**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**



廣州白雲山医药集团股份有限公司
GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS CO., LTD.

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

**(H Share Stock Code: 0874)**

# VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE PROPOSED ACQUISITION OF 30% OF THE EQUITY INTEREST IN GUANGZHOU PHARMACEUTICALS CORPORATION AND GRANT OF PUT OPTIONS TO THE VENDOR TO SELL 20% OF THE EQUITY INTEREST IN GUANGZHOU PHARMACEUTICALS CORPORATION AND NOTICE OF EXTRAORDINARY GENERAL MEETING

**Financial Adviser to the Company**

時富金融 CFSG
Celestial Capital Limited

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

A letter from the Board is set out on pages 5 to 25 of this circular.

A notice convening the EGM to be held at the conference room of the Company, 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC on 29 March 2018 at 10:00 a.m. or any adjournment thereof is set out on pages EGM-1 to EGM-6 of this circular. Whether or not you are able to attend the meeting, please complete and return the accompanying proxy form in accordance with the instructions printed thereon as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and in such event, the instrument appointing a proxy shall be deemed to have been revoked.

12 February 2018

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

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| "A Shares" | domestic shares of nominal value of RMB1.00 each in the share capital of the Company, which are listed on the SSE and denominated in RMB |
| "Appraised Value" | the appraised value of the Target Group of approximately RMB4,624.7 million (equivalent to approximately HKD5,500.6 million) as at the Valuation Date set out in the Valuation Report |
| "Board" | the board of Directors |
| "Business Day" | a day on which banks are open for business in the PRC and England (excluding Saturdays, Sundays, bank holidays and public holidays) |
| "Company" or "Purchaser" | Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited* (廣州白雲山醫藥集團股份有限公司), a joint stock limited liability company established in the PRC, the H Shares of which are listed on the Hong Kong Stock Exchange and the A Shares of which are listed on the SSE |
| "Completion" | completion of the Proposed Acquisition in accordance with the terms and conditions of the Equity Interest Transfer Agreement |
| "Completion Date" | the date of Completion |
| "connected person" | has the same meaning as ascribed to it under the Listing Rules |
| "Consideration" | the total consideration for the Proposed Acquisition in the amount of RMB1,094.1 million (equivalent to approximately HKD1,301.3 million) |
| "CSRC" | the China Securities Regulatory Commission |
| "Director(s)" | the director(s) of the Company |
| "EGM" | the extraordinary general meeting of the Company to be held on 29 March 2018 (Thursday) at the conference room of the Company, 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC for seeking the Shareholders' approval in respect of, among other things, the Equity Interest Transfer Agreement, the Joint Venture Contract and the respective transactions contemplated thereunder |

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| "Enlarged Group" | the Group as enlarged by the Proposed Acquisition upon Completion |
| "Equity Interest Transfer Agreement" | the conditional agreement dated 21 December 2017 in relation to the Proposed Acquisition and Put Option A and entered into amongst the Company, the Vendor and the Target Company |
| "GPHL" | Guangzhou Pharmaceutical Holdings Limited* (廣州醫藥集團有限公司), a state-owned enterprise established by, and under the administration of, the Guangzhou Municipal People's Government State-owned Assets Supervision and Administration Commission in the PRC. It is the controlling shareholder (as defined under the Listing Rules) of the Company which held approximately 45.04% of the Shares in issue as at the Latest Practicable Date |
| "Group" | the Company and its subsidiaries |
| "HIHPA" | hospital in-patient pharmacy project(s) |
| "HKD" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Hong Kong" | the Hong Kong Special Administrative Region |
| "Hong Kong Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "H Shares" | foreign shares of nominal value of RMB1.00 each in the share capital of the Company, which are listed on the Hong Kong Stock Exchange and denominated in HKD |
| "Independent Third Party(ies)" | third party(ies) who is/are independent of, and not connected with, the Company and its connected persons |
| "Independent Valuer" | Guo Zhong Lian Assets Evaluation, Land & Real Estate Appraisal Company Limited* (國眾聯資產評估土地房地產估價有限公司), an independent qualified PRC valuer engaged for the purpose of issuing the Valuation Report |
| "Joint Venture Contract" | the joint venture contract dated 21 December 2017 and entered into by and among the Company, the Vendor and the Target Company in relation to the Target Company |
| "Latest Practicable Date" | 6 February 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange |

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| "Long Stop Date" | 31 December 2018 or such other date as the Company and the Vendor may agree in writing |
| "Option A Exercise Notice" | a written notice required to be served by the Vendor to the Company in relation to the exercise by the Vendor of Put Option A |
| "Option A Exercise Price" | the exercise price of Put Option A, details of which are set out in the paragraph headed "Option A Exercise Price" under the section headed "Put Option A" of the Letter from the Board in this circular |
| "Option Equity Interest" | the subject of each of Put Option A and Put Option B, being 20% equity interest in the registered capital of the Target Company currently held by the Vendor |
| "PRC" | the People's Republic of China and, for the purpose of this circular only, excludes Hong Kong, Macau Special Administrative Region and Taiwan |
| "Proposed Acquisition" | the proposed acquisition of the Target Equity Interest by the Company |
| "Put Option A" | the right (but not obligation) granted by the Company to the Vendor in respect of the sale by the Vendor to the Company all of the Option Equity Interest currently held by the Vendor at any time during the Option A Exercise Period at the Option A Exercise Price |
| "Put Option B" | the right (but not obligation) granted by the Company to the Vendor under the Joint Venture Contract in respect of the sale by the Vendor to the Company part or all of the Option Equity Interest currently held by the Vendor in case there is a change in control of the Target Company, details of which are set out in the paragraph headed "Rights of the Vendor in case of change in control of the Target Company or of the Company" under the section headed "The Joint Venture Contract" of the Letter from the Board in this circular |
| "Put Options" | Put Option A and Put Option B |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "SFO" | the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong |
| "Share(s)" | A Share(s) and H Share(s) |
| "Shareholder(s)" | holder(s) of the A Shares and/or the H Shares |

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| "SSE" | the Shanghai Stock Exchange |
| "subsidiary" | has the meaning ascribed to it under the Listing Rules |
| "Target Company" | Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司), a limited liability company established in the PRC, which is currently owned as to 50% by the Company and as to 50% by the Vendor |
| "Target Equity Interest" | the 30% equity interest in the registered capital of the Target Company currently held by the Vendor |
| "Target Group" | the Target Company and its subsidiaries |
| "Target Group Valuation" | the valuation of the Target Group as at the Valuation Date by the Independent Valuer by adopting the discounted cash flow method under the income-based approach as the valuation methodology |
| "United States" | the United States of America |
| "USD" | United States dollars, the lawful currency of the United States |
| "Valuation Date" | 30 September 2017 |
| "Valuation Report" | the report dated 21 December 2017 issued by the Independent Valuer with regard to the Target Group Valuation |
| "Vendor" | Alliance BMP Limited, a company incorporated in England with limited liability and owned 50% of the equity interest in the Target Company as at the Latest Practicable Date |
| "YEN" | Japanese Yen, the lawful currency of Japan |

*For the purpose of this circular, the translation of RMB into HKD is based on the approximate exchange rate of RMB1.00 = HKD1.1894 as set out in the announcement of the Company dated 22 December 2017 in relation to the Proposed Acquisition and the Put Options. Such translation should not be construed as a representation that the amount in question has been, could have been or could be converted at any particular rate or at all.*

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*Executive Directors:*
Mr. Li Chuyuan
Mr. Chen Mao
Ms. Liu Juyan
Ms. Cheng Ning
Mr. Ni Yidong
Mr. Wu Changhai

*Independent non-executive Directors*
Mr. Chu Xiaoping
Mr. Jiang Wenqi
Mr. Wong Hin Wing
Ms. Wang Weihong

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

*Principal place of business in Hong Kong:*
Room 2005, 20th Floor
Tower Two Lippo Centre
89 Queensway
Hong Kong

12 February 2018

*To the Shareholders*

Dear Sir/Madam,

**VERY SUBSTANTIAL ACQUISITION
IN RELATION TO THE PROPOSED ACQUISITION OF
30% OF THE EQUITY INTEREST IN
GUANGZHOU PHARMACEUTICALS CORPORATION
AND
GRANT OF PUT OPTIONS TO THE VENDOR TO SELL
20% OF THE EQUITY INTEREST IN
GUANGZHOU PHARMACEUTICALS CORPORATION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

## INTRODUCTION

Reference is made to the announcement of the Company dated 22 December 2017 whereby it was announced, among other things, that the Board resolved to approve, among other things, the Proposed Acquisition and the grant of the Put Options. Pursuant to the relevant Board resolution(s), the Company, the Vendor and the Target Company entered into the Equity Interest Transfer Agreement on 21 December 2017, pursuant to which (a) the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to acquire, the Target Equity Interest at the Consideration of RMB1,094.1 million (equivalent to approximately HKD1,301.3 million) by way of cash; and (b) the Company has conditionally agreed to grant Put Option A to the Vendor. The parties also entered into the Joint Venture Contract for the purposes of setting out the respective rights and obligations of the Company and the Vendor as owners of the equity interests in, and regulating the affairs relating to the business and management of, the Target Company following Completion. Under the Joint Venture Contract, the Company has granted Put Option B to the Vendor.

Pursuant to the Listing Rules, the Proposed Acquisition and the grant of the Put Options are required to be aggregated and, on this basis, the Proposed Acquisition and the grant of each of Put Option A and Put Option B together constituted a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. Accordingly, the Proposed Acquisition and the grant of the Put Options are subject to the announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The purpose of this circular is to provide you with, among other things, (i) further details of the Proposed Acquisition and the Put Options; (ii) further information about the Group, the Target Group and the Enlarged Group; (iii) the Valuation Report; (iv) a notice of the EGM; and (v) other information as required under the Listing Rules.

## THE PROPOSED ACQUISITION

Set out below is a summary of the principal terms of the Equity Interest Transfer Agreement in relation to the Proposed Acquisition:

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| **Date:** | 21 December 2017 |
| **Parties:** | (i) Alliance BMP Limited (as vendor);<br>(ii) the Company (as purchaser); and<br>(iii) the Target Company. |
| **Subject matter:** | Sale and purchase of the Target Equity Interest, being 30% equity interest in the registered capital of the Target Company currently held by the Vendor. |

**Consideration:** The Consideration shall be RMB1,094.1 million (equivalent to approximately HKD1,301.3 million) payable in cash. The Consideration was determined after arm's length negotiations between the Company and the Vendor and with references to the Appraised Value (details of the Appraised Value, the Target Group Valuation and the Valuation Report are set out in the paragraph headed "Basis of the determination of the Consideration and the Target Group Valuation" below) and the distribution of a total of RMB910 million by the Target Company to the Company and the Vendor in equal shares as approved by the board of directors of the Target Company on 25 October 2017.

**Payment of the Consideration:** Full amount of the Consideration, after deduction of the applicable PRC enterprise withholding income tax, shall be paid by the Company in USD on a date no later than the Completion Date. The USD equivalent of the Consideration shall be calculated based on the middle exchange rate of RMB against USD published by the People's Bank of China on the date of payment of the Consideration.

As at the Latest Practicable Date, no part of the Consideration had been paid by the Company to the Vendor. Pursuant to the terms of the Equity Interest Transfer Agreement, the Company is required to deliver documents evidencing payment of the Consideration at Completion. After receipt of the Consideration by the Vendor, it should work with the Company to, among other things, submit application(s) with supporting documents (which shall include proof of payment and receipt of the Consideration) to the relevant Administration for Industry and Commerce (the "**AIC**") of the PRC for, among other things, registration of the transfer of the Target Equity Interest and obtain the receipt of the said application(s) issued by the relevant AIC. Accordingly, the Company plans to settle the Consideration after confirmation of the satisfaction (or waiver by the Company and/or the Vendor, as the case may be) of all the conditions precedent by the Vendor and the Purchaser as set out in the paragraph headed "completion" below but shortly before Completion in order to allow both the Company and the Vendor to perform their duties at Completion.

**Interim period profit and loss:** Pursuant to the applicable rules of the CSRC, based on the audit of the accounts of the Target Company for the period from the Valuation Date to the Completion Date (the "**Interim Period**") to be carried out by an independent auditor and the related statement of profit and loss of the Target Company to be issued by the said auditor (the "**Interim Period P&L**"):

(i) if a net profit attributable to owners of the parent company is recorded in the Interim Period P&L (the "**Interim Period Profit**"), the Vendor and the Company shall be entitled to the Interim Period Profit in proportion to their respective equity interests in the Target Company upon Completion (i.e. 20% held by the Vendor and 80% held by the Company); and

(ii) if a net loss attributable to owners of the parent company is recorded in the Interim Period P&L, the Vendor shall compensate the Company in cash in the amount equal to 30% of such net loss.

Notwithstanding the foregoing, the Company and the Vendor further agreed that if there is any change to the relevant rules or policies of the CSRC on or prior to the Completion Date, and to the extent permissible under the applicable rules of the CSRC as of the Completion Date, the Vendor and the Company shall be entitled to the Interim Period Profit in proportion to their respective equity interests in the Target Company prior to the Completion (i.e. 50% held by the Vendor and 50% held by the Company). The terms of the Equity Interest Transfer Agreement which provided that the Company and the Vendor shall be entitled to the Interim Period Profit in the proportion to their respective interests in the Target Company upon Completion (i.e. 20% held by the Vendor and 80% held by the Company) instead of 50:50 was principally for compliance of the applicable rules of the CSRC in this regard. However, after taking into account the prevailing market practice and after arm's length negotiation between the parties, it was further agreed that to the extent permissible under the applicable rules of the CSRC as of the Completion Date, the entitlement to the Interim Period Profit shall be in the proportion of 50:50 as disclosed above. The Directors consider that the 50:50 arrangement reflects the prevailing market practice as at the date of the Equity Interest Transfer Agreement and will be implemented only if it is permissible under the applicable rules of the CSRC as of the Completion Date. Accordingly, the Directors believe that such arrangement is fair and reasonable.

**Conditions precedent:**

Completion is conditional upon each of the following conditions precedent being satisfied and/or waived (in full or in part) on or before the Long Stop Date:

(i) the Equity Interest Transfer Agreement, the Joint Venture Contract and (if any) the amended and restated joint venture articles of association having been duly executed;

(ii) the board of directors of the Target Company having duly passed the resolutions approving the sale and purchase of the Target Equity Interest by the Vendor and the Purchaser respectively;

(iii) the notification of concentration of undertakings (經營者集中申報) with respect to the Proposed Acquisition having been duly cleared by the Anti-monopoly Bureau of the Ministry of Commerce of the PRC (if applicable);

(iv) the relevant certificate or equivalent written document having been issued by the Ministry of Commerce of the PRC or any of its local branches evidencing the completion of the foreign investment filing with respect to the Proposed Acquisition;

(v) each of the Company and the Vendor having prepared and made available the documents necessary for removal and/or appointment of the directors and/or the senior management of the Target Company;

(vi) the Company having completed the relevant approval, filing and/or disclosure procedures required by the stock exchange(s) where it is listed and/or any other securities regulatory body;

(vii) each of the warranties made by each of the Company and the Vendor is true and accurate in all respects as of the date of the Equity Interest Transfer Agreement and having remained to be true and accurate on each day up to and including the Completion Date;

(viii) the foreign exchange registration receipt (外匯業務登記憑證) relating to the payment of the USD equivalent of the Consideration by the Company having been issued by The State Administration of Foreign Exchange or the relevant local authorities of the PRC; and

(ix) the Proposed Acquisition not having been restricted, enjoined, prohibited, declared invalid or otherwise prevented (or sought to prevent) by any government authority, stock exchange or financial institution in the PRC, the United Kingdom or any other relevant jurisdiction.

Except for the conditions precedent set out in (ii), (iii), (vi) and (ix) which cannot be waived by either the Company or the Vendor, each of the Company and the Vendor may waive other conditions precedent that the other party is obliged to satisfy.

If any condition precedent has not been satisfied or waived (as the case may be) by the Long Stop Date due to reason(s) not attributable to the Company or the Vendor, either the Company or the Vendor may terminate the Equity Interest Transfer Agreement by serving written notice to the other party.

