (less: increase)	349,497,493.26	297,009,065.21
Decrease of operating receivables (less: increase)	(375,984,319.60)	(641,137,925.43)
Increase of operating payables (less: decrease)	(266,813,185.22)	1,281,572,538.33
Others	-	-
Net cash flows from operating activities	864,998,500.71	1,762,990,588.38

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(58) 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:*

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
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*

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Cash at the end of period	11,568,572,921.79	5,043,577,744.52
Less: Cash at the beginning of year	12,586,469,786.51	3,807,603,553.98
Add: Cash equivalents at end of the period	–	–
Less: Cash equivalents at beginning of the year	–	–
Net movement in cash and cash equivalents	(1,017,896,864.72)	1,235,974,190.54

The cash and cash equivalents do not include housing fund amounted to RMB585 thousand, guarantee of notes payable amounted to RMB72,504 thousand, frozen account amounted to RMB116,412 thousand.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(b) Details of cash and cash equivalents:

	30 June 2017	31 December 2016
Cash	11,568,572,921.79	12,586,469,786.51
Including: Cash on hand	1,169,162.20	1,137,275.82
Bank deposits that are readily available for payment	11,561,302,166.48	12,579,600,724.86
Other cash that are readily available for payment	6,101,593.11	5,731,785.83
Cash equivalents	–	–
Total cash and cash equivalent	11,568,572,921.79	12,586,469,786.51
Including: Cash and cash equivalents that are restricted	–	–
	30 June 2017	31 December 2016
Balance of cash at bank and on hand	11,758,073,861.04	12,821,007,880.23
Less: Balance of cash at bank and on hand that are restricted to use	189,500,939.25	234,538,093.72
Balance of cash and cash equivalents	11,568,572,921.79	12,586,469,786.51

(59) Assets that restricted for ownership or use right

	30 June 2017	31 December 2016
Cash at bank and on hand	189,500,939.25	234,538,093.72

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(60) Monetary items denominated in foreign currency

(a) Monetary items denominated in foreign currency

	Ending balance	exchange rate	Converted to RMB
Cash at bank and on hand			7,274,475.82
Including: USD	752,908.80	6.7744	5,100,505.37
HKD	2,504,805.11	0.86792	2,173,970.45
Other receivable			601,979.08
Including: HKD	693,588.21	0.86792	601,979.08
Accounts receivable			25,136,581.71
Including: USD	2,958,702.62	6.7744	20,043,435.03
HKD	5,868,221.36	0.86792	5,093,146.68
Advances to suppliers			46,626.36
Including: HKD	53,721.96	0.86792	46,626.36
Other payable			3,144,977.22
Including: HKD	3,623,579.62	0.86792	3,144,977.22
Accounts payable			20,178,722.54
Including: USD	2,035,991.57	6.7744	13,792,621.29
HKD	1,419,599.43	0.86792	1,232,098.73
JPY	85,211,251.00	0.060485	5,154,002.52
Advances from customers			157,715.18
Including: USD	16,408.99	6.7744	111,161.06
HKD	53,638.72	0.86792	46,554.12
Short-term borrowings			6,769,776.00
Including: USD	999,317.43	6.7744	6,769,776.00
Non-current liabilities due within 1 year			32,506,207.76
Including: HKD	37,453,000.00	0.86792	32,506,207.76

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

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

6 CHANGES IN SCOPE OF CONSOLIDATION

(1) Changes in scope of consolidation arising from other reasons

The reasons for the addition of 3 companies in scope of consolidation comparing to the previous period are:

- (a) Chen Li Ji, a subsidiary of the Company, Guangdong Ju Xiang Zhai Great Health Industry Holdings Co., Ltd. and Guangzhou Pu Sheng Da Zheng Pharmaceutical Co., Ltd. established Guangzhou Chen Li Ji Great Health Industry Co., Ltd. in January 2017, capital contribution of Chen Li Ji accounts for 44% of registered capital amounted to RMB15 million. Guangzhou Chen Li Ji Great Health Industry Co., Ltd. is in the scope of consolidation as Chen Li Ji has the control right to it.
- (b) The 2 subsidiaries of the Company including WLJ Great Health and WLJ Investment, established Wang Lao Ji Dazhai Beverages Co., Ltd. with Shanxi Dazhai Beverages Co., Ltd. in January 2017, capital contribution of WLJ Great Health accounts for 40% of registered capital amounted to RMB50 million, capital contribution of WLJ Investment accounts for 20% of registered capital.
- (c) Wang Lao Ji Dazhai Beverages Co., Ltd., a subsidiary of the Company, established Guangzhou Wang Lao Ji Dazhai Beverages Co., Ltd. in February 2017, capital contribution of Wang Lao Ji Dazhai Beverages Co., Ltd. accounts for 100% of registered capital amounted to RMB35 million.

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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 capital		% equity interest held		% voting rights held		Acquisition method
				('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
Guangzhou Han Fang (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	3,220.00		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
WJ Great Health	Guangzhou	Guangzhou	Food manufacturing	90,000.00		100.00		100.00		Establishment or Investment
Guangzhou Guang Yao Yi Gan Biological Product Co.,Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	2,950.00		60.00		60.00		Establishment or Investment
Xing Zhu	Guangzhou	Guangzhou	Pharmaceutical manufacturing	10,919.00		75.00		75.00		Establishment or Investment
Baiyunshan Medical and Healthcare Industry Company	Guangzhou	Guangzhou	Commercial services	10,650.00		100.00		100.00		Establishment or Investment
Guangzhou Baiyunshan Chemical Medicine Technology Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	6,347.00		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	Direct	Indirect	Direct	Indirect	
				('0000)					
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd	Guangzhou	Guangzhou	Pharmaceutical trading	1,000.00	100.00		100.00		Establishment or Investment
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)	Linzi	Linzi	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.	Linzi	Linzi	Pharmaceutical trading	200.00		60.00		60.00	Establishment or Investment
Jingyuan Dong E Guangyao Chinese Raw Medicine Development Co., Ltd (1)	Jingyu	Jingyu	Pharmaceutical trading	300.00		57.50		60.00	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	
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 Industry(Ya'an) Co., Ltd.	Yaan	Yaan	Pharmaceutical manufacturing	5,000.00		100.00	100.00		Establishment or Investment
Guang Hua Health(1)	Guangzhou	Guangzhou	Pharmaceutical manufacturing	1,000.00		63.36	75.00		Establishment or Investment
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	Food manufacturing	1,000.00		100.00	100.00		Establishment or Investment
Guangzhou Wang Lao Ji Industry Co., Ltd.	Guangzhou	Guangzhou	Food 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	Food manufacturing	5,000.00		100.00	100.00		Establishment or Investment
Guangzhou Baiyunshan Xingqun Health Technology Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	300.00		100.00	100.00		Establishment or Investment
WLJ Investment	Guangzhou	Guangzhou	Commercial services	2,000.00	100.00		100.00		Establishment or Investment
Guangzhou Wang Lao Ji Food & Beverage Management Development Co., Ltd.	Guangzhou	Guangzhou	Commercial services	2,000.00		80.00	80.00		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)					
Guangzhou Baiyunshan Jingde Male Health Consulting Co., Ltd.	Guangzhou	Guangzhou	Consulting	100.00		100.00	100.00		Establishment or Investment
Guangzhou Chen Lijie Great Health Industry Co., Ltd.(2)	Guangzhou	Guangzhou	Pharmaceutical manufacturing	1,500.00		44.00	44.00		Establishment or Investment
Wang Laoji Dazhai Beverages Co., Ltd.	Yangquan	Yangquan	Food manufacturing	5,000.00		60.00	60.00		Establishment or Investment
Guangzhou Wang Laoji Dazhai Beverages Co., Ltd.	Guangzhou	Guangzhou	Food manufacturing	3,500.00		60.00	60.00		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	10,929.05		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
Pharmaceutical Technological	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

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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 capital ('0000)	% equity interest held		% voting rights held		Acquisition method
					Direct	Indirect	Direct	Indirect	
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	
Guangzhou Baiyunshan Hospital	Guangzhou	Guangzhou	Medical	4,081.60		51.00	51.00	Business combinations involving entities not under common control	

Note 1: The reason of difference between ratio of equity interest held and ratio of voting rights held of these 6 companies is that the Company indirectly holds these 6 companies through subsidiaries which are not wholly-owned by the Company, making the ratio of equity interest held lower than ratio of voting rights held.

Note 2: Reasons for the Group that controlling this company with less than half voting rights held is that the Group decides its financial and operating policies and profit from its operating activities.

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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	2,271,800,317.80	2,182,936,657.68
Calculated by rate of interests held:		
– Net profit	135,682,107.17	141,674,036.06
– Other comprehensive income	196,496.74	–
– Total comprehensive income	135,878,603.90	141,674,036.06
Associates:		
Total carrying amount of investments	112,760,633.37	107,506,805.02
Calculated by rate of interests held:		
– Net profit	10,027,838.21	3,061,106.99
– Other comprehensive income	–	76,864.68
– Total comprehensive income	10,027,838.21	3,137,971.68

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.