As at the Latest Practicable Date, conditions precedent (ii) has been fully satisfied. In relation to conditions precedent (i), the Equity Interest Transfer Agreement and the Joint Venture Contract had been duly executed but the amended and restated joint venture articles of association has not yet been executed as at the Latest Practicable Date.

**Completion:** On the second (2nd) Business Day following the fulfilment (or waiver by the Company and/or the Vendor, as the case may be) of each of the conditions precedent, or at such later date as the Company and the Vendor may otherwise agree in writing, a meeting of the Vendor and the Company will be held to confirm the fulfilment (or waiver, as the case may be) of each of the conditions precedent. Completion shall then take place on the second (2nd) Business Day after the date of such pre-completion meeting or such later date as the Vendor and the Purchaser may otherwise agree in writing.

**Basis of the determination of the Consideration and the Target Group Valuation**

The Consideration was determined after arm's length negotiations between the Company and the Vendor and with reference to, among others, the Appraised Value. The Appraised Value was confirmed in the Valuation Report issued by the Independent Valuer, which had performed an independent valuation in respect of the Target Group using the income-based approach and the market value approach, and had adopted the income-based approach as the valuation methodology for the Valuation Report relating to the Target Group Valuation. The Valuation Report has been filed with the relevant authority(ies) for the supervision and administration of state-owned assets. In preparing the Target Group Valuation and the Appraised Value, the Independent Valuer applied the discounted cash flow method under income-based approach and based on certain assumptions, which constituted a profit forecast under Rule 14.61 of the Listing Rules, and the requirements under Rule 14.62 of the Listing Rules were therefore applicable. Details of the principal assumptions of the Target Group Valuation are as follows:

1. ***Basic assumptions***

*(a) Transactional assumption*

Transactional assumption is to assume that all the appraised assets are already in the course of transaction and the valuer carries out the valuation based on a simulated market with reference to the conditions of the trade of the appraised assets.

*(b) Open market assumption*

Open market assumption assumes that there are well-developed and perfect market conditions with willing buyer and willing seller, both of which are in equal position and have opportunities and time in obtaining sufficient market information to, without any forced conditions or limitation, take voluntary and rational action in respect of the transaction.

*(c) Continuing operation assumption*

It is assumed that the appraised entity, after realising the economic activities which are the purpose of the valuation, will continue to operate in the operating period as stipulated in the articles of association of the Target Company in accordance with its original business objectives, mode of operation, management standards, financial structure, industry conditions and market conditions, and that its revenue is forecastable.

*(d) Continuing use assumption*

Continuing use assumption assumes that the appraised assets (including assets currently being employed and reserved assets) are being used and, based on the relevant data and information, will continue to be employed. It is further assumed by the Independent Valuer that the appraised assets currently being employed will continue to be employed according to the existing usage purpose and manner after change in property rights or related business.

2. ***General assumptions***

(a) It is expected that there will be no material change in the relevant laws, regulations and policies applicable to the industry of the appraised entity.

(b) It is expected that there will be no material change in the economic and social environment and the overall economic development, save and except for those changes already known to the public.

(c) The fluctuation in the bank's interest rates and exchange rates in the PRC will be within a reasonable range.

(d) There will be no material change in the current national taxation policies, save and except for those changes already known to the public.

(e) There will be no unpredictable or force majeure factor that would cause material adverse effect.

(f) There will be no material change in the accounting policy and measurement method of the appraised entity after the Valuation Date.

(g) The free cash flow of the appraised entity will be generated evenly in each forecast period.

(h) There will be no material change in the mode of operation of the appraised entity.

3. ***Special assumptions***

(a) With regard to the legal description or legal issues of the appraised assets (including their ownership or encumbrance limitations), apart from those disclosed in the Valuation Report, the ownership of the appraised assets is assumed to be in good condition and tradable in the market, not subject to any lien and easement, have not been violated and bearing no other encumbrances.

(b) The Independent Valuer has conducted independent review of the information provided by the Company and other parties upon which the conclusion, in whole or in part, relating to the Appraised Value set out in the Valuation Report pursuant to the valuation procedures. The Independent Valuer makes no representation as to the authenticity and accuracy of such information.

(c) It is assumed that all certificates, licenses, letters of consent or other legal or administrative authorization documents signed or issued by relevant local and national governmental institutions, private organisations or groups, which are required by the users and have been taken into account in deriving the valuation set out in the Valuation Report, have been or could be obtained or updated at any time.

(d) The valuation is made based on the purchasing power of the local currency on the Valuation Date.

(e) All improvements on all relevant assets performed by the Target Company are in compliance with all relevant laws and the regulations, and other laws, plans, or engineering requirements set by the relevant higher competent administrations.

(f) Estimations made in the Valuation Report are based on the assumption that all significant or potential factors which may affect the valuation analysis have been fully disclosed between the Independent Valuer and the appraised entity.

4. ***Assumptions relating to business operation and forecast***

(a) It is assumed that the appraised entity will continue to develop and operate its relevant assets according to development and operation plans and planned modes of development and operation after realising the economic activities which are the purpose of the valuation.

(b) It is assumed that the current macroeconomic policy environment, including the relevant laws, regulations and administrative policies, industrial policies, financial policies and tax policies, is relatively stable. Unless otherwise stated, it is assumed that the appraised entity fully complies with all relevant laws and regulations.

(c) It is assumed that there will be no material changes in the international financial environment, global economic environment and national macroeconomic conditions, and that there will be no material change in the political, economic and social environment in which the appraised entity operates.

(d) It is assumed that there will be no material change in the interest rates, exchange rates, tax bases and tax rates, and charges under relevant implemented policies.

(e) It is assumed that the conditions of the assets of the appraised entity would not be the same all the time during the period of continuing operation.

(f) The valuation is based on the existing operating capability of the appraised entity on the Valuation Date (not taking into account the potential future expansion of the business capability related to the management, business strategies and additional investments, as well as the possible impacts of any changes in subsequent productions and operations). It is assumed that the appraised entity will maintain the total investment amount as at the Valuation Date, and the level of financial leverage will remain substantially the same.

(g) It is assumed that the appraised entity will continue to operate in accordance with the then existing management standards as at the Valuation Date, and the management of the appraised entity is diligent, responsible and is relatively stable and capable of performing its duties (not taking into account any impacts on expected future revenues brought by substantial adjustments of the operators or substantial changes in the management level).

(h) It is assumed that the accounting policies to be adopted by the appraised entity in future and adopted at the time of preparation of the Valuation Report are substantially the same.

(i) It is assumed that the appraised entity fully complies with the relevant national and local laws and regulations which are applicable to carry out lawful operations.

KPMG Huazhen LLP, the auditor of the Target Company has been engaged by the Company to review the calculations of the discounted future cash flows of the Target Group (the "**Target Group Discounted Future Cash Flows**") on which the Target Group Valuation prepared by the Independent Valuer were based. KPMG Huazhen LLP has reported, so far as the calculations are concerned, the Target Group Discounted Future Cash Flows have been properly compiled in all material aspects in accordance with the bases and assumptions as set out therein. The relevant assurance report from KPMG Huazhen LLP is set out in Appendix VI to this circular for the purpose of Rule 14.62 of the Listing Rules.

Celestial Capital Limited ("**Celestial Capital**"), the financial advisor of the Company with respect of the Proposed Acquisition, has reviewed the Target Group Valuation and has discussed with the respective management of the Company and the Target Company the principal assumptions upon which the Target Group Valuation were based. Celestial Capital has also considered the above assurance report from KPMG Huazhen LLP addressed solely to and for the sole benefit of the Directors regarding the calculations of the Target Group Discounted Future Cash Flows. On the basis of the foregoing, Celestial Capital has confirmed that it is satisfied that the Target Group Valuation has been made by the Directors after due and careful enquiry. The relevant letter from Celestial Capital is set out in Appendix VII to this circular for the purpose of Rule 14.62 of the Listing Rules.

**PUT OPTION A**

Set out below is a summary of the principal terms of the Equity Interest Transfer Agreement in relation to Put Option A:

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| **Subject matter:** | Grant of Put Option A by the Company to the Vendor. Put Option A refers to the right (but not obligation) conditionally granted by the Company to the Vendor in respect of its sale to the Company all the Option Equity Interest, being 20% equity interest in the registered capital of the Target Company currently held by the Vendor. |
| **Option A Exercise Period:** | Subject to the occurrence of Completion, the Vendor may exercise Put Option A in full during the period commencing from six months after the Completion Date up to thirty-six months after the Completion Date (the "**Option A Exercise Period**") by serving the Option A Exercise Notice. |

**Option A Exercise Price:** If the Vendor decides to exercise Put Option A and serves an Option A Exercise Notice to the Company, the Company and the Vendor shall, within fifty Business Days from the date of the Option A Exercise Notice, determine the Option A Exercise Price in respect of the relevant Option Equity Interest (the "**Relevant Option Equity Interest**") (i) based on the then appraised value of the Target Company as confirmed by an independent qualified PRC valuer which shall make priority reference to the valuation methodology adopted for the Valuation Report; (ii) to the extent permissible under the requirements relating to the administration of the state-owned assets under the applicable laws, rules and regulations of the governmental and regulatory authorities in the PRC and Hong Kong, the Option A Exercise Price should not be lower than the Consideration after adjusting proportionally; and (iii) by taking into account any increase in the registered capital of the Target Company or declaration of profit distribution to equity owners as approved by the board of directors of the Target Company after the date on which the Joint Venture Contract was signed but before the exercise of Put Option A by the Vendor.

**Transfer agreement relating to the Relevant Option Equity Interest:** Within 10 Business Days from the date of determination of the Option A Exercise Price, the Company and the Vendor shall enter into a transfer agreement relating to the Relevant Option Equity Interest, the terms and conditions of which shall be in accordance with those of the Equity Interest Transfer Agreement as far as possible.

Within three months from the date of receiving the Option A Exercise Notice by the Company, the Company and/or the Vendor should obtain all necessary approvals from the relevant governmental and regulatory authorities in the PRC in respect of the transfer of the Relevant Option Equity Interest at the Option A Exercise Price determined according to the basis mentioned above.

**THE JOINT VENTURE CONTRACT**

For the purposes of setting out the respective rights and obligations of the Company and the Vendor as owners of the equity interests in, and regulating the affairs relating to the business and management of, the Target Company following Completion, the Company, the Vendor and the Target Company also entered into the Joint Venture Contract on the date of the Equity Interest Transfer Agreement. The Joint Venture Contract shall come into effect on the Completion Date. Set out below is a summary of the principal terms of the Joint Venture Contract:

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| **Joint venture term:** | Thirty years from the Completion Date. |
| **Exercise of Put Option A by the Vendor:** | Pursuant to the Joint Venture Contract, if the Vendor exercises Put Option A but completion of the transfer of the Relevant Option Equity Interest has not taken place within six months (which may be extended by the Vendor at its sole discretion) from the date of the relevant Option A Exercise Notice, the Vendor shall have the right to elect, by written notice to the Company, to (i) revoke the Option A Exercise Notice (in that case the Vendor shall continue to be entitled to Put Option A within the Option A Exercise Period); (ii) revoke the Option A Exercise Notice and sell any or all of the Option Equity Interest held by it to any third party (in that case the Company shall waive its pre-emptive right in relation to the Option Equity Interest held by the Vendor); or (iii) liquidate the Target Company. |
| **Rights of the Vendor in case of change in control of the Target Company or of the Company** | If the equity interest directly or indirectly held by the Company in the Target Company decreases to not more than 50% (referred to as "change in control of the Target Company"), the Vendor shall have the right to elect to sell all or part of the Option Equity Interest (i.e. Put Option B) and, in such case, the Company shall purchase, or procure the third party(ies) that will hold more than 50% of the equity interest in the Target Company to purchase, from the Vendor such Option Equity Interest that the Vendor has elected to sell. |

In case the shareholding interest directly or indirectly held by GPHL in the Company becomes less than 30% (referred to as "change in control of the Company"), the Vendor shall have the right to elect to sell all or part of the Option Equity Interest and, in such case, the Company shall procure the third party(ies) that will hold 30% or more of the shareholding interest in the Company to purchase from the Vendor such Option Equity Interest that the Vendor has elected to sell.

The price of the Relevant Option Equity Interest (i.e. the Option Equity Interest to be disposed of by the Vendor upon exercising its rights in cases of change in control of the Target Company or change in control of the Company) shall be determined based on the enterprise value of the Target Company as appraised by a qualified independent valuer and in compliance with the applicable laws, rules and regulations of the governmental and/or regulatory authorities in the PRC and Hong Kong.

**Management of the Target Company:** The board of directors of the Target Company shall consist of nine directors, seven of whom shall be appointed by the Company and two of whom shall be appointed by the Vendor. The quorum for any meeting of the board of directors of the Target Company shall be two-thirds of the directors, including at least one director who is appointed by the Company and at least one director who is appointed by the Vendor. The Company and the Vendor shall respectively appoint the chairman and vice-chairman of the board of directors of the Target Company.

## INFORMATION ON THE TARGET GROUP

The Target Company is a Sino-foreign equity joint venture limited liability company established in the PRC which is owned as to 50% by the Company and 50% by the Vendor as at the Latest Practicable Date. The Target Group is principally engaged in the wholesale, retail, import and export of medicine, biological products, healthcare food and medical apparatus. The wholesale operation represents a substantial portion of the business of the Target Group. Sales generated from the wholesale operation accounted for approximately 98.0% of the audited consolidated revenue of the Target Group in each of the two years ended 31 December 2015 and 2016. The Target Group distributes pharmaceutical products of manufacturers to other wholesalers, retailers and end users (including but not limited to hospitals), which are mainly located in southern PRC.

Set out below is the revenue, profit and certain other financial information on the Target Group for the two financial years ended 31 December 2015 and 2016 and for the 9 months ended 2017 respectively:

| | **For the year ended 31 December 2015** *(RMB '000)* *(audited)* | **For the year ended 31 December 2016** *(RMB '000)* *(audited)* | **For the nine months ended 30 September 2017** *(RMB '000)* *(audited)* |
|---|---|---|---|
| Revenue | 29,393,175 | 33,004,805 | 27,270,919 |
| Profit before tax | 311,877 | 343,210 | 262,794 |
| Profit after tax and before non-controlling interests | 235,308 | 250,079 | 194,534 |
| Profit after tax and after non-controlling interests | 215,800 | 225,906 | 183,989 |

| | **As at 31 December 2015** *(RMB '000)* *(audited)* | **As at 31 December 2016** *(RMB '000)* *(audited)* | **As at 30 September 2017** *(RMB '000)* *(audited)* |
|---|---|---|---|
| Total assets | 15,242,989 | 16,324,958 | 18,286,517 |
| Total liabilities | 12,703,810 | 13,536,566 | 15,303,539 |
| Net assets | 2,539,179 | 2,788,392 | 2,982,978 |

As at the Latest Practicable Date, the registered capital of the Target Company is RMB700 million, which was contributed as to 50% by the Company and 50% by the Vendor, and the Target Company is a joint venture of the Company and the Vendor. The Target Company would be classified as "Long-term equity investments - Jointly controlled entities" in the Group's financial statements for the financial year ended 31 December 2017.

Upon Completion, the Target Company will be owned as to 80% by the Company and 20% by the Vendor and will become a non-wholly-owned subsidiary of the Company. Accordingly, the financial results of the Target Group will be consolidated into the Group's financial statements after Completion.

## INFORMATION ON THE VENDOR

The Vendor, Alliance BMP Limited, is a company incorporated in England in January 2007 which is indirectly wholly-owned by Walgreens Boots Alliance, Inc. ("**Walgreens**"). Walgreens is a company incorporated in the State of Delaware of the United States in 2014 upon completion of the merger of Alliance Boots plc. and Walgreen Co. The shares of Walgreens were listed on NASDAQ Stock Market (stock code: WBA) as at the Latest Practicable Date. According to its website, Walgreens is the largest retail pharmacy, health and daily living destination across the United States and Europe. It is also a global leader in pharmacy-led, health and wellbeing retail and has one of the largest global pharmaceutical wholesaler and distribution networks. In addition, Walgreens is one of the world's largest purchasers of prescription drugs and many other health and wellbeing products. As at the Latest Practicable Date and to the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Vendor and its ultimate beneficial owner(s) were Independent Third Parties.

## INFORMATION ON THE GROUP

The Group is principally engaged in (i) research, development, manufacturing and sales of Chinese and western medicine, chemical active pharmaceutical ingredients ("**API**"), natural medicine, biological medicine and chemical API intermediates; (ii) wholesale, retail, import and export of western medicine, Chinese medicine and medical apparatus; (iii) research, production and sales of health products; and (iv) investment in the health industry such as in the sectors of medical treatment, health management and elderly care.

## REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION AND THE GRANT OF THE PUT OPTIONS

References are made to the Company's announcement and circular dated 30 January 2007 and 14 February 2007 (collectively referred to as the "**Previous Announcement and Circular**") respectively in relation to the then disposal, deemed disposal and material dilution (collectively referred to as the "**Previous Disposal**") of the Group's equity interest in the Target Company to the Vendor. The Target Company was a subsidiary of the Company before the Previous Disposal. Upon completion of the Previous Disposal in 2007, the Target Company ceased to be a subsidiary of the Company and became a Sino-foreign joint venture of the Company and the Vendor. During the past decade, the Target Company has developed its business by leveraging on the Company's prominent position, abundance experience and expertise in the pharmaceutical and health product market in the PRC, and on the global best practice of Walgreens Boots Alliance, Inc., which is the holding company of the Vendor, in wholesale business, operating process optimization and staff training.

With the aim of, among other things, reducing the selling price of pharmaceutical products to the end-users, the PRC governmental authorities have been actively promoting reforms in the pharmaceutical sector in recent years as part of the healthcare reform initiatives of the PRC. Such reforms have already led to keener market competition. The Company and the Vendor consider that it would be in the benefit of the Target Company by having the Company as its single largest equity owner since the Target Company will become a subsidiary of the Company upon Completion and, hence, will be able to benefit from the resources of the Company, the controlling shareholder of which is a state-owned enterprise (i.e. GPHL), and the Group, including but not limited to the Group's extensive business network in the pharmaceutical and healthcare industries in the PRC, to further develop its business. In addition, it is expected that the Company is able to manage its various businesses operated by different subsidiaries (including the Target Company after Completion) more efficiently and synergistically, which in turn will benefit the overall business performance of the Group.

At present, the Target Company is a joint venture of the Company and the Vendor. Any sale and purchase of goods between the Group and the Target Company as a joint venture of the Company will be regarded as connected transactions under the rules and regulations of the CSRC and the listing rules of the SSE, and such transactions will be subjected to disclosure, reporting and (if applicable) independent shareholders' approval requirements accordingly. Upon Completion, the Target Company will become a non-wholly-owned subsidiary of the Company, and any transaction between the Group and the Target Company will no longer be regarded as connected transaction and, hence, will not be subjected to the said disclosure, reporting and (if applicable) independent shareholders' approval requirements. The Directors consider that it will not only minimize the related administration works and compliance burden, but also improve the operating efficiency of the Group as a whole.

The Group's revenue and profits have been mainly contributed by its manufacturing operation. The products manufactured by the Group are mainly distributed by its wholesale operation to other pharmaceutical product distributors. In addition, the Cai Zhi Lin* (采芝林) pharmacy chain of the Group is principally engaged in the wholesale and retail of Chinese medicine. The Directors are of the opinion that the Target Group's business of wholesale, retail and export of medicine, biological products, healthcare food and medical apparatus is complementary to the existing wholesale, retail, import and export operations of the Company's subsidiaries after Completion as it is expected that (a) the customer base of the Group's wholesale operation will be enlarged by distributing to both pharmaceutical product distributors and end-users (including but not limited to hospitals); and (b) the retail operation will be strengthened in terms of product mix as Cai Zhi Lin* (采芝林) pharmacy chains of the Group will be responsible for retail of Chinese medicine, while the retail stores "Jianmin* (健民)" of the Target Group will be responsible for retail of pharmaceutical products which are mainly western medicine and medical instruments.

In the Previous Announcement and Circular, it was disclosed that the parties proceeded with the Previous Disposal with the aim of developing the Target Company into a national pharmaceutical wholesale company and to serve as a platform for the entry into the international market of the products of the Group. Since completion of the Previous Disposal, the Target Group's business has been growing. The Target Group's audited consolidated net profit after taxation and non-controlling interests (i) for the year ended 31 December 2005, as set out in the Previous Announcement and Circular, amounted to approximately RMB47.74 million (the consolidated financial statements were audited by the then auditor of the Group); and (ii) as mentioned in the paragraph headed "Information on the Target Group" above, was approximately RMB225.91 million for the year ended 31 December 2016 (the Historical Financial Information was audited by KPMG Huazhen LLP). The Target Company has confirmed to the Company that the growth in the business of the Target Group was mainly attributable to its business and operation in the PRC. On the one hand, the growth of the PRC pharmaceutical market has provided the Target Group with momentum to grow its business. On the other hand, the actual progress of developing the international pharmaceutical market is slower than the expectation of the Company and the Vendor, as the pharmaceutical industry is highly regulated and therefore it involves a number of time consuming and costly procedures to acquire all the necessary licenses and certificates for the Target Group to enter into or carry out pharmaceutical product distribution in overseas market. On that basis, the Company and the Vendor believe that it would be in their interest for the Target Group to focus on the development of its business in the PRC, and to pursue any business opportunity relating to the international market in the future as and when it is considered appropriate after taking into account the expected returns and resources required. As at the Latest Practicable Date, the Target Group intends to continue this business strategy after Completion.

Upon Completion, (i) the Company will acquire the controlling equity interest in the Target Company by holding 80% equity interest therein; and (ii) the Vendor, which will hold 20% equity interest (the **"Remaining Equity Interest"**) in the Target Company, will continue to share the future benefits from the development of the Target Company. In addition, in order to provide the Vendor with protection in respect of its minority equity interest in the Target Company after Completion which is one of the terms of the Proposed Acquisition, it has been agreed by the parties that the Put Options (including Put Option A and Put Option B) should be granted by the Company to the Vendor under the Equity Transfer Agreement and the Joint Venture Contract. If the Vendor exercise the Put Options in future, the Company is able to acquire the Remaining Equity Interest directly to reduce the possibility of third-party biddings and avoid uncertainty in pricing methodology (details of the exercise price of Put Option A are set out in the paragraph headed "Option A Exercise Price" of the section headed "Put Option A" above, and details of the exercise price of Put Option B are set out in the paragraph headed "Rights of the Vendor in case of change in control of the Target Company or of the Company" of the section headed "The Joint Venture Contract" above).

Taking into account the above factors, and the fact that the Equity Interest Transfer Agreement and the Joint Venture Contract relating to, among other things, the Proposed Acquisition and the Put Options (the grant of the Put Options is one of the terms of the Proposed Acquisition) were entered into after arm's length negotiations between the Company and the Vendor, the Directors consider that the terms of the Proposed Acquisition and each of Put Option A and Put Option B are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## EFFECT OF THE PROPOSED ACQUISITION ON THE EARNINGS, ASSETS AND LIABILITIES OF THE GROUP AND THE PUT OPTIONS

### Proposed Acquisition

Upon Completion, the Target Company will become a non-wholly-owned subsidiary of the Company, and the results, assets and liabilities of the Target Group will be consolidated into the financial statements of the Group. The unaudited pro forma financial information on the Enlarged Group (the "**Unaudited Pro Forma Financial Information of the Enlarged Group**") is set out in Appendix IV to this circular and is summarised as below:

*Earnings*

For the year ended 31 December 2016, the Group recorded an audited net profit of approximately RMB1,558.7 million. Based on the Unaudited Pro Forma Financial Information on the Enlarged Group, assuming Completion had taken place on 1 January 2016, the unaudited pro forma consolidated net profit of the Enlarged Group for the year ended 31 December 2016 would be approximately RMB2,800.0 million.

*Assets and liabilities*

The unaudited consolidated total assets and total liabilities of the Group as at 30 September 2017 were approximately RMB27,025.1 million and RMB8,285.8 million respectively. Based on the Unaudited Pro Forma Financial Information on the Enlarged Group, assuming Completion had taken place on 30 September 2017, the unaudited pro forma consolidated total assets and total liabilities of the Enlarged Group as at 30 September 2017 would be approximately RMB43,218.4 million and RMB23,335.5 million respectively.

### Put Options

*The accounting recognition and specific quantification of the Put Options*

As the Company granted the right (but not obligation) to the Vendor to exercise the Put Options, it is uncertain whether the Vendor will exercise the Put Options, and therefore whether any future outflow of economic benefits from the Company that will be caused upon the exercise of the Put Options is uncertain. Further, as the exercise prices of the Put Options will be determined based on the then appraised value of the Target Company, even if the Put Options are exercised by the Vendor, the exercise prices will remain uncertain before the Put Options are exercised.

According to the requirements of the Accounting Standards for Business Enterprises, "liability refers to the current obligations of the enterprise that is arising from past transactions or events, and is expected to result in the outflow of economic benefits from enterprise." The obligations which meet the aforesaid definition of liability "shall be recognised when both of the following conditions are satisfied simultaneously:

(I) it is likely that there will be an outflow of economic benefits relating to such obligation from the enterprise;

(II) the amount of future outflow of economic benefits could be measured in a reliable way."

As such, in the event that the management of the Company has not obtained any evidence that it is probable that the Vendor will exercise the Put Options, the arrangement for the Put Options does not satisfy the recognition condition of liability, thus the Company has not recognized it as liability in respect of such matter, and the Company will consider to disclose such contingent matter in the notes to its accounting statements.

***Explanation of the potential impact on the operating results of the Company in the future***

If the Vendor exercises the Put Options in future, the Company will treat it as an acquisition of the minority interests: capital reserve-capital premium shall be adjusted according to the difference between the consideration for the acquisition of such 20% equity interest and the share of net asset of Target Company accrued from the date of acquisition in the proportion of 20%. If capital reserve is insufficient for writing off, retained profits shall be adjusted. Namely immediately upon the acquisition of 20% equity interests, no impact would have on the operating results of the Company. In addition, as the exercise price of the Put Option shall be determined based on then appraised value from qualified independent PRC valuer, it will not impair the interests of the Company.

Upon the acquisition of the 20% equity interest in the Target Company, it would not affect the revenue and net profit of consolidated income statement of the Company as it would only be an acquisition of minority interests of the Company, but the net profit attributable to shareholders of the parent company will be increased, however, as the net profit of the Target Company accounted for a relatively small proportion of that of the Company, the increase in net profit attributable to shareholders of the parent company of the Company would be relatively low.

In view of the above, the arrangement for the Put Options will have no material impact on the future operating results of the Company.

## IMPLICATIONS UNDER THE LISTING RULES

As one of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Proposed Acquisition exceeded 100%, the Proposed Acquisition constituted a very substantial acquisition of the Company under Chapter 14 of the Listing Rules and is therefore subject to the announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Each of Put Option A and Put Option B granted by the Company to the Vendor constituted an "option" within the meaning of Rule 14.72(1) of the Listing Rules. As the exercise of either Put Option A or Put Option B is not at the discretion of the Company, on the grant of each of Put Option A and Put Option B, the transaction is classified as if the relevant Put Option had been exercised under Rule 14.74(1) of the Listing Rules.

Pursuant to Rules 14.22 and 14.23 of the Listing Rules, the Proposed Acquisition and the grant of the Put Options are required to be aggregated and, on this basis, the Proposed Acquisition and the grant of the Put Options together constituted a very substantial acquisition of the Company under Chapter 14 of the Listing Rules and is therefore subject to the announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief after making all reasonable enquiries, no Shareholder has any material interest in the transactions contemplated by the Equity Interest Transfer Agreement and the Joint Venture Contract. Accordingly, no Shareholder will be required to abstain from voting at the EGM on the resolution(s) to approve the Equity Interest Transfer Agreement, the Joint Venture Contract and the respective transactions contemplated thereunder (including the Proposed Acquisition and the grant of the Put Options).

## CLOSURE OF REGISTER OF MEMBERS FOR HOLDERS OF H SHARES

The register of members of the Company will be closed from 27 February 2018 (Tuesday) to 29 March 2018 (Thursday) (both days inclusive) for the purpose of determining the entitlements of the Shareholders to attend the EGM, during which no transfer of H Shares will be effected. In order to qualify to attend the EGM, all transfers, accompanied by the relevant share certificate(s), must be lodged with the Company's H Share Registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:00 p.m. on 26 February 2018 (Monday).

## THE EGM

Set out on pages EGM-1 to EGM-6 of this circular is the notice convening the EGM to be held at the conference room of the Company, 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC, at 10:00 a.m. on 29 March 2018 (Thursday).

At the EGM, resolution(s) for approving the Equity Interest Transfer Agreement, the Joint Venture Contract and the respective transactions contemplated thereunder (including the Proposed Acquisition and the grant of the Put Options) will be proposed to the Shareholders' for them to consider and, if thought fit, approve. The resolution(s) will be voted by way of poll at the EGM. An announcement will be made by the Company following the conclusion of the EGM to inform you of its results.

A proxy form for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, please complete and return the proxy form in accordance with the instructions printed thereon as soon as possible and in any event by not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM should you so wish and in such event, the proxy form shall be deemed to have been revoked.

**RECOMMENDATION**

The Directors are of the view that the terms of the Equity Interest Transfer Agreement and the Joint Venture Contract, together with the respective transactions contemplated thereunder (including the Proposed Acquisition and the grant of the Put Options) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution(s) as set out in the notice of the EGM.

**ADDITIONAL INFORMATION**

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

By Order of the Board
**Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited**

## 1. CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial information of the Group for the three years ended 31 December 2014, 2015 and 2016, respectively, had been set out in the annual reports of the Company for the three years ended 31 December 2014 (from pages 108 to 311), 31 December 2015 (from pages 205 to 419) and 31 December 2016 (from pages 194 to 407).

The unaudited financial information of the Group for the six months ended 30 June 2017 and the nine months ended 30 September 2017 had been set out in the 2017 interim report of the Company (from pages 76 to 263) and the 2017 third quarterly report of the Company (from pages 2 to 30) respectively.

All of the abovementioned annual reports, interim report and quarterly report of the Company had been published on the respective websites of Company (www.hmdatalink.com/C14070/) and the Hong Kong Stock Exchange (www.hkexnews.hk) through the links below:

- annual report of the Company for the year ended 31 December 2014:

  http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0417/LTN20150417187.pdf

- annual report of the Company for the year ended 31 December 2015:

  http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0415/LTN20160415297.pdf

- annual report of the Company for the year ended 31 December 2016:

  http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0330/LTN20170330665.pdf

- interim report of the Company for the six months ended 30 June 2017:

  http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0830/LTN20170830463.pdf

- quarterly report of the Company for the nine months ended 30 September 2017:

  http://www.hkexnews.hk/listedco/listconews/SEHK/2017/1022/LTN20171022031.pdf

## 2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 December 2017, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had outstanding borrowings of approximately RMB9,090.4 million, comprising (i) pledged bank loans of the Enlarged Group of approximately RMB197.0 million; (ii) guaranteed bank loans of the Enlarged Group of approximately RMB54 million; (iii) discount of commercial acceptance notes of approximately RMB11.5 million; (iv) unsecured and unguaranteed bank loans of the Enlarged Group of approximately RMB6,149.6 million; (v) finance leases by the Enlarged Group of approximately RMB142.7 million; and (vi) bank acceptance notes payable by the Enlarged Group of approximately RMB2,535.6 million. The bank loans of the Enlarged Group of approximately RMB197.0 million was pledged with collaterals of which was accounts receivable amounted to approximately RMB249.4 million.

### Contingent liabilities

The Enlarged Group had no contingent liabilities as at the close of business on 31 December 2017.

### Disclaimers

Save as aforesaid, and apart from intra-group liabilities, the Enlarged Group did not have any outstanding debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, bank overdrafts and loans, other loans or other similar indebtedness, liabilities under acceptance or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantee or other material contingent liabilities, at the close of business on 31 December 2017.

## 3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, there had been no material adverse changes in the financial or trading position of the Group since 31 December 2016 (being the date to which the latest published audited consolidated financial statements of the Group had been made up) up to the Latest Practicable Date.