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8 FINANCIAL INSTRUMENT AND RISK (Continued)

(1) Market risk (Continued)

(a) Foreign exchange risk (Continued)

As at 30 June 2017 and 31 December 2016, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarized as follows:

	30 June 2017					Total
	USD	HKD	EUR	JPY	GBP	
Financial assets denominated in foreign currency –						
Cash at bank and on hand	5,100,505.37	2,173,970.45	-	-	-	7,274,475.82
Accounts receivable	20,043,435.03	5,093,146.68	-	-	-	25,136,581.71
Advances to suppliers	-	46,626.36	-	-	-	46,626.36
Other receivables	-	601,979.08	-	-	-	601,979.08
	<u>25,143,940.40</u>	<u>7,915,722.57</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,059,662.97</u>
Financial liabilities denominated in foreign currency –						
Short-term borrowings	6,769,776.00	-	-	-	-	6,769,776.00
Accounts payable	13,792,621.29	1,232,098.73	-	5,154,002.52	-	20,178,722.54
Advances from customers	111,161.06	46,554.12	-	-	-	157,715.18
Other payable	-	3,144,977.22	-	-	-	3,144,977.22
Current portion of non-current liabilities	-	32,506,207.76	-	-	-	32,506,207.76
	<u>20,673,558.35</u>	<u>36,929,837.83</u>	<u>-</u>	<u>5,154,002.52</u>	<u>-</u>	<u>62,757,398.70</u>

NOTES TO THE FINANCIAL STATEMENTS

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8 FINANCIAL INSTRUMENT AND RISK (Continued)

(1) Market risk (Continued)

(a) Foreign exchange risk (Continued)

	31 December 2016					Total
	USD	HKD	EUR	JPY	GBP	
Financial assets denominated in foreign currency –						
Cash at bank and on hand	12,763,016.00	4,123,284.25	-	-	-	16,886,300.25
Accounts receivable	18,821,429.55	2,309,401.74	-	-	-	21,130,831.29
Other receivables	-	513,887.24	-	-	-	513,887.24
	<u>31,584,445.55</u>	<u>6,946,573.23</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,531,018.78</u>
Financial liabilities denominated in foreign currency –						
Short-term borrowings	10,165,424.88	-	-	-	-	10,165,424.88
Accounts payables	1,785,611.54	1,752,658.40	-	-	-	3,538,269.94
Advances from customers	24,229.21	140.32	-	-	-	24,369.53
Other payables	-	92,204.47	-	-	-	92,204.47
Long-term borrowings	-	33,502,083.03	-	-	-	33,502,083.03
	<u>11,975,265.63</u>	<u>35,347,086.22</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,322,351.85</u>

As at 30 June 2017, 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 higher/lower approximately RMB2,227 thousand (As at 31 December 2016: approximately RMB659 thousand).

(b) Interest rate risk

As at 30 June 2017, long-term interest bearing borrowings of the Group amounted to RMB0 thousand, if annual interest rate declined 50 basic point with all other variables held constant, the Group's net profit would increase RMB0 thousand (As at 31 December 2016: RMB1,184 thousand).

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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 2017	31 December 2016
Financial assets based on fair value to confirm profit or loss	4,831,122.13	6,026,123.94
Available-for-sale financial assets	26,933,032.72	25,932,151.59
Total	31,764,154.85	31,958,275.53

As at 30 June 2017, 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 RMB483 thousand, other comprehensive income amounted to RMB2,280 thousand accordingly (As at 31 December 2016: RMB603 thousand, RMB2,196 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.

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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 2017, 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 2017					Total
	Within 1 year	1 - 2 years	2 - 5 years	Over 5 years	Without fixed maturity	
Financial assets--						
Cash at bank and on hand	11,758,073,861.04	-	-	-	-	11,758,073,861.04
Notes receivable	1,939,291,857.86	-	-	-	-	1,939,291,857.86
Accounts receivable	1,253,764,236.96	-	-	-	-	1,253,764,236.96
Other receivables	235,980,520.08	-	-	-	-	235,980,520.08
	<u>15,187,110,475.94</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,187,110,475.94</u>
Financial liabilities						
Short-term borrowings	10,841,344.47	-	-	-	-	10,841,344.47
Current portion of non-current liabilities	33,435,931.17	-	-	-	-	33,435,931.17
Notes payable	223,078,749.78	-	-	-	-	223,078,749.78
Accounts payable	2,386,242,882.72	-	-	-	-	2,386,242,882.72
Other payables	2,818,607,613.98	-	-	-	-	2,818,607,613.98
Long-term payables	-	-	-	20,558,783.65	-	20,558,783.65
	<u>5,472,206,522.12</u>	<u>-</u>	<u>-</u>	<u>20,558,783.65</u>	<u>-</u>	<u>5,492,765,305.77</u>
Provision of guarantees	-	-	-	-	-	-

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8 FINANCIAL INSTRUMENT AND RISK (Continued)

(3) Liquidity risk (Continued)

	31 December 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	12,821,007,880.23	-	-	-	-	12,821,007,880.23
Notes receivable	1,604,767,885.21	-	-	-	-	1,604,767,885.21
Accounts receivable	1,182,866,120.30	-	-	-	-	1,182,866,120.30
Other receivables	227,201,614.85	-	-	-	-	227,201,614.85
	<u>15,835,843,500.59</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,835,843,500.59</u>
Financial liabilities						
Short-term borrowings	25,217,408.94	-	-	-	-	25,217,408.94
Long-term borrowings	1,189,498.16	33,852,324.15	-	-	-	35,041,822.31
Notes payable	320,811,521.98	-	-	-	-	320,811,521.98
Accounts payable	2,267,279,067.87	-	-	-	-	2,267,279,067.87
Other payables	2,267,981,520.69	-	-	-	-	2,267,981,520.69
Long-term payables	-	-	-	20,558,783.65	-	20,558,783.65
	<u>4,882,479,017.64</u>	<u>33,852,324.15</u>	<u>-</u>	<u>20,558,783.65</u>	<u>-</u>	<u>4,936,890,125.44</u>
Provision of guarantees	-	-	-	-	-	-

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

	30 June 2017		31 December 2016	
	Bank borrowings	Other borrowings	Bank borrowings	Other borrowings
Last borrowing repay within 5 years	<u>44,277,275.64</u>	<u>-</u>	<u>60,259,231.25</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

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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 2017, 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	4,831,122.13	–	–	4,831,122.13
Available-for-sale financial assets –				
Available-for-sale equity instruments	26,933,032.72	–	–	26,933,032.72
	<u>31,764,154.85</u>	<u>–</u>	<u>–</u>	<u>31,764,154.85</u>

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9 DISCLOSURE OF FAIR VALUE (Continued)

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

As at 31 December 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	6,026,123.94	–	–	6,026,123.94
Available-for-sale financial assets –				
Available-for-sale equity instruments	25,932,151.59	–	–	25,932,151.59
	<u>31,958,275.53</u>	<u>–</u>	<u>–</u>	<u>31,958,275.53</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.

10 FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

	31 December 2016	Profit or loss arising from changes in fair value during current period	Accumulated changes in fair value recognized in equity during current period	Changes in fair value recognized in deferred income tax liabilities	30 June 2017
Financial assets–					
Financial assets based on fair value to confirm profit or loss	6,026,123.94	(1,195,001.81)	–	–	4,831,122.13
Available-for-sale financial assets	25,932,151.59	–	845,068.03	155,813.10	26,933,032.72
	<u>31,958,275.53</u>	<u>(1,195,001.81)</u>	<u>845,068.03</u>	<u>155,813.10</u>	<u>31,764,154.85</u>

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

11 FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

	31 December 2016	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 2017
Financial assets–					
Cash at bank and on hand	16,886,300.25	–	–	–	7,274,475.82
Accounts receivable	21,130,831.29	–	–	–	25,136,581.71
Advances to suppliers	–	–	–	–	46,626.36
Other receivables	513,887.24	–	–	–	601,979.08
	<u>38,531,018.78</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>33,059,662.97</u>
Financial liabilities					
Short-term borrowings	10,165,424.88	–	–	–	6,769,776.00
Accounts payable	3,538,269.94	–	–	–	20,178,722.54
Advances from customers	24,369.53	–	–	–	157,715.18
Other payables	92,204.47	–	–	–	3,144,977.22
Current portion of non-current liabilities	–	–	–	–	32,506,207.76
Long-term borrowings	33,502,083.03	–	–	–	–
	<u>47,322,351.85</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>62,757,398.70</u>

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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
GPHL	Parent Company	Limited liability company(wholly state-owned)	No. 45, North Street, Shamian Liwan District Guangzhou	Li Chuyuan	Manufacturing and trading	125,281	45.04%	45.04%	Guangzhou State-owned Assets Supervision and Administration Commission

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

GPHL

**30 June 2017
(RMB'0000)**

125,281

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

GPHL

30 June 2017

% equity interest held **% voting rights held**

45.04%

45.04%

(2) Information of subsidiaries

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

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 Group at current period or at previous period are as below:

Name	Relation with the Group
GP Corp.	Joint Venture
Wang Lao Ji	Joint Venture
Nuo Cheng	Joint Venture
HWBYS	Joint Venture
Baxter Qiaoguang	Joint Venture
Chuangmei	Associated enterprise

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

Name of entity	Relationship with the Group
Guangzhou Yu Fa Medical Apparatus Co., Ltd.	Controlled by the same parent company
Guangzhou South China Medical Apparatus Co., Ltd.	Controlled by the same parent company
Guangzhou Hua Cheng Pharmaceutical Co., Ltd.	Controlled by the same parent company

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 2017		For the six months ended 30 June 2016	
				Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
HWBYS	Purchase of goods	Chinese raw medicine or medicine	Market price	15,763,772.84	0.28	9,893,990.65	0.16
GP Corp.	Purchase of goods	Chinese raw medicine or medicine	Market price	168,234,439.12	2.94	413,392,624.94	6.71
Wang Lao Ji	Purchase of goods	Chinese raw medicine or medicine	Market price	513,845,006.08	8.97	439,871,400.85	7.14
Chuang mei	Purchase of goods	Chinese raw medicine or medicine	Market price	6,019,727.45	0.11	-	-
Guangzhou Hua Cheng Pharmaceutical Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	6,021,510.65	0.11	-	-
				709,884,456.14	12.41	863,158,016.44	14.01

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 2017		For the six months ended 30 June 2016	
				Amount	Percentage of similar transactions (%)	Amount	Percentage of similar transactions (%)
GPHL	Sales of goods	Chinese raw medicine or medicine	Market price	760,922.91	0.01	16,410.24	0.00
HWBYS	Sales of goods	Chinese raw medicine or medicine	Market price	117,670,399.13	1.07	90,670,313.41	0.85
GP Corp.	Sales of goods	Chinese raw medicine or medicine	Market price	351,573,455.78	3.21	543,767,639.51	5.07
Wang Lao Ji	Sales of goods	Chinese raw medicine or medicine	Market price	283,652,068.38	2.59	218,651,884.10	2.04
Nuo Cheng	Sales of goods	Chinese raw medicine or medicine	Market price	15,405.13	0.00	15,384.62	0.00
Baxter Qiaoguang	Sales of goods	Chinese raw medicine or medicine	Market price	364,837.61	0.00	514,427.35	0.00
Chuangmei	Sales of goods	Chinese raw medicine or medicine	Market price	176,285,051.50	1.61	-	-
Guangzhou Hua Cheng Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	30,574,414.07	0.28	-	-
				960,896,554.51	8.77	853,636,059.23	7.96

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 2017		For the six months ended 30 June 2016	
				Amount	Percentage of similar transactions (%)	Amount	Percentage of similar transactions (%)
HWBYS	Rendering of service	Advertising agency	Market price	20,154,273.80	43.59	13,604,123.96	37.56
GP Corp.	Rendering of service	Advertising agency	Market price	121,847.17	0.26	282,350.94	0.78
Wang Lao Ji	Rendering of service	Advertising agency	Market price	22,073,494.39	47.75	20,540,868.04	56.71
Baxter Qiaoguang	Rendering of service	Advertising agency	Market price	1,132.08	0.00	754.72	0.00
Subtotal				42,350,747.44	91.60	34,428,097.66	95.05
Wang Lao Ji	Rendering of service	Consigned processing	Market price	13,622,684.53	81.67	11,479,772.63	100.00
HWBYS	Rendering of service	Service of research and development	Market price	-	-	33,018.87	0.93

(e) Other related party transactions

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

There are no guarantees for subsidiaries for the six months ended 30 June 2017.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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

(5) Related party transactions *(Continued)*

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

(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 2017 to 31 December 2019. The Group should pay GPLH RMB361 thousand of the above-mentioned for the current period (For the six months ended 30 June 2016: RMB622 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, on 1 July 2016, the agreement came up for renewal to 30 June 2019, GPLH should pay the company RMB181 thousand in current period. (For the six months ended 30 June 2016: RMB272 thousand)

3) Warehouse and Office Building Tenancy Agreement

Pursuant to the Tenancy Agreement entered into by the Company and GP Corp, the Company rents certain buildings to GP Corp. at fixed amount per annum with a lease term from 1 January 2017 to 31 December 2019 and the rental amounted to RMB1,636 thousand. (For the six months ended 30 June 2016: RMB1,321 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 RMB1,500 thousand (For the six months ended 30 June 2016: RMB1,000 thousand)

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 *(Continued)*

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 October 2021, and the rental amounted to RMB271 thousand (For the six months ended 30 June 2016: RMB32 thousand)

Pursuant to the Tenancy Agreement entered into by Guangzhou Bai Di and Nuo cheng, Guangzhou Bai Di rents the building located in No.1, Wanbao Street North, Panyu District, Guangzhou to Nuo cheng at fixed amount per annum with a lease term from 15 March 2011 to 14 March 2019 and the rental amounted to RMB1,129 thousand (For the six months ended 30 June 2016: RMB1,104 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 2017 to 9 September 2017 and the rental amounted to RMB35 thousand (For the six months ended 30 June 2016: RMB36 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 RMB289 thousand (For the six months ended 30 June 2016: RMB216 thousand).

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 RMB51,659 thousand for the current period (For the six months ended 30 June 2016: RMB50,911 thousand) and GPLH should receive RMB58,254 thousand (For the six months ended 30 June 2016: RMB57,410 thousand).

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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)

Meanwhile, when the legal dispute is settled, GPLH committed to legally transfer the trademark "Wang Lao Ji" and other 4 trademarks authorized to Wang Lao Ji exclusively to the company within 2 years since the above-mentioned trademarks can be transferred in accordance with the effective laws and regulation.

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 1st Extraordinary Shareholders 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 RMB438 thousand at current period. (For the six months ended 30 June 2016: RMB665 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 RMB438 thousand (For the six months ended 30 June 2016: RMB665 thousand), and should totally pay GPLH RMB350 thousand (For the six months ended 30 June 2016: RMB532 thousand).

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(e) Other related party transactions (Continued)

(iii) License Agreement (Continued)

- 4) Pursuant to *Trademark License Agreement* entered into by Guangzhou Baiyunshan Hehuang Great Health Products Co., Ltd. and the Company on 7 March 2016, Guangzhou Baiyunshan Hehuang Great Health Products Co., Ltd. is able to use 32 kinds of trademark owned by GPLH for 32 kinds of plant beverages and non-alcoholic beverages from 7 March 2016 to 31 December 2019 (both parties otherwise agreed to extend the term if need to), 2.1% of net sale volume for the products which use these 32 kinds of trademark shall be paid to the Company as a license fee by Guangzhou Baiyunshan Hehuang Great Health Products Co., Ltd.. Trademark License Agreement will expire on 31 December 2019. Guangzhou Baiyunshan Hehuang Great Health Products Co., Ltd. should pay the Company license fee amounted to RMB231 thousand at current period. (For the six months ended 30 June 2016: RMB0 thousand).

Based on *The Arrangement of the Trademark Trusteeship Agreement and Trademark Trusteeship Supplementary Agreement* entered into by GPLH and the Company, Guangzhou Baiyunshan Hehuang Great Health Products Co., Ltd. should pay the Company the above license fee amounted to RMB231 thousand (For the six months ended 30 June 2016: RMB0 thousand), and should totally pay GPLH RMB185 thousand (For the six months ended 30 June 2016: RMB0 thousand).

(iv) Employee benefits of key management personnel

Employee benefits of the Group's key management personnel amounted to RMB1,115 thousand for the six months ended 30 June 2017 (For the six months ended 30 June 2016: RMB1,069 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 10 persons for the six months ended 30 June 2017 (For the six months ended 30 June 2016: 9 persons), among which 4 persons received their salaries from the Group (For the six months ended 30 June 2016: 4 persons).