## 4. WORKING CAPITAL STATEMENT

The Directors, after due and careful enquiry and after taking into account the financial resources available to the Enlarged Group as at the Latest Practicable Date, including the internally generated funds, other financing facilities available and the effects of the Proposed Acquisition and the exercise of the Put Options by the Vendor in full (if exercised), are of the opinion that the Enlarged Group will have sufficient working capital to satisfy the Enlarged Group's requirements for at least the twelve months from the date of this circular in the absence of unforeseen circumstances.

## 5. MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP

Set out below is the management discussion and analysis of performance and other information of the Group for each of the years ended 31 December 2014, 2015 and 2016 for the six months ended 30 June 2017 and for the nine months ended 30 September 2017 principally extracted from the annual reports of the Company for the years ended 31 December 2014, 2015 and 2016, the interim report of the Company for the six months ended 30 June 2017 and the quarterly report of the Company for the nine months ended 30 September 2017, respectively. Unless the context otherwise requires, capitalised terms used therein shall have the same meanings as those ascribed in the abovementioned annual reports, interim report and quarterly report of the Company.

### (i) Restated audited financial information for the year ended 31 December 2014

As the Company acquired 100% equity interest in Guangyao General Institute under the same parent company in the third quarter of 2015, and restated the previous financial statements in accordance with the accounting standards, the financial figures relating to the year ended 31 December 2014 and, for comparison purpose, the year ended 31 December 2013 set out in this section "5. Management discussion and analysis on the Group — (i) For the year ended 31 December 2014" are restated figures extracted from the annual report of the Company for the year ended 31 December 2015.

***Business review and financial performance***

During the year ended 31 December 2014, the Group actively pushed forward the strategic upgrading of three segments, being the pharmaceutical manufacturing business (currently referred to as **"Great Southern TCM"**), the healthcare product (including beverage, food, cosmeceuticals and other healthcare products) manufacturing and sales business (currently referred to as **"Great Health"**) and pharmaceutical distribution business (currently referred to as **"Great Commerce"**). In addition, the Group actively responded to the impact brought by various factors including medical reform policy and market competition by vigorously promoting innovation in management, strengthening integrated operation and taking effective measures to reduce operating costs, thereby maintaining a steady growth in the operating results of the Group.

During the financial year ended 31 December 2014, firstly, the Group increased efforts in brand marketing and enhanced core competitiveness by capitalizing on its brand advantages. Secondly, the Group actively developed the Great Health segment by strengthening and improving the marketing team and marketing channels, devoting more efforts in developing the food and beverage market, raising the merchandise coverage in the market, streamlining brand positioning, carrying out works on protection of brand assets, and stepping up efforts in innovation of brand marketing. Thirdly, the Group vigorously promoted scientific research as well as research and development of innovative projects, cultivated "cash cow product types" and new driving engines for profit growth. Fourthly, the Group vigorously promoted the extension of modern medical logistics services, e-commerce and healthcare investments, thereby strengthening the Great Commerce and health care segments. Fifthly, the Group paid close attention to the industrial policy, actively responded to the catalogue addition of basic pharmaceuticals in all regions, accelerated the development of and distribution in the basic pharmaceutical market, and raised the share of pharmaceutical usage by grass-roots level medical institutions. Meanwhile, the Group actively grasped the opportunities brought by the release of the Catalogue of Low Price Medicine issued by the National Development and Reform Commission. Sixthly, the Group strengthened the integration of resources and integrated operations by promoting centralized procurement. In addition, the Group also stepped up its efforts to push forward external investment and merger and acquisition, as well as the construction of GAP planting bases for bulk raw materials of Chinese herbs medicine.

In 2014, although facing a tough challenge from the continuous "two declines and one rise" in the pharmaceutical industry, the Group focused its resources on the development of the "Great Health" segment and achieved a rapid growth in its sales revenue amid a constant growth in the pharmaceutical sector. For the year ended 31 December 2014, the Group's revenue amounted to approximately RMB18,818,232,000, up by approximately 6.75% year-on-year. Revenue generated from Great South TCM segment (being research, development, manufacturing and sales for Chinese and Western medicine, chemical raw medicine, natural drug, biological medicine and intermediates of chemical raw medicine), Great Health segment (being research, development, manufacturing and sales for the products of Great Health) and Great Commerce segment (being wholesale, retail, import and export for Western medicine, Chinese medicine and medical apparatus and instruments) amounted to approximately RMB6,941,673,000, RMB7,096,130,000 and RMB4,733,833,000 respectively, accounted for approximately 36.89%, 37.71% and 25.16% of the total revenue of the Group for the financial year 2014.

For the year ended 31 December 2014, the three major cost and expenses of the Group were cost of sales, selling and distribution expenses and general administrative expenses. Cost of sales amounted to approximately RMB12,185,665,000; the selling and distribution expenses was approximately RMB3,942,804,000; and the general and administrative expenses was approximately RMB1,291,532,000.

For the year ended 31 December 2014, the Group's profit before tax was approximately RMB1,468,061,000, up by approximately 19.50% year-on-year, and the net profit attributable to the Shareholders was approximately RMB1,194,141,000, up by approximately 21.93% year-on-year.

***Analysis on financial conditions***

*Liquidity*

As at 31 December 2014, the current ratio of the Group was 1.47, and its quick ratio was 1.04. During the year, accounts receivable turnover rate was approximately 21.2 times and inventory turnover rate was approximately 5.0 times.

*Financial resources*

As at 31 December 2014, cash and cash equivalents of the Group amounted to approximately RMB3,049,529,000. As at 31 December 2014, the Group had bank borrowings of RMB560,530,000, all of which are short-term borrowings. There was no long-term borrowings as at 31 December 2014.

*Capital structure*

As at 31 December 2014, the Group's current liabilities amounted to approximately RMB6,078,824,000; its long-term liabilities was approximately RMB266,085,000 and the shareholders' equity attributable to the shareholders of the Company amounted to approximately RMB7,705,137,000 (31 December 2013: approximately RMB6,795,505,000), representing an increase of 13.39% as compared with 31 December 2013.

*Capital expenditure*

The Group expected that the capital expenditure for 2015 to be approximately RMB1,393 million (2014: approximately RMB441 million), which would be mainly applied to construction of production sites, factories and infrastructure, purchases of machines and equipment, construction of information system, etc. The Group would meet the capital requirements of capital expenditure by its internal funds and fund raising means such as bank loans, etc.

*Exposure to fluctuations in exchange rates*

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

*Main cash resources and applications*

As at 31 December 2014, cash and cash equivalents of the Group amounted to approximately RMB3,049,529,000 with an increase of approximately RMB1,097,475,000 as compared with the beginning of 2014; the net cash inflow derived from operating activities amounted to approximately RMB1,751,690,000 with an increase of approximately RMB410,514,000 as compared with 31 December 2013. The increases were mainly due to the increase in sale revenue and faster payment for goods sold from customers.

*Contingent liabilities*

As at 31 December 2014, the Group had no material contingent liabilities.

*Charge on the Group's assets*

As at 31 December 2014, Guangyao Baiyunshan Hong Kong Company, a wholly-owned subsidiary of the Company, had a general banking facility of HKD300,000, a letter of credit and a letter of trust with total limit of HKD100,000,000 and drew up an unearned credit with USD179,000, YEN131,858,000 granted by Bank of China (Hong Kong) Limited with a charge over its fixed assets, properties and buildings with original value of HKD8,893,000 and net value of HKD6,545,000 and investment properties with original value of HKD6,843,000 and net value of HKD4,109,000.

*Bank loans, overdraft and other borrowings*

As at 31 December 2014, the bank loans of the Group amounted to RMB560,530,000 (31 December 2013: RMB518,279,000), with an increase of RMB42,251,000 as compared with the beginning of 2014. The above bank loans included short-term loans of RMB560,530,000 and no long-term loans.

*Gearing ratio*

As at 31 December 2014, the Group's gearing ratio (total liabilities/total assets × 100%) was 44.47% (31 December 2013: 43.30%).

*Employees and remuneration policies*

As at 31 December 2014, the Company and its major subsidiaries employed a total of 12,196 employees. The emolument of the employees of the Group included salaries, bonuses and other fringe benefits. The Group, in compliance with the relevant PRC laws and regulations, paid different rates of remuneration to different employees, based on the employees' performance, experience, position and other factors.

*Material acquisitions and disposals of subsidiaries and associates*

During the year ended 31 December 2014, the Group did not enter into any material acquisitions or disposals of subsidiaries and associates.

(ii) **Audited financial information for the year ended 31 December 2015**

***Business review and financial performance***

During the year ended 31 December 2015, based on the main development concept of "Management Efficiency Year", the Company endeavoured to make the strategic upgrade in the four business segments namely "Great Southern TCM, Great Health, Great Commerce, and Great Medical Care" and further strengthened the marketing, risk control, production quality, technological research and development, and capital operation, positively coped with the influence of increased macroeconomic downward pressure, tighter medical industry policies, unchanged price reduction trend in the new round of bidding, increased medical insurance cost control strength and increasingly fierce market competition, and has further improved the scale and benefit.

During the financial year ended 31 December 2015, firstly, the Group accelerated the dual promotion of popularity and reputation of the brands and products by strengthening brand building as well as charity and academic marketing. Secondly, the Group strengthened the bidding for the basic medicines, positively coped with the policies of basic medicine bidding and independent pricing cancellation, adopted the pattern of "One Province, One Policy", grasped the implementation of low-price medicine policy and increased the tender price. Thirdly, the Group continuously developed the Great Health segment, focused on the three factors of "fashion, technology and cultures", and constantly reinforced the status of Wang Lao Ji in the herbal tea industry. Fourthly, the Group continued promoting the Great Commerce segment, working on both online and offline. Fifthly, the Group actively explored the Great Medical Care business. Multiple projects including Baiyunshan Hospital Project, the project of Tibet Style Health Preservation Castle, and Siemens Cooperation Project have been started. Sixthly, the Group vigorously promoted technological innovation and the related results were preliminary notable.

In 2015, the Group strategically focused on the development of the "Great Southern TCM, Great Health, Great Commerce" segments, and enhance its efforts in sales and marketing in order to promote business growth. For the year ended 31 December 2015, the Group's revenue amounted to approximately RMB19,124,658,000, up by 1.63% year-on-year. Revenue generated from Great South TCM, Great Health and Great Commerce segments amounted to approximately RMB6,865,582,000, RMB7,768,546,000 and RMB4,460,171,000 respectively, accounted for approximately 35.90%, 40.62% and 23.32% of the total revenue of the Group for the financial year 2015 respectively.

For the financial year ended 31 December 2015, the three major costs and expenses of the Group were cost of sales, selling and distribution expenses and general administrative expenses. Cost of sales amounted to approximately RMB 12,200,500,000, up by approximately 0.12% year-on-year. Selling and distribution expenses were approximately RMB4,167,681,000, up by approximately 5.70% year-on-year, mainly due to the Group's active marketing efforts to increase sales revenue in the year, as a result, sales associated expenses and other expenses increased in 2015. The general and administrative expenses was approximately RMB1,374,806,000, up by 6.45% year-on-year, mainly due to increase in remuneration of the employees, research and development expenses of the Group following growth in its sales revenue and operating results.

The total profit of the Group for the year ended 31 December 2015 was approximately RMB1,628,122,000, increased by 10.90% year-on-year and the net profit attributable to shareholders of the Company was approximately RMB1,300,351,000, increased by 8.89% year-on-year.

***Analysis on financial conditions***

*Liquidity*

As at 31 December 2015, the current ratio of the Group was 1.44 (31 December 2014: 1.47), and its quick ratio was 1.06 (31 December 2014: 1.04). During the year ended 31 December 2015, accounts receivable turnover rate was 20.41 times, representing a decrease of 3.61% as compared with 2014; inventory turnover rate was 4.69 times, representing a decrease of 5.70% as compared with 2014.

*Financial resources*

As at 31 December 2015, cash and cash equivalents of the Group amounted to approximately RMB3,837,604,000 (2014: RMB3,049,529,000), of which approximately 99.32% and 0.68% were denominated in Renminbi and foreign currencies, such as Hong Kong dollar, respectively. As at 31 December 2015, the Group had bank borrowings of RMB669,439,000 (31 December 2014: RMB560,530,000), including short-term borrowings of RMB629,684,000 (31 December 2014: RMB560,530,000) and long-term borrowings of RMB39,755,000 (31 December 2014: Nil).

*Capital structure*

As at 31 December 2015, the Group's current liabilities amounted to approximately RMB6,828,500,000 (31 December 2014: approximately RMB6,078,824,000), representing an increase of 12.33% as compared with 2014, and its long-term liabilities was approximately RMB358,144,000 (31 December 2014: approximately RMB266,085,000), representing an increase of 34.60% as compared with 31 December 2014; and the shareholders' equity attributable to the shareholders of the Company amounted to approximately RMB8,450,814,000 (31 December 2014: approximately RMB7,705,137,000), representing an increase of 9.68% as compared with 31 December 2014.

*Capital expenditure*

The Group expected that the capital expenditure for 2016 to be approximately RMB907 million (2015: approximately RMB593 million), which would be mainly applied to construction of production sites, and information system construction, etc.. The Group would meet the capital requirements of capital expenditure by its internal funds and fund raising means such as bank loans, etc.

*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.

*Main cash resources and applications*

As at 31 December 2015, cash and cash equivalents of the Group amounted to approximately RMB3,837,604,000, with an increase of approximately RMB788,075,000 as compared with the beginning of 2015; the net cash inflow derived from operating activities amounted to approximately

RMB1,941,956,000, with an increase of approximately RMB190,266,000 as compared with 31 December 2014. The increases were mainly due to the active source by the Group of high quality suppliers and the better commercial credit policy being achieved, and receipt of government support funds and subsidies during the year.

*Contingent liabilities*

As at 31 December 2015, the Group had no material contingent liabilities.

*Charge on the Group's assets*

As at 31 December 2015, Guangyao Baiyunshan Hong Kong Company, a wholly-owned subsidiary of the Company, had a general banking facility of HKD300,000, a letter of credit and a letter of trust with total limit of HKD100,000,000 and drew up an unearned credit with USD232,000, granted by Bank of China (Hong Kong) Limited with a charge over its fixed assets, properties and buildings with original value of HKD8,893,000 and net value of HKD6,473,000 and investment properties with original value of HKD6,843,000 and net value of HKD3,993,000.

*Bank loans, overdraft and other borrowings*

As at 31 December 2015, the bank loans of the Group amounted to RMB669,439,000 (31 December 2014: RMB560,530,000), with an increase of RMB108,909,000 as compared with the beginning of 2015. The above bank loans included short-term loans of RMB629,684,000 and long-term loans of RMB39,755,000.

*Gearing ratio*

As at 31 December 2015, the Group's gearing ratio (total liabilities/total assets × 100%) was 45.28% (31 December 2014: 44.47%).

*Employees and remuneration policies*

As at 31 December 2015, the Company and its major subsidiaries employed a total of 14,896 employees. The emolument of the employees of the Group included salaries, bonuses and other fringe benefits. The Group, in compliance with the relevant PRC laws and regulations, paid different rates of remuneration to different employees, based on the employees' performance, experience, position and other factors.

*Material acquisitions and disposals of subsidiaries and associates*

During the year ended 31 December 2015, the Group did not enter into any material acquisitions or disposals of subsidiaries and associates.

(iii) **Audited financial information for the year ended 31 December 2016**

***Business review and financial performance***

During the year ended 31 December 2016, based on the development idea of "year of corporate quality improvement" and through the strategic path of "capitalisation and going-out", the Group made great efforts in vigorously building "four major segments" of Great Southern TCM, Great Health, Great Commerce and Great Medical Care in order to actively improve the industrial structure, enhance the industrial quality, improve the industrial efficiency and has achieved steady growth. During the year ended 31 December 2016, the Group made the following efforts. Firstly, implementing the Great Southern TCM revitalization project to achieve high growth in key products. Secondly, further consolidating the brand influence and market position of Wang Lao Ji Herbal Tea, actively promoting the diversification of Great Health products category and establish the Great Health product system. Thirdly, keeping up with the change and the development trend of pharmaceutical business and emphasising innovative ideas to expand the sales network and develop new business to achieve Great Commerce transformation and development. Fourthly, continuing the expansion of Great Health and medical equipment segments and promote the completion of major projects. Fifthly, promoting the integration of resources of scientific research and quality management of the Group in order to rebuild the scientific research and quality management system.