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(f) Remuneration of directors and supervisors

(i) Receivables from related parties

		30 June 2017		31 December 2016	
Related party		Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Notes receivable:	GP Corp.	79,879,205.39	-	93,317,991.43	-
	HWBYS	200,000.00	-	100,000.00	-
	Chuangmei	100,921,956.93	-	-	-
		181,001,162.32	-	93,417,991.43	-
Accounts receivable:	GPHL	228,140.00	2,281.40	4,638.25	46.38
	Guangzhou Hua Cheng Pharmaceutical Factory	19,617,307.67	196,173.08	-	-
	HWBYS	40,149,124.46	419,110.68	38,256,826.54	382,568.27
	GP Corp.	66,041,653.71	662,941.04	16,959,266.38	169,592.66
	Wang Lao Ji	105,514,548.16	1,443,165.04	49,722,527.70	876,655.25
	Baxter Qiaoguang	-	-	234,960.00	2,349.60
	Nuo Cheng	-	-	242,358.00	2,423.58
	Chuangmei	17,717,666.50	177,176.67	15,514,325.81	155,179.75
		249,268,440.50	2,900,847.91	120,934,902.68	1,588,815.49
Other receivables:	GPHL	2,917,775.83	-	1,897,580.42	-
	Guangzhou South China Medical Apparatus Co., Ltd.	100,000.00	100,000.00	100,000.00	100,000.00
	HWBYS	15,937,152.46	-	16,313,594.56	-
	GP Corp.	1,756,801.24	-	580,062.90	-
	Wang Lao Ji	5,522,317.97	-	1,055,070.54	-
	Baxter Qiaoguang	1,500,000.00	-	-	-
	27,734,047.50	100,000.00	19,946,308.42	100,000.00	
Advances to suppliers:	HWBYS	1,600,301.22	-	859,482.83	-
	GP Corp.	114,609.91	-	3,357.20	-
	Wang Lao Ji	-	-	22,479,785.87	-
	Guangzhou Yu Fa Medical Apparatus Co., Ltd.	210,278.62	-	210,278.62	-
		1,925,189.75	-	23,552,904.52	-

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(f) Remuneration of directors and supervisors (Continued)

(ii) Payables to related parties

	Related party	30 June 2017	31 December 2016
Notes Payable:	GP Corp.	26,432,000.00	–
Accounts Payable:	HWBYS	3,919,630.01	12,689,814.80
	GP Corp.	51,360,967.26	28,482,093.08
	Wang Lao Ji	7,213,192.00	–
	Chuangmei	3,393,769.40	450,526.40
		65,887,558.67	41,622,434.28
Other Payables	GPHL	55,656,500.38	35,798,578.74
	HWBYS	2,903,876.75	20,000.00
	GP Corp.	8,217,599.54	239,044.54
	Wang Lao Ji.	190,606.41	59,547.77
	Baxter Qiaoguang	44,505.64	26,502.88
	Chuangmei	–	20,000.00
		67,013,088.72	36,163,673.93
Advances from customers:	HWBYS	3,015,154.18	2,796,750.93
	GP Corp.	147,468,538.54	101,172,141.46
	Chuangmei	22,927,136.35	16,403,401.64
		173,410,829.07	120,372,294.03

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 2017	31 December 2016
Investment	146,140,000.00	106,900,000.00
Building, machinery and equipment	252,008,354.10	182,573,557.05
	398,148,354.10	289,473,557.05

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

	30 June 2017	31 December 2016
Building, machinery and equipment	388,161,720.44	143,520,238.89

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

	30 June 2017	31 December 2016
Investment	338,000,000.00	340,000,000.00
Building, machinery and equipment	925,538,330.56	736,199,524.50
	1,263,538,330.56	1,076,199,524.50

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 2017	31 December 2016
Remaining leasing term		
Within 1 year	76,333,018.97	70,289,159.86
1 to 2 years	64,888,328.18	62,683,535.24
2 to 3 years	70,987,863.47	35,383,679.85
Over 3 years	202,043,928.31	188,013,794.23
	414,253,138.93	356,370,169.19

The rental expenses under operating lease amounted to RMB53,405 thousand are recognized in the profit or loss for the six months ended 30 June 2017 (For the six months ended 30 June 2016: RMB41,765 thousand).

(3) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 30 June 2017.

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 significant non-adjusting events after the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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.

On 23 March 2016, Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. has lodged an appeal.

Pursuant to *Written Civil Ruling* with reference of (2016) Yue01MinZhong No.10682 issued by Guangzhou Intermediate Court on 16 December 2016, *Written Civil Ruling* with reference of (2015) SuiYueFaMinErChuZi No.328-3 issued by Guangzhou Yue Xiu District People's Court was judged to quash, and the case was referred to Guangzhou Yue Xiu District People's Court.

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. Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. has lodged an appeal.

Pursuant to *Written Civil Ruling* with reference of (2016) Yue01MinZhong No.3446 issued by Guangzhou Intermediate Court on 16 December 2016, *Written Civil Ruling* with reference of (2015) SuiYueFaMinErChuZi No.774-3 issued by Guangzhou Li Wan District People's Court was judged to quash, and the case was referred to Guangzhou Li Wan District People's Court.

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(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

16 OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

(a) Litigation of A company, a subsidiary of the Company *(Continued)*

(i) *(Continued)*

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.454-1 to No.468-1 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. Guangdong Guangsheng Investment Group Energy Co., Ltd. has lodged an appeal to Guangzhou Intermediate People's Court.

Pursuant to 15 *Written Civil Ruling* with reference of (2016) Yue01MinZhong No.3437-3445, No.5158-5163 issued by Guangzhou Intermediate Court on 16 December 2016, 15 *Written Civil Ruling* with reference of (2015) SuiLiFaMinErChuZi No.454-1 – 468-1 issued by Guangzhou Li Wan District People's Court was judged to quash, and the case was referred to Guangzhou Li Wan District People's Court.

According to the opinion of external lawyer, upstream customers of A company could not provide logistics certificates of delivery to Guangzhou Defenghang Petrolchemical 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 there are no overdue accounts receivable that are not be covered.

The above litigation involved the same party related to the case, A company has sued the party related to the case in court, all of the prosecution by the Company was rejected.

Guangzhou Defenghang Petrolchemical 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 caes is under investigation.

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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)

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., accounts receivable for Dongguan Ye Lian Road Modified Asphalt Co., Ltd. are individual subject to separate provision for bad debts, ratio of provision is 10%. 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%.

- (ii) 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, A company, Jiangmen Yuehui Fuel Co., Ltd. and another 7 companies accused by Guangdong Nanyue Bank and its Jiangmen Branch from Guangdong Province Zhanjiang City Xia Shan District People's court, according to indictment, Jiangmen Yuehui Fuel Co., Ltd. applied to Guangdong Nanyue Bank for factoring financing amounted to RMB30 million by the payment receivable amounted to RMB37,500 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.

On 22 December 2016, Jiangmen Pengjiang People's Court selected Guangdong Huasheng Judicial Expertise Center as an agency of this case, and paid the appraisal fee amounted to RMB70240. In accordance with the summons, the Company was required to appear in court for appraisal and to provide an original sample of signature from "Feng Yaowen" on 17 January 2017.

Pursuant to *Written Civil Ruling* with reference of (2017) Yue07MinZhong No.1734 issued by Jiangmen Intermediate People's Court on 10 July 2017, all claims of Guangdong Nanyue Bank Jiangmen Branch were rejected; and transferred to Jiangmen public security organization; Guangdong Nanyue Bank Jiangmen Branch shall bear appraisal fee.

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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 RMB5,191.2 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.

In the end of year 2015, management of A company estimated the case which takes account of external legal advice. The above accounts receivable amounted to RMB5,191.2 thousand are individual subject to separate provision for bad debts, ratio of provision is 100%.

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16 OTHER SIGNIFICANT EVENTS (Continued)

(1) Litigation (Continued)

(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.

On 16 August 2017, judgement of dispute ("Case No.1") over unauthorized use of the specific name, package and decoration of famous product that JDB accused Wang Lao Ji Great Health and dispute ("Case No.2") over unauthorized use of the specific name, package and decoration of famous product that GP Corp. accused JDB was pronounced by Supreme People's Court of the PRC, in accordance with *Written Civil Ruling* with reference of [(2015)MinSanZhongZi No.2] of Case No.1, appeal of JDB was rejected and the original judgement was affirmed; in accordance with *Written Civil Ruling* with reference of [(2015)MinSanZhongZi No.3] of Case No.2, judgement of 1st trial by Guangdong Higher People's Court was set aside, and all claims by GP Corp. was rejected accordingly.

- (ii) The dispute between WLJ Great Health, wholly-owned subsidiary of the Company, and Wuhan Jiaduobao Beverage Co., Ltd. in Changsha City arising from the slogan of "The red cans herbal tea – national top sales – renamed JDB", "The red cans herbal tea – national top sales – JDB", "7 of a sale of 10 cans herbal tea are JDB", which constitute false propaganda, under the 1st trial ((2013)ChangZhongMinWuChuZi No.00308) and 2nd trial((2016)XiangMinZhong No.94), the slogan of Wuhan Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. constitute false propaganda, the infringement is ordered to stop, Wuhan Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. pay Wang Lao Ji Great Health pecuniary loss amounted to RMB9,022,978.20 and reasonable rights protection fee amounted to RMB239,779.00. The court of 2nd trial upheld the judgement of lower court except for the compensation amounted to RMB6 million, which is paid to Wang Lao Ji Great Health. Wuhan Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. refused to accept the first-instance judgment and applied for a retrial to the high court, there are some applicable issues of this case, the highest court decided to arraign this case on 23 December 2016.

As at the reporting date, management of the 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.

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16 OTHER SIGNIFICANT EVENTS (Continued)

(1) Litigation (Continued)

(c) Respond to prosecution of other subsidiaries of the Company (Continued)

- (iii) In year 2015, 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 compensation for loss. B company also instituted an action for the unreceived rental and penalty of Guangzhou Hao Cheng Estate Management Development Co., Ltd and its guarantor.

Pursuant to *Written Civil Ruling* with reference of (2015)SuiYueFaMinSanChuZi No.186, issued by Guangzhou Yue Xiu District People's Court on 30 June 2017, *Lease Contract and Lease Supplementary Contract* entered into by Guangzhou Hao Cheng Estate Management Development Co., Ltd. and B company on 28 February 2014 was terminated on 9 September 2016. B company shall fully pay Guangzhou Hao Cheng Estate Management Development Co., Ltd. compensation amounted to RMB1,955,325.00 within 10 days from the date of this *Written Civil Ruling* coming into force, and other claims of Guangzhou Hao Cheng Estate Management Development Co., Ltd. were rejected.

Pursuant to *Written Civil Ruling* with reference of (2015)SuiYueFaMinSanChuZi No.639, issued by Guangzhou Yue Xiu District People's Court on 30 June 2017, Guangzhou Hao Cheng Estate Management Development Co., Ltd. shall pay B company penalty and rental amounted to RMB9,800 thousand which during the period from 1 October 2014 to 31 January 2015, its guarantor shall undertake joint liability for the debts, and other claims of B company were rejected.

Pursuant to *Written Civil Ruling* with reference of (2016)Yue0104MinChu No.100 issued by Guangzhou Yue Xiu District People's Court on 30 June 2017, Guangzhou Hao Cheng Estate Management Development Co., Ltd. shall pay B company penalty and rental amounted to RMB33,205 thousand which during the period from 1 February 2015 to 31 December 2015, its guarantor shall undertake joint liability for the debts, and other claims of B company were rejected.

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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. (hereinafter referred to as "Guangsheng Energy") 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 2014. The subsidiary have started a suit accordingly to Guangdong Hua Zi Investment Co., Ltd.(hereinafter referred to as "Hua Zi"), the party related to the case, 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.4583-2 issued by Guangzhou Tian He District People's Court on 5 February 2016, the prosecution by Guangsheng Energy was rejected, and transferred to public security organization to handle as criminal case. Guangsheng Energy lodged an appeal.

Pursuant to *Written Civil Ruling* with reference of (2016)Yue01MinZhong No.5365, issued by Guangzhou Intermediate People's Court 16 December 2016, *Written Civil Ruling* with reference of (2014)SuiTianFaMinErChuZi No.4583-2 issued by Guangzhou Tian He District People's Court was judged to quash, and the case was referred to Guangzhou Tian He District People's Court.

Pursuant to *Written Civil Ruling* with reference of (2014)SuiTianHeFaMinErChuZi No.4583 issued by Guangzhou Tian He District People's Court on 6 April 2017, the prosecution by Guangsheng Energy was rejected, Guangsheng Energy lodged an appeal to Guangzhou Intermediate People's Court with second instance (2017)Yue01MinZhong No.10908, and it will open a court session on 30 August 2017.

Pursuant to *Written Civil Ruling* with reference of (2014)SuiTianHeFaMinErChuZi No.4584-2 issued by Guangzhou Tian He District People's Court on 9 August 2016, the prosecution by Guangsheng Energy was rejected, this judgement has become legally effective since 1 September 2016.

On 1 June 2017, Guangsheng Energy lodged an appeal to Guangzhou Tian He District People's Court for the dispute with a case number of (2017) Yue0106MinChu No.13720, and it opened a court session on 17 August 2017.

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16 OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

(c) Respond to prosecution of other subsidiaries of the Company *(Continued)*

(iv) *(Continued)*

Pursuant to *Written Civil Ruling* with reference of (2014)Sui TianFaMinErChuZi No.4619 and No.4620-1, issued by Guangzhou Tian He District People's Court on 16 August 2016, all claims for Hua Zi by the subsidiary of the Company were rejected. The subsidiary lodged an appeal, in accordance with *Written Civil Ruling* with reference of (2016)Yue01MinZhong No.16382 and No.16383 issued by Guangzhou Intermediate People's Court on 21 December 2016, *Written Civil Ruling* with reference of (2014)SuiTianFaMinErChuZi No.4619 and No.4620 -1 issued by Guangzhou Tian He District People's Court was judged to quash, and the case was referred to Guangzhou Tian He District People's Court.

Pursuant to *Written Civil Ruling* with reference of (2014)SuiTianFaMinErChuZi No.4619 issued by Guangzhou Tian He District People's Court on 6 April 2017, Hua Zi shall pay a subsidiary of the Company payment amounted to RMB29,697 thousand, penalty, interests and lawyer's fee, this judgement has become effective.

Pursuant to *Written Civil Ruling* with reference of (2014)SuiTianHeFaMinErChuZi No.4620 issued by Guangzhou Tian He District People's Court on 6 April 2017, the prosecution by a subsidiary of the Company was rejected, the subsidiary lodged an appeal to Guangzhou Intermediate People's Court with second instance (2017)Yue01MinZhong No.10910, and it will open a court session on 22 August 2017.

In case Hua Zi evade the payment, ensuring execution of the judgement of (2014) SuiTianHeFaMinErChuZi NO.4819 and (2014)SuiTianHeFaMinErChuZi NO.4820, the subsidiary of the Company has applied to Tian He District People's Court for property preservation before litigation, and has provided Hua Zi's bank account and the matured claim [Execution Number: (2013)SuiHaiFaZhiZi No.1978]to Southern Company and Suinan Company as property clues. The subsidiary requested Tian He District People's Court to freeze bank account, to rule that Southern Company, Suinan Company, the 2 debtors of Hua Zi, do not repay the debts, and Guangzhou Hai Zhu District People's Court (hereinafter referred to as "Hai Zhu Court") was requested to assist in execution. As Guangzhou Yue Cai Investment Holdings Co., Ltd., the execution applicant of case (2013)SuHaiFaZhiZi No.1978, had not been changed to Hua Zi, Tian He Court has merely sent the civil ruling paper of property preservation to Hai Zhu Court in October 2014.

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16 OTHER SIGNIFICANT EVENTS (Continued)

(1) Litigation (Continued)

(c) Respond to prosecution of other subsidiaries of the Company (Continued)

(iv) (Continued)

In order to avoid the payment to a subsidiary of the Company and transfer property, Hua Zi made up a fictional fact for assignment of debt by signing a contract with Caili, who accepted creditor's right without consideration and sued to Guangzhou Yue Xiu District People's Court (hereinafter referred to as "Yue Xiu Court") for the effectiveness of the contract. In accordance with *Written Civil Ruling* with reference of (2015)SuiYueFaMinErChuZi No. 1367 and No.1368 subsequently issued by Yue Xiu Court, the contract entered into by Hua Zi and Caili is valid.

The subsidiary sued to Yue Xiu Court for the above transfer between Hua Zi and Caili, requested for cancellation of *Written Civil Ruling* with reference of (2015)SuiYueFaMinErChuZi No. 1367 and No.1368 and invalid of *Written Civil Ruling* with reference of [(2017)Yue0104MinChu No. 5562 and No.5561]. It opened a court session on 14 August 2017.

The above cases are still under investigation, Management of this subsidiary considers that it is not probable that it will lose the 2 cases of Guangsheng Energy and Hua Zi which results in direct economic loss after the assessment by the management which takes account of external legal advice, and there is a possibility that the case of Hua Zi and Caili succeeds.

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16 OTHER SIGNIFICANT EVENTS (Continued)

(1) Litigation (Continued)

(c) Respond to prosecution of other subsidiaries of the Company (Continued)

- (v) On 27 December 2016, 4 staffs of D company, which is a subsidiary of the Company, started a suit to sever labour relation with D company from 31 October 2016, and D company need to pay them compensation for severing labour relation amounted to RMB1,667,898 and the salary for September 2016 and October 2016 amounted to RMB130,966.

On 17 April 2017, after mediation by Guangzhou Li Wan People's Court, both parties came to an agreement: Labour relation between D company and these 4 staffs shall be terminated by 31 March 2017. D company shall pay them compensation amounted to RMB1,032,174 by 22 April 2017, and no longer pay them the salary for September 2016 and October 2016 amounted to RMB73,622.51. D company has paid up compensation in April 2017.

- (vi) Pursuant to *Administrative Resolution* (SuiGuoFangZi[2015]No.56) issued by Guangzhou Land Resources and Planning Commission on 23 June 2015, Guangdong Construction Engineering Corporation real estate development company and E company, a subsidiary of the Company were required to pay up land-transferring fees amounted to RMB13,160,051.26, and penalty till 23 June 2015 amounted to RMB13,216,059.26, totally amounted to RMB26,376,110.52.

E company and Guangdong Construction Engineering Corporation real estate development company applied for administrative reconsideration to Guangzhou Municipal People's Government. In accordance with *Administrative Resolution* (SuiFuXingFu[2015]No.872 and No.879) issued by Guangzhou Municipal People's Government on 5 January 2017, the *Administrative Resolution* (SuiGuoFangZi[2015]No.56) is maintained effect.