In 2016, the Group's operating results continued growing as the Group strategically focused on the development of the "Great Southern TCM, Great Health, Great Commerce" segments, and enhance its efforts in sales and marketing in order to promote business growth. For the year ended 31 December 2016, the Group's revenue amounted to approximately RMB20,035,681,000, increased by 4.76% year-on-year. Revenue generated from Great South TCM, Great Health and Great Commerce segments amounted to approximately RMB7,019,334,000, RMB7,769,473,000 and RMB5,170,596,000 respectively, accounted for approximately 35.03%, 38.78% and 25.81% of the total revenue of the Group for the financial year 2016 respectively.

For the financial year ended 31 December 2016, the three major costs and expenses of the Group continued to be cost of sales, selling and distribution expenses and general administrative expenses. Cost of sales amounted to approximately RMB 13,412,063,000, up by approximately 9.93% year-on-year. The selling and distribution expenses was approximately RMB3,823,589,000, down by 8.26% year-on-year, mainly due to change in the settlement method by the Group, thus significantly reduced the expenses on publicity. The general and administrative expenses was approximately RMB1,439,734,000, up by 4.72% year-on-year, mainly due to the Group's continuous expansion of business and increase in employee remuneration, research and development costs, etc.

The total profit of the Group for the year ended 31 December 2016 was approximately RMB1,945,053,000, increased by 19.47% year-on-year and the net profit attributable to shareholders of the Company was approximately RMB1,508,033,000, increased by 15.97% year on-year.

***Analysis on Financial Conditions***

*Liquidity*

As at 31 December 2016, the current ratio of the Group was 2.63 (31 December 2015: 1.44), and its quick ratio was 2.25 (31 December 2015: 1.06). During the year ended 31 December 2016, accounts receivable turnover rate was 20.18 times, representing a decrease of 1.08% as compared with the corresponding period of 2015; inventory turnover rate was 4.97 times, representing an increase of 6.05% as compared with the corresponding period of 2015.

*Financial resources*

As at 31 December 2016, cash and cash equivalents of the Group amounted to approximately RMB12,756,470,000 (31 December 2015: approximately 3,837,604,000), of which approximately 99.87% and 0.13% were denominated in Renminbi and foreign currencies, such as Hong Kong dollar, respectively. As at 31 December 2016, the Group had bank borrowings of RMB58,718,000 (31 December 2015: RMB669,439,000), including short-term borrowings of RMB25,216,000 (31 December 2015: RMB629,684,000) and long-term borrowings of RMB33,502,000 (31 December 2015: RMB39,755,000).

*Capital structure*

As at 31 December 2016, the Group's current liabilities amounted to approximately RMB7,422,448,000 (31 December 2015: approximately RMB6,828,500,000), representing an increase of 8.70% as compared with 31 December 2015; its long term liabilities was approximately RMB820,932,000 (31 December 2015: approximately RMB358,144,000), representing an increase of 129.22% as compared with 31 December 2015; the shareholders' equity attributable to the shareholders of the Company amounted to approximately RMB17,345,080,000 (31 December 2015: approximately RMB8,450,814,000), representing an increase of 105.25% as compared with 31 December 2015.

*Capital expenditure*

The Group expected that the capital expenditure for 2017 to be approximately RMB987 million (2016: approximately RMB293 million), which would be mainly applied to the construction of production sites and information system. The Group would meet the capital requirements of capital expenditure by its internal funds and fund raising means such as bank loans, etc.

*Exposure to fluctuations in exchange rates*

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

*Main cash resources and applications*

As at 31 December 2016, cash and cash equivalents of the Group amounted to approximately RMB12,756,470,000 with an increase of approximately RMB8,918,866,000 as compared with the beginning of 2016; the net cash inflow derived from operating activities amounted to approximately RMB2,444,672,000 with an increase of approximately RMB502,716,000 as compared with 2015, mainly due to receipt by the Company's subsidiaries of land requisition compensation and governmental subsidy, increase in the interest incomes on a year-on-year basis, and decrease in the tax payment during the year.

*Contingent liabilities*

As at 31 December 2016, the Group had no material contingent liabilities.

*Charge on the Group's assets*

As at 31 December 2016, Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, acquired the overdraft amounted to HKD300,000, letter of credit and 90 days credit amounted to HKD100,000,000 in total and the issued but undue letter of credit amounted to USD638,000 from Bank of China (Hong Kong) Company Limited, secured by its fixed assets, properties and buildings with original value of HKD8,893,000 and net value of HKD6,417,000, and investment properties with original value of HKD6,843,000 and net value of HKD3,877,000.

*Bank loans, overdraft and other borrowings*

As at 31 December 2016, the bank loans of the Group amounted to RMB58,718,000 (31 December 2015: RMB669,439,000), with a decrease of RMB610,721,000 as compared with the beginning of 2016. The above bank loans included short-term loans of RMB25,216,000 and long-term loans of RMB33,502,000.

*Gearing ratio*

As at 31 December 2016, the Group's gearing ratio (total liabilities/total assets × 100%) was 31.83% (31 December 2015: 45.28%).

*Employees and remuneration policies*

As at 31 December 2016, the Company and its major subsidiaries employed a total of 22,353 employees. The remuneration of the employees of the Group included salaries, bonuses and other fringe benefits. The Group, in compliance with the relevant PRC laws and regulations, paid different rates of remuneration to different employees, based on the employees' performance, qualifications, position and other factors.

*Material Acquisitions and Disposals of Subsidiaries and Associates*

During the year ended 31 December 2016, the Group did not enter into any material acquisitions or disposals of subsidiaries and associates.

(iv) **Unaudited financial information for the six months ended 30 June 2017 and for the nine months ended 30 September 2017**

***Business review and financial performance***

As set out in the Company's interim report for the six months ended 30 June 2017 (the **"2017 Interim Report"**), during the first six months of 2017, the Group proactively promoted the business development of its four principal sectors, namely Great Southern TCM, Great Health, Great Commerce and Great Medical Care, focused on improving the quality of the products, operation, services and talent, vigorously developed product brand and enterprise brand, strived to improve the quality and benefits for the purpose of achieving sustained and steady development of business performance.

For the six months ended 30 June 2017 and the nine months ended 30 September 2017, the Group's revenue amounted to approximately RMB11,115,338,000 (representing an increase of approximately 2.38% compared with the corresponding period of 2016) and approximately RMB15,996,932,000 (representing an increase of 2.72% as compared with the corresponding period of 2016) respectively. As set out in the 2017 Interim Report, the Group actively promoted the strategic escalation of its four major business segments, strengthened marketing promotion and sales vigour, and endeavoured to improve quality and benefits. During the six months ended 30 June 2017, revenue generated from Great South TCM, Great Health and Great Commerce segments amounted to approximately RMB4,043,966,000, RMB4,999,437,000 and RMB2,024,843,000 respectively, accounted for approximately 36.38%, 44.98% and 18.22% of the total revenue of the Group for the six months ended 30 June 2017 respectively.

Cost of sales, selling and distribution expenses and general administrative expenses continued to be the three major costs and expenses of the Group. During the six months ended 30 June 2017, (i) cost of sales amounted to approximately RMB6,955,444,000, up by approximately 3.27% as compare with the corresponding period in 2016; (ii) the selling and distribution expenses was approximately RMB2,236,809,000, down by approximately 14.91% as compared with the corresponding period in 2016, mainly due to reduce in expenses on publicity which set off the increases in other expenses such as freight and miscellaneous charges; and (iii) the general and administrative expenses was approximately RMB709,790,000, up by approximately 2.26% as compared with the corresponding period in 2016. For the nine months ended 30 September 2017, (a) cost of sales amounted to approximately RMB10,059,300,000, up by approximately 2.19% as compare with the corresponding period in 2016; (b) the selling and distribution expenses was approximately RMB 3,196,585,000, down by approximately 11.82% as compared with the corresponding period in 2016; and (c) the general and administrative expenses was approximately RMB1,138,491,000, up by approximately 5.47% as compared with the corresponding period in 2016.

For the six months ended 30 June 2017, the total profit of the Group was approximately RMB1,400,428,000, representing an increase of approximately 32.22% as compared with the corresponding period of 2016; and the net profit attributable to shareholders of the Company was approximately RMB1,158,140,000, representing an increase of approximately 39.23% as compared with the corresponding period of 2016. During the nine months ended 30 September 2017, the total profit of the Group was approximately RMB1,799,729,000, representing an increase of approximately 34.36% as compared with the corresponding period of 2016; and the net profit attributable to shareholders of the Company was approximately RMB1,485,651,000, representing an increase of approximately 40.63% as compared with the corresponding period of 2016.

***Analysis on financial conditions***

*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.

*Financial resources*

As at 30 June 2017, cash and cash equivalents of the Group amounted to approximately RMB11,568,573,000 (31 December 2016: approximately 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 non-current liabilities of RMB32,506,000 (31 December 2016: RMB0), and long-term borrowings of RMB0 (31 December 2016: RMB33,502,000).

*Capital structure*

As at 30 June 2017, the Group's current liabilities amounted to approximately 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 approximately 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 approximately RMB18,047,163,000 (31 December 2016: RMB17,345,080,000), with an increase of 4.05% as compared with the beginning of 2017.

*Capital expenditure*

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

*Exposure to fluctuations in exchange rates*

As the majority of the revenue, expenses, assets and liabilities of the Group were denominated or settled in Renminbi, the Group did not have significant risks in exposure to fluctuations in exchange rates for the six months ended 30 June 2017.

*Contingent liabilities*

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

*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 amounted to HKD100,000,000 in total and issued but undue letters of credit amounted to USD384,000 and YEN92,262,000 from Bank of China (Hong Kong) Company Limited, secured by the its fixed assets, properties and buildings with original value of HKD8,893,000 and net value of HKD6,381,000, and investment properties with original value of HKD6,843,000 and net value of HKD3,819,000.

*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.

*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%).

*Employees and remuneration policies*

As at 30 June 2017, the Company and its major subsidiaries employed a total of 21,334 employees. The remuneration of the employees of the Group included salaries, bonuses and other fringe benefits. The Group, in compliance with the relevant PRC laws and regulations, paid different rates of remuneration to different employees, based on the employees' performance, qualifications, position and other factors.

*Material Acquisitions and Disposals of Subsidiaries and Associates*

During the half year ended 30 June 2017, the Group did not enter into any material acquisitions or disposals of subsidiaries and associates.

## 6. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

In the past five years, the implementation of new policies and reforms in the PRC pharmaceutic sector, such as the 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 and the new version of the medical insurance catalogue, the traditional business development of the Group remained challenging. To turn challenges into opportunities, the Group will continue to enhance its business operations by implementing the following,

i. establishing strong foundation for brand product, make advantageous variety stronger and enhance the quality benefits 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;

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;

iv. expanding and exploring the heath maintenance and elderly care market and incubation development of medical equipment industry to enhance the quality benefits of the Great Medical Care;

v. setting 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. continuing to promote investment and acquisition projects of four major segments; and

vii. speeding up the construction of production base projects.

The Proposed Acquisition is an important step taken by the Group to meet the challenges and opportunities that arise from the implementation of the aforementioned policies and reforms. Under the two-invoice system, the distribution of drugs will begin with a pharmaceutical manufacturer selling its products to a distributor or its designated agent (the first invoice). Such distributor or designated agent shall then sell the products directly to medical institutions (the second invoice). The Directors are of the view that the Target Group, as one of the market leaders in the drug wholesale business in the PRC, will benefit from the implementation of the Two-invoice system, as the pharmaceutical manufacturing enterprises will be more inclined to engage market leading wholesalers with strong background and extensive distribution networks. In addition, As disclosed in the sub-section headed "Reasons for and benefits of the Proposed Acquisition and the Grant of the Put Options" in the "Letter from the Board" in this circular, the Target Group's business of wholesale, retail and export of medicine, biological products, healthcare food and medical apparatus will be complementary to the existing wholesale, retail, import and export operations of the Group after Completion as well as to enable the Target Company to share the resources of the Group, including but not limited to the Group's extensive pharmaceutical and healthcare product distribution network and to further develop its business in the PRC.

In light of the above and taking into account the unaudited pro forma financial information of the Enlarged Group contained in Appendix IV to this circular, the Directors are optimistic that the Proposed Acquisition will have a positive impact on the overall financial performance of the Group.

*The following is the text of a report set out on pages II - 1 to II - 163, received from the Company's reporting accountants, KPMG Huazhen LLP, for the purpose of incorporation in this circular.*

KPMG

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

**ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS CO., LTD.**

**Introduction**

We report on the historical financial information of Guangzhou Pharmaceuticals Corporation ("Guangzhou Pharmaceuticals" or the "Target Company") and its subsidiaries (together, "Guangzhou Pharmaceuticals Group" or the "Target Group") set out on pages II - 4 to II - 163, which comprises the consolidated balance sheets and the balance sheets of the Target Company as at 31 December 2014, 31 December 2015, 31 December 2016 and 30 September 2017 and the consolidated income statements and the income statements of the Target Company, the consolidated cash flow statements and the cash flow statements of the Target Company, the consolidated statements of changes in owners' equity and the statements of changes in owners' equity of the Target Company, for each of the years ended 31 December 2014, 31 December 2015 and 31 December 2016 and the nine months ended 30 September 2017 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II - 4 to II - 163 forms an integral part of this report, which has been prepared for inclusion in the circular of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (the "Company") dated 12 February 2018 (the "Circular") in connection with its very substantial acquisition of Guangzhou Pharmaceuticals Group.

**Directors' responsibility for Historical Financial Information**

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note II to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note II to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of Guangzhou Pharmaceuticals' consolidated financial position and financial position as at 31 December 2014, 31 December 2015, 31 December 2016 and 30 September 2017 and of Guangzhou Pharmaceuticals' consolidated financial performance and financial performance and consolidated cash flows and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note II to the Historical Financial Information.

**Review of stub period corresponding financial information**

We have reviewed the stub period corresponding financial information of Guangzhou Pharmaceuticals which comprises the consolidated income statement and the income statement of the Target Company, the consolidated cash flow statement and the cash flow statement of the Target Company, and the consolidated statement of changes in owners' equity and the statement of changes in owners' equity of the Target Company for the nine months ended 30 September 2016 and other explanatory information (the "Stub Period Corresponding Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note II to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board ("IAASB"). A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note II to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited**

***Adjustments***

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II - 4 have been made.

KPMG Huazhen LLP
Certified Public Accountants
8th Floor, KPMG Tower
Oriental Plaza
1 East Chang An Avenue.
Beijing, China
12 February 2018

## Historical financial information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements and financial statements of Guangzhou Pharmaceuticals for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP under separate terms of engagement with the Target Company in accordance with China Standards on Auditing ("CSAs") issued by the China Institute of Certified Public Accountants ("CICPA") ("Underlying Financial Statements").