E company started a suit to 1st Guangzhou Railway Transportation Court on 15 January 2017, requested for rescinding the above administrative resolution and reconsideration.

Pursuant to Administrative Resolution [(2017)Yue7101XingChu No.558] issued by 1st Guangzhou Railway Transportation Court, all claims of E company are rejected.

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16 OTHER SIGNIFICANT EVENTS (Continued)

(1) Litigation (Continued)

(c) Respond to prosecution of other subsidiaries of the Company (Continued)

(vi) (Continued)

For cancellation of the above administrative resolutions, E company lodged an appeal to 1st Guangzhou Railway Transportation Court on 30 June 2017.

As at reporting date, this case is under trial. Management of E 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.

(vii) On 1 June 2015, Guangzhou Ruigu Enterprise Management Consulting Co., Ltd. started a suit to the dispute of contract of legal service, required F company, a subsidiary of the Company to pay legal service fee and overdue interest amounted to RMB22,421,800.

Pursuant to *Written Civil Ruling* (SuiNanFangMinErChuZi[2015]No.254) issued by Guangzhou Nansha District People's Court on 8 January 2016, F company pay Guangzhou Ruigu Enterprise Management Consulting Co., Ltd. service fee amounted to RMB13,192,825 within 10 days from the date of judgement become effective.

F company and Guangzhou Ruigu Enterprise Management Consulting Co., Ltd. refuse the judgement of 1st trial, they lodged an appeal to Guangzhou Intermediate People's Court. Pursuant to *Written Civil Ruling* ((2016) Yue01MinZhong No.5137) issued by Guangzhou Intermediate People's Court on 17 May 2016, F company pay Guangzhou Ruigu Enterprise Management Consulting Co., Ltd. service fee amounted to RMB4,352,350 within 10 days from the date of judgement become effective. F Company has paid up the service fee.

Guangzhou Ruigu Enterprise Management Consulting Co., Ltd. refused the judgement of 2nd trial, and lodged an appeal to Guangdong Province Supreme People's Court on 1 September 2016. In accordance with *Notice of Responding to Prosecution on Civil Retrial Cases*[Case (2016)YueMinShen No.6609] issued by Guangdong Province Supreme People's Court on 24 October 2016, F company was informed about it, this case is at a retrial stage.

As at reporting date, this case is under trial. Management of F 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.

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16 OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

(c) Respond to prosecution of other subsidiaries of the Company *(Continued)*

(viii) On 17 November 2014, the Company conducted prosecution to Huanan International Economic and Trade Arbitration Commission (SHEN T2014811), which reason is: Tongxing Pharmaceutical transfers 48.0465% shares of Wang Lao Ji (98,378,439 shares) with a consideration amounted to RMB468,126,196.35. Tongxing pays a retaining fee and prosecution fee (including case-filing fee and other prosecution fee) for the Company.

On 11 January 2016, the Company conducted a change of prosecution (SHEN T2014811) to Huanan International Economic and Trade Arbitration Commission, which reason is: Tongxing Pharmaceutical transfers 48.0465% shares of Wang Lao Ji (98,378,439 shares) with a consideration amounted to RMB358,245,085.62 (with tax), and handles the procedures for transferring stock right of Wang Lao Ji. Tongxing pays a retaining fee and prosecution fee (including case-filing fee, case-accepting fee, cost for prosecution and other expenses) for the Company.

On 20 February 2016, Huanan International Economic and Trade Arbitration Commission conducted 1st court hearing for the above cases, in accordance with the decision, Deloitte & Touche Consulting (Beijing) Co., Ltd. and Deloitte & Touche Hua Yong Certified Public Accountants LLP Beijing Branch were entrusted to audit and evaluate "net asset value per share of common-law corporation" of *Guangzhou Wang Lao Ji Pharmaceutical Holdings Shareholders Contract* as an evaluation agency and an audit agency respectively. The above auditing and assessment work has been completed on 10 April 2017.

Huanan International Economic and Trade Arbitration Commission has conducted 3rd court hearing for the above cases on 10 June 2017.

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17 SEGMENT INFORMATION

With the strategic management and business development, the Group basically completed the industrial chain layout and internal structure of 4 sectors in 2015, 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 Southern 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 is 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.

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17 SEGMENT INFORMATION (Continued)

- (1) The segment information for the six months ended 30 June 2017 and as of 31 June 2017 is as follows:

	Great Southern TCM	Great Health	Great Commerce	Other	Elimination	Total
Revenue	4,043,965,877.28	4,999,437,141.51	2,024,842,509.84	47,092,931.28	-	11,115,338,459.91
Inter-segment revenue	85,704,253.52	11,466,366.87	2,809,689,627.78	79,703,824.57	(2,986,564,072.74)	-
Interest income	(12,351,414.04)	(22,803,191.94)	(724,849.57)	(52,401,628.58)	-	(88,281,084.13)
Interest expenses	9,458,489.36	-	22,280,135.33	2,992,082.82	(32,501,724.55)	2,228,982.96
Share of profit or loss of associates and jointly controlled entities	22,858,258.10	-	1,629,715.87	122,861,924.93	(511,691.94)	146,838,206.96
Asset impairment losses	(4,123,361.93)	(169,887.43)	(2,223,644.68)	(301,949.78)	4,902,987.22	(1,915,856.60)
Depreciation and amortization	102,504,555.15	9,013,844.43	3,596,052.13	10,325,948.56	(72,223.50)	125,368,176.77
Total profit	675,980,777.33	425,327,297.53	35,469,403.84	209,317,314.59	54,333,298.08	1,400,428,091.37
Income tax expenses	51,572,973.44	69,966,487.98	6,826,717.93	68,105,420.00	12,986,823.50	209,458,422.85
Net profit (Including: Minority interests)	624,407,803.89	355,360,809.55	28,642,685.91	141,211,894.59	41,346,474.58	1,190,969,668.52
Total assets	8,844,495,415.21	5,096,760,655.84	3,883,487,471.88	16,807,977,407.97	(7,929,607,496.96)	26,703,113,453.94
Total liabilities	4,854,726,927.60	3,155,612,774.33	3,586,378,757.71	1,179,221,563.16	(4,484,902,376.61)	8,291,037,646.19
Long-term equity investments in associates and jointly controlled entities	104,814,071.27	-	59,847,193.56	2,219,899,686.34	-	2,384,560,951.17
Additions of non-current assets other than long-term equity investments	144,654,583.45	35,424,389.25	5,321,960.05	19,785,240.22	-	205,186,172.97

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17 SEGMENT INFORMATION (Continued)

- (2) The segment information for the year ended 30 June 2016 and as of 31 December 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	8,215,356,021.51	4,536,823,808.46	4,006,996,218.57	16,144,661,530.04	(7,006,667,358.04)	25,897,170,220.54
Total liabilities	4,671,712,476.03	3,777,036,736.50	3,737,139,513.69	609,593,407.39	(4,552,102,361.34)	8,243,379,772.27
Long-term equity investments in associates and jointly controlled entities	81,955,813.17	-	61,624,075.01	2,146,863,574.52	-	2,290,443,462.70
Additions of non-current assets other than long-term equity investments	463,602,322.19	105,722,329.63	8,500,773.52	50,728,219.02	-	628,553,644.36

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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:

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Revenue from external customers		
PRC	11,108,403,731.00	10,816,225,709.42
Other countries/regions	6,934,728.91	41,043,610.67
	11,115,338,459.91	10,857,269,320.09
Total non-current assets	30 June 2017	31 December 2016
PRC	5,987,475,977.56	5,920,389,492.25
Other countries/regions	19,143,910.95	19,704,081.33
	6,006,619,888.51	5,940,093,573.58

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Accounts receivable

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

	30 June 2017	31 December 2016
Within 1 year	258,551,791.29	326,272,130.74
1 to 2 years	2,064,477.00	12,745,909.87
2 to 3 years	103,919.24	16,149.24
3 to 4 years	-	-
4 to 5 years	-	15,834.58
Over 5 years	2,132,638.82	3,257,329.52
	262,852,826.35	342,307,353.95
Less: provision for bad debts	4,955,780.20	7,812,154.25
	257,897,046.15	334,495,199.70

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

	30 June 2017				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provisions	1,500,000.00	0.57%	1,500,000.00	100.00%	-
Subject to provision by groups: Group 1	260,498,200.11	99.10%	2,601,153.96	1.00%	257,897,046.15
Individually insignificant but subject to separate provisions	854,626.24	0.33%	854,626.24	100.00%	-
	262,852,826.35	100.00%	4,955,780.20	1.89%	257,897,046.15

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 2016				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provisions	1,500,000.00	0.44%	1,500,000.00	100.00%	-
Subject to provision by groups:					
Group 1	339,952,727.71	99.31%	5,457,528.01	1.61%	334,495,199.70
Individually insignificant but subject to separate provisions	854,626.24	0.25%	854,626.24	100.00%	-
	<u>342,307,353.95</u>	100.00%	<u>7,812,154.25</u>	2.28%	<u>334,495,199.70</u>

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

(c) As at 30 June 2017, 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 FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 2017			31 December 2016		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
Within 1 year	258,551,791.29	99.26%	2,585,517.91	326,272,130.74	95.98%	3,262,721.31
1 to 2 years	2,064,477.00	0.79%	206,447.70	12,745,909.87	3.75%	1,274,590.99
2 to 3 years	103,919.24	0.04%	31,175.77	16,149.24	0.00%	4,844.77
3 to 4 years	-	-	-	-	-	-
4 to 5 years	-	-	-	15,834.58	0.00%	12,667.66
Over 5 years	(221,987.42)	(0.09)%	(221,987.42)	902,703.28	0.27%	902,703.28
	<u>260,498,200.11</u>	<u>100.00%</u>	<u>2,601,153.96</u>	<u>339,952,727.71</u>	<u>100.00%</u>	<u>5,457,528.01</u>

- (e) As at 30 June 2017, 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 recovered
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 recovered
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 recovered
	<u>854,626.24</u>	<u>854,626.24</u>	<u>100.00%</u>	

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(1) Accounts receivable (Continued)

- (f) Accounts receivables that are reversed or collected during the current period are as follows:

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	Strengthened the work of accounts receivable, recovered debts.	Aging	51,565.00	51,565.00	51,565.00
Customer 2	Strengthened the work of accounts receivable, recovered debts.	Aging	31,197.55	31,197.55	31,197.55
Customer 3	Strengthened the work of accounts receivable, recovered debts.	Aging	30,193.88	30,193.88	30,193.88
Customer 4	Strengthened the work of accounts receivable, recovered debts.	Aging	12,667.66	15,834.58	12,667.66
Customer 5	Strengthened the work of accounts receivable, recovered debts.	Aging	10,781.93	10,781.93	10,781.93
Customer 6	Strengthened the work of accounts receivable, recovered debts.	Aging	2,831.20	2,831.20	2,831.20
			139,237.22	142,404.14	139,237.22

- (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.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(1) Accounts receivable (Continued)

- (i) As at 30 June 2017, accounts receivable with significant balance are analyzed as follows:

Name of the entity	Relation with the Company	Amount	Aging	% of total balance
Customer 1	Related party	209,779,277.59	Within 1year	79.81%
Customer 2	Third party	9,215,231.50	Within 1year	3.51%
Customer 3	Third party	6,656,322.00	Within 1year	2.53%
Customer 4	Third party	2,618,192.00	Within 1year	1.00%
Customer 5	Third party	2,242,500.00	Within 1year	0.85%
		230,511,523.09		87.70%

- (j) There are no accounts receivables derecognized as at 30 June 2017.

- (k) As at 30 June 2017, there are no securitizations that targeted at accounts receivable.

(2) Other receivables

	30 June 2017	31 December 2016
Receivables due from related parties	1,477,002,664.52	1,454,566,918.74
Including: Entrusted loan	1,187,033,486.36	1,074,113,486.36
Others	289,969,178.16	380,453,432.38
Rentals, deposits and staff advances	8,141,317.93	5,377,616.32
Others	52,117,824.20	43,486,852.76
	1,537,261,806.65	1,503,431,387.82
Less: Provision for bad debts	5,548,112.87	5,604,438.00
	1,531,713,693.78	1,497,826,949.82

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(2) Other receivables (Continued)

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

	30 June 2017	31 December 2016
Within 1 year	1,513,436,859.41	1,475,787,374.15
1 to 2 years	110,777.91	5,148,256.59
2 to 3 years	1,315,850.03	58,235.81
3 to 4 years	58,491.71	68,730.21
4 to 5 years	-	43,584.45
Over 5 years	22,339,827.59	22,325,206.61
	1,537,261,806.65	1,503,431,387.82

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

	30 June 2017				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	1,040,121.11	0.07%	1,040,121.11	100.00%	-
Subject to provision by groups:					
Group 1	4,964,350.80	0.32%	1,370,422.32	27.61%	3,593,928.48
Group 2	42,975,782.85	2.80%	-	0.00%	42,975,782.85
Group 3	1,477,002,664.52	96.08%	-	0.00%	1,477,002,664.52
Group 4	8,141,317.93	0.53%	-	0.00%	8,141,317.93
Individually insignificant but subject to separate provision	3,137,569.44	0.20%	3,137,569.44	100.00%	-
	1,537,261,806.65	100.00%	5,548,112.87	0.36%	1,531,713,693.78

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(2) Other receivables (Continued)

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

	31 December 2016				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	1,040,121.11	0.07%	1,040,121.11	100.00%	-
Subject to provision by groups:					
Group 1	7,369,794.10	0.49%	1,426,747.45	19.36%	5,943,046.65
Group 2	31,939,368.11	2.12%	-	0.00%	31,939,368.11
Group 3	1,454,566,918.74	96.75%	-	0.00%	1,454,566,918.74
Group 4	5,377,616.32	0.36%	-	0.00%	5,377,616.32
Individually insignificant but subject to separate provision	3,137,569.44	0.21%	3,137,569.44	100.00%	-
	<u>1,503,431,387.82</u>	100.00%	<u>5,604,438.00</u>	0.37%	<u>1,497,826,949.82</u>

(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 recovered
Other receivables 2	430,077.57	430,077.57	100.00%	it is expected that the amount would not be recovered
Other receivables 3	108,000.00	108,000.00	100.00%	it is expected that the amount would not be recovered
	<u>1,040,121.11</u>	<u>1,040,121.11</u>		

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(2) Other receivables (Continued)

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

	30 June 2017			31 December 2016		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	3,516,296.43	70.83%	35,162.97	5,707,875.84	77.45%	57,078.78
1 to 2 years	-	-	-	261,838.00	3.55%	26,183.80
2 to 3 years	132,564.31	2.67%	39,769.29	46,954.31	0.64%	14,086.29
3 to 4 years	40,000.00	0.81%	20,000.00	43,520.00	0.59%	21,760.00
4 to 5 years	-	-	-	9,836.87	0.13%	7,869.50
Over 5 years	1,275,490.06	25.69%	1,275,490.06	1,299,769.08	17.64%	1,299,769.08
	4,964,350.80	100.00%	1,370,422.32	7,369,794.10	100.00%	1,426,747.45

- (e) There are no receivables that are subject to fully provision or in large proportion but are reversed or collected in full amount or in large proportion in the current period.
- (f) There are no others receivables collected by restructuring or other manners in the current period.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(2) Other receivables (Continued)

(g) As at 30 June 2017, 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	560,626,812.77	Within 1 year	36.47%
Other receivables 2	Wholly-owned subsidiary	383,192,450.62	Within 1 year	24.93%
Other receivables 3	Wholly-owned subsidiary	159,962,702.21	Within 1 year	10.41%
Other receivables 4	Wholly-owned subsidiary	146,295,574.63	Within 1 year	9.52%
Other receivables 5	Indirect subsidiary	67,428,203.90	Within 1 year	4.39%
		1,317,505,744.13		85.72%

(h) As at 30 June 2017, there are no other receivables that are derecognized.

(i) As at 30 June 2017, there are no securitizations that targeted at other receivables.

(3) Long-term equity investments

Item	30 June 2017			31 December 2016		
	Book balance	Provision for impairment	Current amount	Book balance	Provision for impairment	Current amount
For subsidiary investment	3,105,165,863.78	171,000,000.00	2,934,165,863.78	2,177,185,363.78	171,000,000.00	2,006,185,363.78
For Joint entity, and Associates investment	2,217,416,560.70	-	2,217,416,560.70	2,144,554,635.77	-	2,144,554,635.77
Total	5,322,582,424.48	171,000,000.00	5,151,582,424.48	4,321,739,999.55	171,000,000.00	4,150,739,999.55

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(a) For subsidiary investment

Name of entity	31 December 2016	Current increase	Current decrease	30 June 2017	Impairment losses recognized in current period	Provision for impairment on 30 June 2017
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
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	126,775,500.00	-	-	126,775,500.00	-	-
Jing Xiu Tang	101,489,800.00	-	-	101,489,800.00	-	-
Pan Gao Shou	144,298,200.00	-	-	144,298,200.00	-	-
Cai Zhi Lin	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	800,000,000.00	-	900,000,000.00	-	-
Guangzhou Guang Yao Yi Gan Biological Product Co., Ltd.	17,700,000.00	-	-	17,700,000.00	-	-
Xing Zhu	64,860,000.00	22,710,000.00	-	87,570,000.00	-	-
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	82,800,500.00	-	95,381,794.18	-	-
Wei Ling	10,444,783.48	-	-	10,444,783.48	-	-
Guangyao Haima	7,000,000.00	-	-	7,000,000.00	-	-
Baiyunshan Pharmaceutical Technology	1,020,000.00	-	-	1,020,000.00	-	-
Baiyunshan Great Health Hotel	500,000.00	-	-	500,000.00	-	-
Guangzhou Baiyunshan Chemical Technology Co., Ltd.	51,000,000.00	12,470,000.00	-	63,470,000.00	-	-
Baiyunshan Medical Health	106,500,000.00	-	-	106,500,000.00	-	-
Guangyao General Institute	70,000,000.00	-	-	70,000,000.00	-	-
Guangzhou baiyunshan Pharmaceutical Marketing Co., Ltd.	10,000,000.00	-	-	10,000,000.00	-	-
WLJ Investment	10,000,000.00	10,000,000.00	-	20,000,000.00	-	-
Total	2,177,185,363.78	927,980,500.00	-	3,105,165,863.78	-	171,000,000.00