**Guangzhou Pharmaceuticals Corporation**
**Consolidated balance sheets**
*(Expressed in Renminbi Yuan)*

| | *Note* | **30 September 2017** | **31 December 2016** | **31 December 2015** | **31 December 2014** |
|---|---|---|---|---|---|
| Current assets: | | | | | |
| Cash at bank and on hand | V.1 | 2,088,618,245.42 | 2,632,143,041.95 | 2,030,364,819.98 | 1,710,454,122.20 |
| Bills receivable | V.2 | 761,447,991.88 | 1,055,856,848.48 | 765,019,970.44 | 647,810,240.58 |
| Accounts receivable | V.3 | 10,030,166,621.84 | 6,244,617,092.42 | 6,383,522,677.61 | 5,253,720,092.14 |
| Prepayments | V.4 | 459,411,138.65 | 1,415,320,751.99 | 1,443,438,653.60 | 1,109,613,047.93 |
| Other receivables | V.5 | 626,015,367.58 | 583,527,356.81 | 397,472,308.74 | 223,898,124.39 |
| Inventories | V.6 | 3,641,616,430.04 | 3,636,788,947.09 | 3,609,392,272.89 | 2,800,693,269.03 |
| Other current assets | V.7 | 135,270,394.95 | 291,809,829.74 | 206,818,949.46 | 151,638,459.03 |
| Total current assets | | 17,742,546,190.36 | 15,860,063,868.48 | 14,836,029,652.72 | 11,897,827,355.30 |
| Non-current assets: | | | | | |
| Available-for-sale financial assets | V.8 | 783,761.61 | 714,424.09 | 1,898,562.78 | 1,359,827.22 |
| Investment properties | V.9 | 133,138.29 | 143,108.31 | 156,401.67 | 169,695.03 |
| Fixed assets | V.10 | 267,163,421.93 | 236,670,764.34 | 196,347,566.29 | 149,440,287.84 |
| Construction in progress | V.11 | 48,413,926.59 | 13,236,910.74 | 4,227,863.35 | 1,499,022.98 |
| Intangible assets | V.12 | 86,383,055.01 | 85,221,442.54 | 85,259,119.96 | 86,938,051.97 |
| Goodwill | V.13 | 50,941,295.57 | 50,941,295.57 | 50,941,295.57 | 49,144,876.48 |
| Long-term deferred expenses | V.14 | 26,523,418.26 | 32,574,760.30 | 36,151,701.89 | 39,042,055.67 |
| Deferred tax assets | V.15 | 63,628,549.89 | 45,391,302.76 | 31,976,447.34 | 25,405,829.02 |
| Total non-current assets | | 543,970,567.15 | 464,894,008.65 | 406,958,958.85 | 352,999,646.21 |
| Total assets | | 18,286,516,757.51 | 16,324,957,877.13 | 15,242,988,611.57 | 12,250,827,001.51 |
| Current liabilities: | | | | | |
| Short-term loans | V.16 | 6,148,403,737.53 | 5,083,062,472.52 | 4,338,698,559.27 | 3,749,812,835.35 |
| Bills payable | V.17 | 1,700,630,368.81 | 2,446,848,191.03 | 2,948,520,948.97 | 2,261,747,387.16 |
| Accounts payable | V.18 | 5,797,748,224.71 | 4,078,728,027.46 | 4,222,867,859.93 | 3,531,604,730.91 |
| Advances from customers | V.19 | 49,409,464.69 | 110,183,592.44 | 178,092,875.29 | 30,711,604.78 |
| Employee benefits payable | V.20 | 33,531,326.51 | 37,613,133.31 | 42,494,646.36 | 40,967,154.17 |
| Taxes payable | V.21 | 73,425,169.48 | 57,117,478.98 | 44,236,223.31 | 45,069,265.17 |
| Interest payable | V.22 | 15,836,529.60 | 28,316,853.67 | 18,553,041.39 | 20,519,256.59 |
| Dividends payable | V.23 | — | — | 2,500,000.00 | — |
| Other payables | V.24 | 499,500,126.11 | 796,480,677.05 | 458,722,863.75 | 236,251,108.73 |
| Non-current liabilities due within one year | V.25 | 263,226,913.34 | 23,004,853.09 | 9,656,764.71 | 1,644,376.68 |
| Other current liabilities | V.26 | — | 400,000,000.00 | 400,000,000.00 | — |
| Total current liabilities | | 14,581,711,860.78 | 13,061,355,279.55 | 12,664,343,782.98 | 9,918,327,719.54 |
| Non-current liabilities: | | | | | |
| Long-term loans | V.27 | 631,378,960.43 | 411,666,029.37 | — | — |
| Long-term payables | V.28 | 83,927,761.57 | 54,195,979.34 | 26,976,529.28 | 3,033,578.18 |
| Deferred tax liabilities | V.15 | 3,100,863.92 | 3,658,410.95 | 4,401,807.00 | 4,762,973.02 |
| Deferred income | V.29 | 3,420,043.35 | 5,690,455.50 | 8,087,936.48 | 9,509,715.94 |
| Total non-current liabilities | | 721,827,629.27 | 475,210,875.16 | 39,466,272.76 | 17,306,267.14 |
| Total liabilities | | 15,303,539,490.05 | 13,536,566,154.71 | 12,703,810,055.74 | 9,935,633,986.68 |
| Owners' equity: | | | | | |
| Paid-in capital | V.30 | 700,000,000.00 | 700,000,000.00 | 700,000,000.00 | 700,000,000.00 |
| Capital reserve | V.31 | 377,072,540.51 | 377,072,540.51 | 377,067,247.08 | 376,846,052.41 |
| Other comprehensive income | V.32 | 444,996.61 | 392,993.47 | 639,042.14 | 646,044.82 |
| Surplus reserve | V.33 | 397,340,048.64 | 397,340,048.64 | 354,002,032.78 | 294,131,627.73 |
| Retained earnings | V.34 | 1,262,179,442.07 | 1,078,189,979.77 | 895,622,444.97 | 739,692,891.96 |
| Total equity attributable to owners of the Target Company | | 2,737,037,027.83 | 2,552,995,562.39 | 2,327,330,766.97 | 2,111,316,616.92 |
| Non-controlling interests | | 245,940,239.63 | 235,396,160.03 | 211,847,788.86 | 203,876,397.91 |
| Total owners' equity | | 2,982,977,267.46 | 2,788,391,722.42 | 2,539,178,555.83 | 2,315,193,014.83 |
| Total liabilities and owners' equity | | 18,286,516,757.51 | 16,324,957,877.13 | 15,242,988,611.57 | 12,250,827,001.51 |

The notes on pages II - 20 to II - 163 form part of the Historical Financial Information.

**Guangzhou Pharmaceuticals Corporation**

**Balance sheets**

*(Expressed in Renminbi Yuan)*

| | *Note* | **30 September 2017** | **31 December 2016** | **31 December 2015** | **31 December 2014** |
|---|---|---|---|---|---|
| Current assets: | | | | | |
| Cash at bank and on hand | | 1,381,146,358.25 | 1,803,243,367.79 | 1,497,600,904.24 | 1,239,025,000.04 |
| Bills receivable | | 512,813,761.05 | 730,921,171.29 | 445,708,732.77 | 444,042,276.74 |
| Accounts receivable | XV.1 | 6,218,030,006.64 | 3,928,424,286.08 | 4,160,145,232.47 | 3,201,315,168.98 |
| Prepayments | | 425,446,435.51 | 1,009,342,566.99 | 1,062,478,024.62 | 856,052,501.89 |
| Dividends receivable | | 198,000,000.00 | — | 3,750,000.00 | — |
| Other receivables | XV.2 | 866,737,853.30 | 746,856,793.03 | 983,349,678.20 | 777,264,294.69 |
| Inventories | | 1,974,252,557.23 | 1,958,796,489.29 | 2,320,539,018.71 | 1,858,052,441.45 |
| Other current assets | | 74,661,644.23 | 184,478,939.97 | 163,510,167.94 | 101,842,083.47 |
| Total current assets | | 11,651,088,616.21 | 10,362,063,614.44 | 10,637,081,758.95 | 8,477,593,767.26 |
| Non-current assets: | | | | | |
| Available-for-sale financial assets | | 783,761.61 | 714,424.09 | 797,381.48 | 841,955.60 |
| Long-term equity investments | XV.3 | 990,715,671.92 | 990,715,671.92 | 638,481,217.60 | 608,367,776.35 |
| Investment properties | | 133,138.29 | 143,108.31 | 156,401.67 | 169,695.03 |
| Fixed assets | | 213,285,174.66 | 183,687,192.89 | 138,395,038.87 | 89,451,155.55 |
| Construction in progress | | 48,413,926.59 | 13,122,218.43 | 4,227,863.35 | 1,499,022.98 |
| Intangible assets | | 72,374,228.98 | 69,655,948.45 | 66,606,952.71 | 66,699,934.85 |
| Long-term deferred expenses | | 18,095,866.06 | 24,485,947.87 | 29,240,591.92 | 31,243,774.41 |
| Deferred tax assets | | 23,829,826.57 | 17,241,977.19 | 13,417,587.07 | 12,338,065.12 |
| Other non-current assets | | — | — | — | 12,620,000.00 |
| Total non-current assets | | 1,367,631,594.68 | 1,299,766,489.15 | 891,323,034.67 | 823,231,379.89 |
| Total assets | | 13,018,720,210.89 | 11,661,830,103.59 | 11,528,404,793.62 | 9,300,825,147.15 |
| Current liabilities: | | | | | |
| Short-term loans | | 4,802,121,816.18 | 4,011,250,607.50 | 3,417,712,451.19 | 3,020,337,488.09 |
| Bills payable | | 952,024,837.69 | 1,460,938,304.17 | 2,222,546,679.38 | 1,733,782,043.29 |
| Accounts payable | | 3,420,019,272.18 | 2,330,088,920.83 | 2,740,120,959.13 | 2,283,310,964.77 |
| Advances from customers | | 30,213,227.61 | 74,471,275.70 | 144,104,887.48 | 25,930,467.10 |
| Employee benefits payable | | 11,148,552.83 | 11,164,284.31 | 22,963,599.58 | 25,802,063.26 |
| Taxes payable | | 31,370,019.07 | 17,709,912.44 | 13,625,823.41 | 18,670,534.36 |
| Interest payable | | 13,864,066.33 | 27,004,457.76 | 17,198,293.99 | 19,557,989.58 |
| Other payables | | 333,274,959.34 | 694,360,634.07 | 481,499,376.32 | 293,302,830.36 |
| Non-current liabilities due within one year | | 263,226,913.34 | 23,004,853.09 | 9,656,764.71 | 1,644,376.68 |
| Other current liabilities | | — | 400,000,000.00 | 400,000,000.00 | — |
| Total current liabilities | | 9,857,263,664.57 | 9,049,993,249.87 | 9,469,428,835.19 | 7,422,338,757.49 |
| Non-current liabilities: | | | | | |
| Long-term loans | | 631,378,960.43 | 411,666,029.37 | — | — |
| Long-term payables | | 83,270,667.55 | 54,195,979.34 | 26,976,529.28 | 3,033,578.18 |
| Deferred income | | 3,171,666.49 | 4,601,666.50 | 7,141,666.54 | 8,799,999.94 |
| Total non-current liabilities | | 717,821,294.47 | 470,463,675.21 | 34,118,195.82 | 11,833,578.12 |
| Total liabilities | | 10,575,084,959.04 | 9,520,456,925.08 | 9,503,547,031.01 | 7,434,172,335.61 |
| Owners' equity: | | | | | |
| Paid-in capital | | 700,000,000.00 | 700,000,000.00 | 700,000,000.00 | 700,000,000.00 |
| Capital reserve | | 378,545,359.71 | 378,545,359.71 | 378,545,359.71 | 378,545,359.71 |
| Other comprehensive income | | 444,996.61 | 392,993.47 | 455,211.51 | 651,522.80 |
| Surplus reserve | | 397,340,048.64 | 397,340,048.64 | 354,002,032.78 | 294,131,627.73 |
| Retained earnings | | 967,304,846.89 | 665,094,776.69 | 591,855,158.61 | 493,324,301.30 |
| Total owners' equity | | 2,443,635,251.85 | 2,141,373,178.51 | 2,024,857,762.61 | 1,866,652,811.54 |
| Total liabilities and owners' equity | | 13,018,720,210.89 | 11,661,830,103.59 | 11,528,404,793.62 | 9,300,825,147.15 |

The notes on pages II - 20 to II - 163 form part of the Historical Financial Information.

**Guangzhou Pharmaceuticals Corporation**
**Consolidated income statements**
*(Expressed in Renminbi Yuan)*

| | *Note* | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 | Year ended 31 December 2016 | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|---|---|---|---|
| | | | *(Unaudited)* | | | |
| I. Operating income | V.35 | 27,270,918,912.82 | 25,808,941,665.19 | 33,004,805,415.66 | 29,393,175,229.65 | 26,238,572,797.78 |
| II. Less: Operating costs | V.35 | 25,626,592,804.41 | 24,473,554,435.71 | 31,220,143,726.47 | 27,790,706,391.30 | 24,847,107,305.10 |
| Taxes and surcharges | V.36 | 34,882,005.29 | 25,863,187.01 | 36,053,809.24 | 26,445,310.24 | 23,148,130.69 |
| Selling and distribution expenses | V.37 | 832,057,448.61 | 601,155,992.99 | 836,637,455.68 | 690,439,531.80 | 574,686,451.87 |
| General and administrative expenses | V.38 | 203,474,199.38 | 190,723,293.69 | 268,112,658.12 | 264,732,107.29 | 244,794,457.56 |
| Financial expenses | V.39 | 243,507,531.15 | 208,619,770.03 | 279,307,046.35 | 282,215,100.65 | 255,671,844.82 |
| Impairment losses | V.40 | 70,358,054.67 | 41,414,940.50 | 31,474,732.86 | 33,617,219.87 | 6,931,104.84 |
| Add: Investment income | V.41 | 33,616.32 | 34,254.82 | 654,629.79 | 44,589.49 | 40,307.94 |
| Other income | V.42 | 2,327,023.15 | — | — | — | — |
| III. Operating profit | | 262,407,508.78 | 267,644,300.08 | 333,730,616.73 | 305,064,157.99 | 286,273,810.84 |
| Add: Non-operating income | V.43 | 1,211,647.10 | 5,776,397.73 | 11,371,249.31 | 7,496,871.48 | 4,447,919.11 |
| Including: Gains from disposal of non-current assets | | 15,986.68 | 921.76 | 13,706.04 | 253,025.62 | 36,665.64 |
| Less: Non-operating expenses | V.44 | 825,392.50 | 1,473,423.07 | 1,892,041.86 | 683,794.69 | 1,200,614.94 |
| Including: Losses from disposal of non-current assets | | 185,418.75 | 683,604.77 | 1,046,894.90 | 78,008.40 | 258,672.05 |
| IV. Profit before income tax | | 262,793,763.38 | 271,947,274.74 | 343,209,824.18 | 311,877,234.78 | 289,521,115.01 |
| Less: Income tax expenses | V.45 | 68,260,221.48 | 75,073,347.07 | 93,131,053.60 | 76,569,299.92 | 82,357,972.27 |
| V. Net profit for the period/year | | 194,533,541.90 | 196,873,927.67 | 250,078,770.58 | 235,307,934.86 | 207,163,142.74 |
| Attributable to: | | | | | | |
| Owners of the Target Company | | 183,989,462.30 | 179,946,361.31 | 225,905,550.66 | 215,799,958.06 | 191,487,777.96 |
| Non-controlling interests | | 10,544,079.60 | 16,927,566.36 | 24,173,219.92 | 19,507,976.80 | 15,675,364.78 |
| VI. Other comprehensive income, net of tax | | 52,003.14 | (400,517.76) | (865,603.99) | 119,203.08 | 534,895.36 |
| Other comprehensive income (net of tax) attributable to owners of the Target Company | | 52,003.14 | (274,112.70) | (246,048.67) | (7,002.68) | 467,536.54 |
| Items that will be reclassified to profit or loss: | | | | | | |
| Gains or losses arising from changes in fair value of available-for-sale financial assets | | 52,003.14 | (274,112.70) | (246,048.67) | (7,002.68) | 467,536.54 |
| Other comprehensive income (net of tax) attributable to non-controlling interests | | — | (126,405.06) | (619,555.32) | 126,205.76 | 67,358.82 |
| VII. Total comprehensive income for the period/year | | 194,585,545.04 | 196,473,409.91 | 249,213,166.59 | 235,427,137.94 | 207,698,038.10 |
| Attributable to: | | | | | | |
| Owners of the Target Company | | 184,041,465.44 | 179,672,248.61 | 225,659,501.99 | 215,792,955.38 | 191,955,314.50 |
| Non-controlling interests | | 10,544,079.60 | 16,801,161.30 | 23,553,664.60 | 19,634,182.56 | 15,742,723.60 |

The notes on pages II - 20 to II - 163 form part of the Historical Financial Information.

**Guangzhou Pharmaceuticals Corporation**
**Income statements**
*(Expressed in Renminbi Yuan)*

| | Note | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 | Year ended 31 December 2016 | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|---|---|---|---|
| | | | *(Unaudited)* | | | |
| I. Operating income | XV.4 | 17,437,065,526.14 | 16,641,059,317.64 | 21,223,798,035.11 | 19,138,498,685.48 | 17,202,505,320.50 |
| II. Less: Operating costs | XV.4 | 16,582,017,429.18 | 15,922,947,307.07 | 20,283,399,944.87 | 18,255,034,081.38 | 16,445,750,386.59 |
| Taxes and surcharges | | 17,748,581.76 | 13,480,844.93 | 19,659,594.87 | 11,896,414.66 | 10,189,123.88 |
| Selling and distribution expenses | | 390,005,113.36 | 309,282,011.65 | 433,577,970.35 | 353,385,688.65 | 298,342,376.20 |
| General and administrative expenses | | 116,621,885.28 | 102,107,291.04 | 139,194,222.19 | 141,440,521.39 | 129,057,861.03 |
| Financial expenses | | 168,253,402.57 | 140,509,382.08 | 186,875,587.03 | 177,239,245.32 | 156,799,018.13 |
| Impairment losses | | 24,235,463.35 | 23,641,824.42 | 16,395,841.57 | 25,424,601.68 | 252,992.23 |
| Add: Investment income | XV.5 | 198,033,616.32 | 33,430.59 | 5,764,288.46 | 23,456,856.89 | 15,349,539.81 |
| Other income | | 1,930,000.02 | — | — | — | — |
| III. Operating profit | | 338,147,266.98 | 129,124,087.04 | 150,459,162.69 | 197,534,989.29 | 177,463,102.25 |
| Add: Non-operating income | | 143,836.76 | 4,921,941.85 | 8,645,896.64 | 2,942,220.87 | 3,842,852.23 |
| Including: Gains from disposal of non-current assets | | 14,705.07 | — | 512.82 | 1,836.76 | 10,806.18 |
| Less: Non-operating expenses | | 288,294.47 | 142,105.50 | 188,134.28 | 119,902.64 | 771,018.94 |
| Including: Losses from disposal of non-current assets | | 108,245.60 | 113,976.70 | 153,416.74 | 60,354.71 | 178,947.54 |
| IV. Profit before income tax | | 338,002,809.27 | 133,903,923.39 | 158,916,925.05 | 200,357,307.52 | 180,534,935.54 |
| Less: Income tax expenses | | 35,792,739.07 | 37,778,848.90 | 42,339,291.11 | 41,956,045.16 | 46,374,392.62 |
| V. Net profit for the period/year | | 302,210,070.20 | 96,125,074.49 | 116,577,633.94 | 158,401,262.36 | 134,160,542.92 |
| VI. Other comprehensive income, net of tax | | 52,003.14 | (84,505.10) | (62,218.04) | (196,311.29) | 366,498.32 |
| Items that will be reclassified to profit or loss: | | | | | | |
| Gains or losses arising from changes in fair value of available-for-sale financial assets | | 52,003.14 | (84,505.10) | (62,218.04) | (196,311.29) | 366,498.32 |
| VII. Total comprehensive income for the period/year | | 302,262,073.34 | 96,040,569.39 | 116,515,415.90 | 158,204,951.07 | 134,527,041.24 |

The notes on pages II - 20 to II - 163 form part of the Historical Financial Information.

**Guangzhou Pharmaceuticals Corporation**
**Consolidated cash flow statements**
*(Expressed in Renminbi Yuan)*

| | *Note* | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 *(Unaudited)* | Year ended 31 December 2016 | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|---|---|---|---|
| I. Cash flows from operating activities: | | | | | | |
| Proceeds from sale of goods and rendering of services | | 27,798,496,070.97 | 27,239,827,324.40 | 38,338,386,054.76 | 34,188,279,781.43 | 30,000,688,432.92 |
| Proceeds from other operating activities | V.47(1) | 14,688,774.49 | 14,899,381.59 | 27,534,881.09 | 22,964,540.19 | 27,943,026.44 |
| Sub-total of cash inflows | | 27,813,184,845.46 | 27,254,726,705.99 | 38,365,920,935.85 | 34,211,244,321.62 | 30,028,631,459.36 |
| Payment for goods and services | | (28,292,229,009.87) | (27,376,391,009.89) | (36,574,336,798.74) | (32,877,824,819.05) | (28,866,181,660.87) |
| Payment to and for employees | | (456,861,599.31) | (401,138,561.89) | (545,761,323.38) | (483,621,852.99) | (410,081,234.62) |
| Payment of various taxes | | (305,191,189.32) | (285,134,476.81) | (367,611,252.00) | (336,753,601.25) | (292,637,378.65) |
| Payment for other operating activities | V.47(2) | (545,461,637.06) | (369,333,651.38) | (523,998,018.66) | (380,639,523.50) | (372,873,089.47) |
| Sub-total of cash outflows | | (29,599,743,435.56) | (28,431,997,699.97) | (38,011,707,392.78) | (34,078,839,796.79) | (29,941,773,363.61) |
| Net cash (outflow)/inflow from operating activities | V.48(1) | (1,786,558,590.10) | (1,177,270,993.98) | 354,213,543.07 | 132,404,524.83 | 86,858,095.75 |
| II. Cash flows from investing activities: | | | | | | |
| Proceeds from disposal of investments | | — | — | 30,000.00 | — | — |
| Investment returns received | | 33,616.32 | 34,254.82 | 654,629.79 | 3,704,882.60 | 6,401,889.26 |
| Net proceeds from acquisition of a subsidiary | | — | — | — | — | 22,600,000.00 |
| Net proceeds from disposal of fixed assets | | 56,211.26 | 240,821.96 | 541,406.87 | 289,015.20 | 448,033.85 |
| Sub-total of cash inflows | | 89,827.58 | 275,076.78 | 1,226,036.66 | 3,993,897.80 | 29,449,923.11 |
| Payment for acquisition of fixed assets, intangible assets and other long-term assets | | (47,125,721.99) | (38,550,576.53) | (47,620,123.22) | (59,842,149.19) | (48,628,356.62) |
| Net payment for acquisition of a subsidiary | V.48(2) | — | — | — | (2,152,287.78) | — |
| Payment for other investing activities | | (1,056,011.70) | — | — | (2,126,749.04) | (15,770,000.00) |
| Sub-total of cash outflows | | (48,181,733.69) | (38,550,576.53) | (47,620,123.22) | (64,121,186.01) | (64,398,356.62) |
| Net cash outflow from investing activities | | (48,091,906.11) | (38,275,499.75) | (46,394,086.56) | (60,127,288.21) | (34,948,433.51) |
| III. Cash flows from financing activities: | | | | | | |
| Proceeds from borrowings | | 5,878,135,885.30 | 4,204,125,842.56 | 4,961,960,136.82 | 2,968,247,608.08 | 4,189,607,607.47 |
| Proceeds from issuance of debentures | | — | 400,000,000.00 | 400,000,000.00 | 400,000,000.00 | — |
| Proceeds from other financing activities | V.47(3) | 2,189,764,326.36 | 2,228,425,882.23 | 3,430,787,680.93 | 2,708,351,317.12 | 1,559,934,883.64 |
| Sub-total of cash inflows | | 8,067,900,211.66 | 6,832,551,724.79 | 8,792,747,817.75 | 6,076,598,925.20 | 5,749,542,491.11 |
| Repayments of borrowings | | (3,896,917,424.67) | (3,068,719,743.97) | (4,363,861,168.35) | (2,792,651,318.28) | (3,133,914,338.39) |
| Repayments of issuance of debentures | | (400,000,000.00) | — | (400,000,000.00) | — | (400,000,000.00) |
| Payment for profit distributions or interest | | (257,535,999.69) | (195,732,295.45) | (275,775,527.33) | (293,425,938.48) | (263,714,660.81) |
| Including: Dividends and profits paid to non-controlling owners of subsidiaries | | — | — | (2,500,000.00) | (8,941,596.94) | (1,528,949.67) |
| Payment for other financing activities | V.47(4) | (1,999,640,342.36) | (2,093,026,119.41) | (3,352,349,888.18) | (3,050,343,432.68) | (1,887,121,447.02) |
| Sub-total of cash outflows | | (6,554,093,766.72) | (5,357,478,158.83) | (8,391,986,583.86) | (6,136,420,689.44) | (5,684,750,446.22) |
| Net cash inflow/(outflow) from financing activities | | 1,513,806,444.94 | 1,475,073,565.96 | 400,761,233.89 | (59,821,764.24) | 64,792,044.89 |
| IV. Net increase in cash and cash equivalents ("( )" for decreases) | V.48(1) | (320,844,051.27) | 259,527,072.23 | 708,580,690.40 | 12,455,472.38 | 116,701,707.13 |
| Add: Cash and cash equivalents at the beginning of the period/year | | 1,802,487,128.09 | 1,093,906,437.69 | 1,093,906,437.69 | 1,081,450,965.31 | 964,749,258.18 |
| V. Cash and cash equivalents at the end of the period/year | V.48(3) | 1,481,643,076.82 | 1,353,433,509.92 | 1,802,487,128.09 | 1,093,906,437.69 | 1,081,450,965.31 |

The notes on pages II - 20 to II - 163 form part of the Historical Financial Information.

**Guangzhou Pharmaceuticals Corporation**
**Cash flow statements**
*(Expressed in Renminbi Yuan)*

| | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 *(Unaudited)* | Year ended 31 December 2016 | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|---|---|---|
| I. Cash flows from operating activities: | | | | | |
| Proceeds from sale of goods and rendering of services | 17,846,960,118.50 | 17,553,504,267.14 | 24,828,606,310.83 | 21,807,098,173.02 | 19,394,153,734.27 |
| Proceeds from other operating activities | 11,045,842.74 | 10,924,330.74 | 19,911,479.94 | 15,258,451.95 | 23,664,613.29 |
| Sub-total of cash inflows | 17,858,005,961.24 | 17,564,428,597.88 | 24,848,517,790.77 | 21,822,356,624.97 | 19,417,818,347.56 |
| Payment for goods and services | (18,579,722,636.81) | (18,105,115,176.28) | (23,926,011,612.80) | (21,072,158,330.22) | (18,676,838,069.19) |
| Payment to and for employees | (249,493,397.02) | (222,002,114.05) | (301,496,225.28) | (262,944,855.43) | (222,897,220.98) |
| Payment of various taxes | (141,566,250.97) | (129,597,380.66) | (170,368,959.73) | (154,351,466.93) | (147,859,858.72) |
| Payment for other operating activities | (233,256,365.28) | (268,906,221.03) | (323,468,524.12) | (196,668,183.35) | (190,994,726.33) |
| Sub-total of cash outflows | (19,204,038,650.08) | (18,725,620,892.02) | (24,721,345,321.93) | (21,686,122,835.93) | (19,238,589,875.22) |
| Net cash (outflow)/inflow from operating activities | (1,346,032,688.84) | (1,161,192,294.14) | 127,172,468.84 | 136,233,789.04 | 179,228,472.34 |
| II. Cash flows from investing activities: | | | | | |
| Proceeds from disposal of investments | 158,000,000.00 | 551,740,000.00 | 566,740,000.00 | 588,520,000.00 | 542,400,000.00 |
| Investment returns received | 19,730,133.45 | 12,196,515.23 | 30,273,780.78 | 61,867,989.28 | 64,111,517.51 |
| Net proceeds from disposal of fixed assets | 15,736.38 | 48,008.33 | 62,405.98 | 7,539.94 | 404,495.68 |
| Sub-total of cash inflows | 177,745,869.83 | 563,984,523.56 | 597,076,186.76 | 650,395,529.22 | 606,916,013.19 |
| Payment for acquisition of fixed assets, intangible assets and other long-term assets | (32,401,125.68) | (31,526,884.10) | (38,985,162.97) | (52,222,790.44) | (36,598,018.21) |
| Payment for investments | (187,500,000.00) | (536,340,000.00) | (545,340,000.00) | (572,400,000.00) | (610,520,000.00) |
| Net payment for acquisition of subsidiaries | — | — | — | (3,265,101.13) | — |
| Payment for other investing activities | (1,056,011.70) | — | — | (2,126,749.04) | (13,770,000.00) |
| Sub-total of cash outflows | (220,957,137.38) | (567,866,884.10) | (584,325,162.97) | (630,014,640.61) | (660,888,018.21) |
| Net cash (outflow)/inflow from investing activities | (43,211,267.55) | (3,882,360.54) | 12,751,023.79 | 20,380,888.61 | (53,972,005.02) |
| III. Cash flows from financing activities: | | | | | |
| Proceeds from borrowings | 4,361,888,529.93 | 2,924,830,050.43 | 3,504,343,580.50 | 2,023,478,707.01 | 2,901,723,311.09 |
| Proceeds from issuance of debentures | — | 400,000,000.00 | 400,000,000.00 | 400,000,000.00 | — |
| Proceeds from other financing activities | 1,435,147,909.00 | 1,838,043,021.42 | 2,520,926,730.78 | 2,333,530,654.30 | 1,066,203,850.88 |
| Sub-total of cash inflows | 5,797,036,438.93 | 5,162,873,071.85 | 6,425,270,311.28 | 4,757,009,361.31 | 3,967,927,161.97 |
| Repayments of borrowings | (2,745,172,820.59) | (2,004,289,742.31) | (3,093,093,400.44) | (2,063,175,971.02) | (2,064,758,950.70) |
| Repayments of issuance of debentures | (400,000,000.00) | — | (400,000,000.00) | — | (400,000,000.00) |
| Payment for profit distributions or interest | (216,354,907.22) | (155,649,500.86) | (217,166,533.46) | (223,051,142.02) | (206,370,268.64) |
| Payment for other financing activities | (1,343,477,068.39) | (1,655,239,068.99) | (2,239,591,907.40) | (2,638,965,162.65) | (1,350,364,321.66) |
| Sub-total of cash outflows | (4,705,004,796.20) | (3,815,178,312.16) | (5,949,851,841.30) | (4,925,192,275.69) | (4,021,493,541.00) |
| Net cash (outflow)/inflow from financing activities | 1,092,031,642.73 | 1,347,694,759.69 | 475,418,469.98 | (168,182,914.38) | (53,566,379.03) |
| IV. Net increase in cash and cash equivalents ("( )" for decreases) | (297,212,313.66) | 182,620,105.01 | 615,341,962.61 | (11,568,236.73) | 71,690,088.29 |
| Add: Cash and cash equivalents at the beginning of the period/year | 1,358,085,136.49 | 742,743,173.88 | 742,743,173.88 | 754,311,410.61 | 682,621,322.32 |
| V. Cash and cash equivalents at the end of the period/year | 1,060,872,822.83 | 925,363,278.89 | 1,358,085,136.49 | 742,743,173.88 | 754,311,410.61 |

The notes on pages II - 20 to II - 163 form part of the Historical Financial Information.

**Guangzhou Pharmaceuticals Corporation**

**Consolidated statements of changes in owners' equity**

for the nine months ended 30 September 2017

*(Expressed in Renminbi Yuan)*

| | Attributable to owners of the Target Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Paid-in capital | Capital reserve | Other comprehensive income | Surplus reserve | Retained earnings | Sub-total | Non-controlling interests | Total |
| I. Balance at the beginning of the period | 700,000,000.00 | 377,072,540.51 | 392,993.47 | 397,340,048.64 | 1,078,189,979.77 | 2,552,995,562.39 | 235,396,160.03 | 2,788,391,722.42 |
| II. Changes in equity during the period | | | | | | | | |
| 1. Total comprehensive income | — | — | 52,003.14 | — | 183,989,462.30 | 184,041,465.44 | 10,544,079.60 | 194,585,545.04 |
| III. Balance at the end of the period | 700,000,000.00 | 377,072,540.51 | 444,996.61 | 397,340,048.64 | 1,262,179,442.07 | 2,737,037,027.83 | 245,940,239.63 | 2,982,977,267.46 |

The notes on pages II - 20 to II - 163 form part of the Historical Financial Information.