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 2016	Current period movement	Current changes			Cash dividends declared to distribute	Others	30 June 2017	Provision for impairment	Impairment losses recognised in current period
				Under the equity method to confirm the investment profit and loss	Current period movement on other comprehensive income	Other equity movement					
Equity method:											
Jointly- controlled entities:											
GP Corp.	396,589,139.78	1,269,737,080.88	-	70,120,021.65	-	-	-	-	1,339,857,102.53	-	-
Wang Lao Ji	102,035,124.44	377,253,851.57	-	4,898,726.06	-	-	-	-	382,152,577.63	-	-
HMBYS	100,000,000.00	415,356,117.25	-	42,063,958.88	-	-	(50,000,000.00)	-	407,420,076.13	-	-
Baxter Qiao Guang	37,000,000.00	36,324,856.06	-	(1,251,491.46)	-	-	-	-	35,073,364.60	-	-
Associates:											
Guangzhou Jinshen Pharmaceutical Technology Co., Ltd.											
	765,000.00	-	-	-	-	-	-	-	-	-	-
Golden Eagle Asset Management Co., Ltd.											
	50,000,000.00	43,886,532.54	-	7,022,217.71	-	-	-	-	50,908,750.25	-	-
Wei Yi Co., Ltd.	2,020,000.00	1,996,197.47	-	8,492.09	-	-	-	-	2,004,689.56	-	-
Sub-total of equity method	688,409,264.22	2,144,354,635.77	-	122,861,924.93	-	-	(50,000,000.00)	-	2,217,416,560.70	-	-

(c) There are no limitation on fund transfer between the Group and its investing entities.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(4) Revenue and cost of sales

	For the six months ended 30 June 2017		
	Principal operation	Other operations	Subtotal
Revenue	1,404,128,847.39	197,551,911.29	1,601,680,758.68
Cost of operation	598,252,958.84	89,342,485.96	687,595,444.80
Gross profit	805,875,888.55	108,209,425.33	914,085,313.88

	For the six months ended 30 June 2016		
	Principal operation	Other operations	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

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

	Revenue from principal operation		Cost of principal operations	
	For the six months ended 30 June 2017	For the six months ended 30 June 2016	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Great Southern TCM	1,404,113,194.91	1,301,226,789.48	598,242,860.72	623,183,101.10
Great Commerce	15,652.48	1,771.39	10,098.12	1,333.87
	1,404,128,847.39	1,301,228,560.87	598,252,958.84	623,184,434.97

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 summarised as follows:

	Revenue from principal operation		Cost of principal operation	
	For the six months ended 30 June 2017	For the six months ended 30 June 2016	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Southern China	1,208,963,563.12	1,131,297,098.72	501,822,295.50	530,802,031.98
Eastern China	68,723,941.80	55,584,024.78	35,704,631.67	33,060,764.91
Northern China	48,110,268.95	34,638,724.66	23,920,458.99	18,733,482.44
North east China	7,642,142.01	4,388,652.52	4,789,322.07	2,500,110.57
South west China	59,519,540.53	71,235,725.01	28,334,824.09	36,242,679.37
North west China	11,169,390.98	4,084,335.18	3,681,426.52	1,845,365.70
	1,404,128,847.39	1,301,228,560.87	598,252,958.84	623,184,434.97

(c) The total top five of customer sales is RMB1,127,065 thousand, which accounts for 80.28% of revenue from principal operation this period.

	Revenue from principal operation	% of revenue from principal operation of the company
Customer 1	1,003,047,590.62	71.44%
Customer 2	41,088,696.58	2.93%
Customer 3	32,931,512.54	2.35%
Customer 4	29,971,893.35	2.13%
Customer 5	20,024,826.16	1.43%
	1,127,064,519.25	80.28%

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(5) Investment income

(a) Details of Investment income

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Investment Income from financial assets: Investment Income in the period of holding of financial assets based on fair value to confirm profit or loss	201,347.70	–
Investment Income from long-term equity investments under cost method	–	(3,342,762.22)
Investment Income from long-term equity investments under equity method	122,861,924.93	132,284,947.45
Investment Income from disposal long-term equity investments	–	–
	123,063,272.63	128,942,185.23

(b) Among the long-term equity investments measured at cost method, there is 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 follows:

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
GP Corp.	70,120,021.65	59,992,864.53

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 2017	For the six months ended 30 June 2016
(a) Reconciliation from net profit to cash flows from operating activities		
Net profit	551,533,110.37	395,620,108.83
Add: Provisions for asset impairment	(1,551,076.14)	1,550,604.58
Depreciation and amortization of fixed assets and investment property	28,729,824.64	28,374,611.40
Amortization of intangible assets	4,535,804.11	3,103,367.27
Amortization of long-term prepaid expenses	328,465.81	255,141.61
Gains on disposal of fixed assets, intangible assets and other long-term assets	753,245.53	(9,530.54)
Losses on scrapping of fixed assets	-	-
Loss (less: gains) on change in fair value	1,195,001.81	983,936.93
Financial expenses	2,992,082.82	10,442,622.65
Investment income	(148,954,430.52)	(128,942,185.23)
Decrease in deferred tax assets (less: increase)	-	-
Increase (less: decrease) in deferred tax liabilities	-	-
Decrease (less: increase) in inventories	(41,163,946.91)	84,104,822.78
Decrease in operating receivables (less: increase)	(172,332,629.96)	(231,110,023.79)
Increase in operating payables (less: decrease)	76,082,372.70	187,204,478.02
Others	-	-
Net cash flows from operating activities	302,147,824.26	351,577,954.51
(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	6,360,383,937.19	1,266,564,635.87
Less: Cash at beginning of year	8,326,923,391.07	960,889,437.00
Add: Cash equivalents at end of period	-	-
Less: Cash equivalents at beginning of year	-	-
Net movement in cash and cash equivalents	(1,966,539,453.88)	305,675,198.87

SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

1 SUMMARY OF NON-RECURRING PROFIT OR LOSS

Item	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Losses on disposal of non-current assets	(1,159,521.15)	(385,189.19)
Tax return or exemption without proper authorization	-	-
Government grants recognised in profits or losses(excluding those government grants that are closely relevant to the Group's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government)	67,077,203.90	188,530,247.36
Interests received from entities other than financial institutions recognised in profits or losses	-	-
Gains arising from the difference between Investment cost on subsidiaries, associates and jointly controlled entities and the fair value of the net assets attributable to the Group	-	-
Gains or losses arising from non-monetary assets exchange	-	-
Gains or losses arising from entrusted investments or entrusted asset management	-	-
Asset impairment provided in current year due to forced majeure (e.g. natural disasters)	-	-
Gains or losses arising from debt restructuring	-	-
Corporate restructuring costs (e.g. staff replacement costs and costs during the course of integration)	-	-
Gains or losses arising from the difference between the fair value and transaction price in obviously unfair transactions	-	-
Net profit of subsidiaries acquired under common control from beginning of year to the merger date	-	-
Gains or losses arising from contingencies irrelevant to the Group's normal business	-	-
Gains or losses from changes in fair value of financial assets and liabilities held for trading except for hedging contracts and disposal of financial assets and liabilities held for trading and available-for-sale financial assets	(1,195,001.81)	(983,936.93)
Reversal of provision for bad-debts of accounts receivable subject to separate provision	917,629.30	1,577,015.98
Gains or losses arising from entrusted loan granted to other entities	-	-
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	(27,986,059.30)	(14,681,641.63)
Other profit or loss items meeting the definition of non-recurring profit or loss	-	-
Impact on income tax	(6,664,617.83)	(38,881,119.02)
Impact on minority interests (post-tax)	41,107.08	(698,742.71)
Total	31,030,740.19	134,476,633.86

SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

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 2017			
Net profit attributable to ordinary shareholders of the Company	6.46%	0.712	0.712
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	6.29%	0.693	0.693

	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

SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(All amounts in Renminbi yuan unless otherwise stated) [English Translation for Reference Only]

2 RETURN ON NET ASSETS AND EARNINGS PER SHARE: (Continued)

For The six months ended 30 June 2017	Overall diluted return on net assets	Earnings per share	
		Overall diluted basic earnings per share	Overall diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	6.42%	0.712	0.712
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	6.25%	0.693	0.693

For the six months ended 30 June 2016	Overall diluted return on net assets	Earnings per share	
		Overall diluted basic earnings per share	Overall diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	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

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 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;
- III. The documents listed above are available at the Secretariat of the Company.