**Guangzhou Pharmaceuticals Corporation**

**Consolidated statements of changes in owners' equity (continued)**

for the nine months ended 30 September 2016 (unaudited)

*(Expressed in Renminbi Yuan)*

| | Attributable to owners of the Target Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Paid-in capital | Capital reserve | Other comprehensive income | Surplus reserve | Retained earnings | Sub-total | Non-controlling interests | Total |
| I. Balance at the beginning of the period | 700,000,000.00 | 377,067,247.08 | 639,042.14 | 354,002,032.78 | 895,622,444.97 | 2,327,330,766.97 | 211,847,788.86 | 2,539,178,555.83 |
| II. Changes in equity during the period ("( )" for decreases) | | | | | | | | |
| 1. Total comprehensive income | — | — | (274,112.70) | — | 179,946,361.31 | 179,672,248.61 | 16,801,161.30 | 196,473,409.91 |
| 2. Transfers within equity | | | | | | | | |
| (1). Acquisition of non-controlling interests | — | 5,293.43 | — | — | — | 5,293.43 | (5,293.43) | — |
| III. Balance at the end of the period | 700,000,000.00 | 377,072,540.51 | 364,929.44 | 354,002,032.78 | 1,075,568,806.28 | 2,507,008,309.01 | 228,643,656.73 | 2,735,651,965.74 |

The notes on pages II - 20 to II - 163 form part of the Historical Financial Information.

**Guangzhou Pharmaceuticals Corporation**

**Consolidated statements of changes in owners' equity (continued)**

for the year ended 31 December 2016

*(Expressed in Renminbi Yuan)*

| | | Attributable to owners of the Target Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Note* | Paid-in capital | Capital reserve | Other comprehensive income | Surplus reserve | Retained earnings | Sub-total | Non-controlling interests | Total |
| I. Balance at the beginning of the year | | 700,000,000.00 | 377,067,247.08 | 639,042.14 | 354,002,032.78 | 895,622,444.97 | 2,327,330,766.97 | 211,847,788.86 | 2,539,178,555.83 |
| II. Changes in equity during the year ("( )" for decreases) | | | | | | | | | |
| 1. Total comprehensive income | | — | — | (246,048.67) | — | 225,905,550.66 | 225,659,501.99 | 23,553,664.60 | 249,213,166.59 |
| 2. Transfers within equity | | | | | | | | | |
| (1). Acquisition of non-controlling interests | V.31 | — | 5,293.43 | — | — | — | 5,293.43 | (5,293.43) | — |
| 3. Appropriation of profits | | | | | | | | | |
| (1). Appropriation for surplus reserve | V.33 | — | — | — | 43,338,015.86 | (43,338,015.86) | — | — | — |
| III. Balance at the end of the year | | 700,000,000.00 | 377,072,540.51 | 392,993.47 | 397,340,048.64 | 1,078,189,979.77 | 2,552,995,562.39 | 235,396,160.03 | 2,788,391,722.42 |

The notes on pages II - 20 to II - 163 form part of the Historical Financial Information.

**Guangzhou Pharmaceuticals Corporation**

**Consolidated statements of changes in owners' equity (continued)**

for the year ended 31 December 2015

*(Expressed in Renminbi Yuan)*

| | | Attributable to owners of the Target Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Note* | Paid-in capital | Capital reserve | Other comprehensive income | Surplus reserve | Retained earnings | Sub-total | Non-controlling interests | Total |
| I. Balance at the beginning of the year | | 700,000,000.00 | 376,846,052.41 | 646,044.82 | 294,131,627.73 | 739,692,891.96 | 2,111,316,616.92 | 203,876,397.91 | 2,315,193,014.83 |
| II. Changes in equity during the year ("( )" for decreases) | | | | | | | | | |
| 1. Total comprehensive income | | — | — | (7,002.68) | — | 215,799,958.06 | 215,792,955.38 | 19,634,182.56 | 235,427,137.94 |
| 2. Transfers within equity | | | | | | | | | |
| (1). Acquisition of non-controlling interests | V.31 | — | 221,194.67 | — | — | — | 221,194.67 | (221,194.67) | — |
| 3. Appropriation of profits | | | | | | | | | |
| (1). Appropriation for surplus reserve | V.33 | — | — | — | 59,870,405.05 | (59,870,405.05) | — | — | — |
| (2). Distributions to owners | | — | — | — | — | — | — | (11,441,596.94) | (11,441,596.94) |
| III. Balance at the end of the year | | 700,000,000.00 | 377,067,247.08 | 639,042.14 | 354,002,032.78 | 895,622,444.97 | 2,327,330,766.97 | 211,847,788.86 | 2,539,178,555.83 |

The notes on pages II - 20 to II - 163 form part of the Historical Financial Information.

**Guangzhou Pharmaceuticals Corporation**

**Consolidated statements of changes in owners' equity (continued)**

for the year ended 31 December 2014

*(Expressed in Renminbi Yuan)*

| | | Attributable to owners of the Target Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Note* | Paid-in capital | Capital reserve | Other comprehensive income | Surplus reserve | Retained earnings | Sub-total | Non-controlling interests | Total |
| I. Balance at the beginning of the year | | 700,000,000.00 | 378,896,262.92 | 178,508.28 | 256,807,823.60 | 585,528,918.13 | 1,921,411,512.93 | 195,232,913.47 | 2,116,644,426.40 |
| II. Changes in equity during the year ("( )" for decreases) | | | | | | | | | |
| 1. Total comprehensive income | | — | — | 467,536.54 | — | 191,487,777.96 | 191,955,314.50 | 15,742,723.60 | 207,698,038.10 |
| 2. Owners' contributions of capital | | | | | | | | | |
| (1). Contribution by owners | | — | — | — | — | — | — | 9,379,500.00 | 9,379,500.00 |
| 3. Transfers within equity | | | | | | | | | |
| (1). Acquisition of non-controlling interests | V.31 | — | (2,050,210.51) | — | — | — | (2,050,210.51) | (14,949,789.49) | (17,000,000.00) |
| 4. Appropriation of profits | | | | | | | | | |
| (1). Appropriation for surplus reserve | V.33 | — | — | — | 37,323,804.13 | (37,323,804.13) | — | — | — |
| (2). Distributions to owners | | — | — | — | — | — | — | (1,528,949.67) | (1,528,949.67) |
| III. Balance at the end of the year | | 700,000,000.00 | 376,846,052.41 | 646,044.82 | 294,131,627.73 | 739,692,891.96 | 2,111,316,616.92 | 203,876,397.91 | 2,315,193,014.83 |

The notes on pages II - 20 to II - 163 form part of the Historical Financial Information.

**Guangzhou Pharmaceuticals Corporation**
**Statements of changes in owners' equity**
for the nine months ended 30 September 2017
*(Expressed in Renminbi Yuan)*

| | Paid-in capital | Capital reserve | Other comprehensive income | Surplus reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| I. Balance at the beginning of the period | 700,000,000.00 | 378,545,359.71 | 392,993.47 | 397,340,048.64 | 665,094,776.69 | 2,141,373,178.51 |
| II. Changes in equity during the period | | | | | | |
| 1. Total comprehensive income | — | — | 52,003.14 | — | 302,210,070.20 | 302,262,073.34 |
| III. Balance at the end of the period | 700,000,000.00 | 378,545,359.71 | 444,996.61 | 397,340,048.64 | 967,304,846.89 | 2,443,635,251.85 |

The notes on pages II - 20 to II - 163 form part of the Historical Financial Information.

**Guangzhou Pharmaceuticals Corporation**
**Statements of changes in owners' equity (continued)**
for the nine months ended 30 September 2016 (unaudited)
*(Expressed in Renminbi Yuan)*

| | Paid-in capital | Capital reserve | Other comprehensive income | Surplus reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| I. Balance at the beginning of the period | 700,000,000.00 | 378,545,359.71 | 455,211.51 | 354,002,032.78 | 591,855,158.61 | 2,024,857,762.61 |
| II. Changes in equity during the period ("( )" for decreases) | | | | | | |
| 1. Total comprehensive income | — | — | (84,505.10) | — | 96,125,074.49 | 96,040,569.39 |
| III. Balance at the end of the period | 700,000,000.00 | 378,545,359.71 | 370,706.41 | 354,002,032.78 | 687,980,233.10 | 2,120,898,332.00 |

The notes on pages II - 20 to II - 163 form part of the Historical Financial Information.

**Guangzhou Pharmaceuticals Corporation**
**Statements of changes in owners' equity (continued)**
for the year ended 31 December 2016
*(Expressed in Renminbi Yuan)*

| | Paid-in capital | Capital reserve | Other comprehensive income | Surplus reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| I. Balance at the beginning of the year | 700,000,000.00 | 378,545,359.71 | 455,211.51 | 354,002,032.78 | 591,855,158.61 | 2,024,857,762.61 |
| II. Changes in equity during the year ("( )" for decreases) | | | | | | |
| 1. Total comprehensive income | — | — | (62,218.04) | — | 116,577,633.94 | 116,515,415.90 |
| 2. Appropriation of profits | | | | | | |
| (1). Appropriation for surplus reserve | — | — | — | 43,338,015.86 | (43,338,015.86) | — |
| III. Balance at the end of the year | 700,000,000.00 | 378,545,359.71 | 392,993.47 | 397,340,048.64 | 665,094,776.69 | 2,141,373,178.51 |

The notes on pages II - 20 to II - 163 form part of the Historical Financial Information.

**Guangzhou Pharmaceuticals Corporation**
**Statements of changes in owners' equity (continued)**
for the year ended 31 December 2015
*(Expressed in Renminbi Yuan)*

| | Paid-in capital | Capital reserve | Other comprehensive income | Surplus reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| I. Balance at the beginning of the year | 700,000,000.00 | 378,545,359.71 | 651,522.80 | 294,131,627.73 | 493,324,301.30 | 1,866,652,811.54 |
| II. Changes in equity during the year ("( )" for decreases) | | | | | | |
| 1. Total comprehensive income | — | — | (196,311.29) | — | 158,401,262.36 | 158,204,951.07 |
| 2. Appropriation of profits | | | | | | |
| (1). Appropriation for surplus reserve | — | — | — | 59,870,405.05 | (59,870,405.05) | — |
| III. Balance at the end of the year | 700,000,000.00 | 378,545,359.71 | 455,211.51 | 354,002,032.78 | 591,855,158.61 | 2,024,857,762.61 |

The notes on pages II - 20 to II - 163 form part of the Historical Financial Information.

**Guangzhou Pharmaceuticals Corporation**
**Statements of changes in owners' equity (continued)**
for the year ended 31 December 2014
*(Expressed in Renminbi Yuan)*

| | Paid-in capital | Capital reserve | Other comprehensive income | Surplus reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| I. Balance at the beginning of the year | 700,000,000.00 | 378,545,359.71 | 285,024.48 | 256,807,823.60 | 396,487,562.51 | 1,732,125,770.30 |
| II. Changes in equity during the year ("( )" for decreases) | | | | | | |
| 1. Total comprehensive income | — | — | 366,498.32 | — | 134,160,542.92 | 134,527,041.24 |
| 2. Appropriation of profits | | | | | | |
| (1). Appropriation for surplus reserve | — | — | — | 37,323,804.13 | (37,323,804.13) | — |
| III. Balance at the end of the year | 700,000,000.00 | 378,545,359.71 | 651,522.80 | 294,131,627.73 | 493,324,301.30 | 1,866,652,811.54 |

The notes on pages II - 20 to II - 163 form part of the Historical Financial Information.

**Guangzhou Pharmaceuticals Corporation**
**Notes to the Historical Financial Information**
*(Expressed in Renminbi Yuan unless otherwise indicated)*

## I. Target Company status

On 1 January 1951, Guangzhou Pharmaceuticals Corporation (the "Target Company") was established in Guangzhou, People's Republic of China ("PRC"). The Target Company became a limited liability company on 21 December 2001 under reformation, and became a sino-foreign equity joint venture on 28 December 2007 as a result of the change in shareholders. The domestic shareholder of the Target Company is Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited ("Baiyunshan", previously named Guangzhou Pharmaceutical Company Limited), and the foreign shareholder is Alliance BMP Limited ("Alliance BMP"), a subsidiary of Walgreens Boots Alliance. Baiyunshan and Alliance BMP each holds 50% equity shares of the Target Company.

The principal activities of the Target Company and its subsidiaries (the "Target Group") are wholesale, retail, import and export of pharmaceutical products, biotic production, health food, medical apparatus, warehousing and logistics services, etc. Please refer to Note VII for details of the subsidiaries of the Target Company.

During the reporting period, the information about increases in the Target Group's subsidiaries is disclosed in Note VI.

## II. Basis of preparation and presentation

The Historical Financial Information has been prepared in accordance with requirements of Accounting Standards for Business Enterprises or referred to as China Accounting Standards ("CAS") issued by the Ministry of Finance ("MOF") of the People's Republic of China. These financial statements present truly and completely the consolidated financial position and financial position of the Target Company as at 31 December 2014, 31 December 2015, 31 December 2016 and 30 September 2017, and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows of the Target Company for each of the years ended 31 December 2014, 31 December 2015, 31 December 2016 and the nine months ended 30 September 2017. Further details of the significant accounting policies adopted are set out in Note III.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

The Stub Period Corresponding Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

The Historical Financial Information have been prepared on the going concern basis.

## III. Significant accounting policies and accounting estimates

Accounting policies for the recognition and measurement of provisions for receivables, recognition of cost of inventories, depreciation of investment properties and fixed assets, amortisation of intangible assets, and revenue recognition and measurement of the Target Group are adopted according to the specific characteristics of the Target Company's operations. Please refer to the relevant notes on accounting policies.

### 1 *Basis of measurement*

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- financial instruments classified as available-for-sale (see note III. 9).

### 2 *Accounting period*

The accounting period is from 1 January to 31 December.

### 3 *Operating cycle*

The Target Company takes the period from the acquisition of assets to until the ultimate realisation of cash or cash equivalents as a normal operating cycle. The operating cycle of the Target Company is usually less than 12 months.

### 4 *Functional currency*

The functional currency of the Target Company and its subsidiaries is Renminbi, and the Historical Financial Information are presented in Renminbi. Functional currency is determined by the Target Company and its subsidiaries on the basis of the currency in which major income and costs are denominated and settled.

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

*(1) Business combinations involving entities under common control*

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets acquired and liabilities assumed are measured based on their carrying amounts in the consolidated financial statements of the ultimate controlling party at the combination date. The difference between the carrying amount of the net assets acquired and the consideration paid for the combination (or the total par value of shares issued) is adjusted against capital premium in the capital reserve, with any excess adjusted against retained earnings. Any costs directly attributable to the combination are recognised in profit or loss when incurred. The combination date is the date on which one combining entity obtains control of other combining entities.

(2) *Business combinations involving entities not under common control*

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. Where (1) the aggregate of the acquisition-date fair value of assets transferred (including the acquirer's previously held equity interest in the acquiree), liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree, exceeds (2) the acquirer's interest in the acquisition-date fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill (see Note III.18). If (1) is less than (2), the difference is recognised in profit or loss for the current period. Acquisition-related costs are expensed when incurred. Any difference between the fair value and the carrying amount of the assets transferred as consideration is recognised in profit or loss. The acquiree's identifiable asset, liabilities and contingent liabilities, if the recognition criteria are met, are recognised by the Target Group at their acquisition-date fair value. The acquisition date is the date on which the acquirer obtains control of the acquiree.

For a business combination involving entities not under common control and achieved in stages, the Target Group remeasures its previously-held equity interest in the acquiree to its acquisition-date fair value and recognises any resulting difference between the fair value and the carrying amount as investment income for the current period. In addition, any amount recognised in other comprehensive income that may be reclassified to profit or loss, in prior reporting periods relating to the previously-held equity interest, and any other changes in the owners' equity under equity accounting, are transferred to investment income in the period in which the acquisition occurs.

6 ***Consolidated financial statements***

(1) *General principles*

The scope of consolidated financial statements is based on control and the consolidated financial statements comprise the Target Company and its subsidiaries. Control exists when the investor has all of following: power over the investee; exposure, or rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When assessing whether the Target Group has power, only substantive rights (held by the Target Group and other parties) are considered. The financial position, financial performance and cash flows of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interests are presented separately in the consolidated balance sheet within owners' equity. Net profit or loss attributable to non-controlling shareholders is presented separately in the consolidated income statement below the net profit line item. Total comprehensive income attributable to non-controlling shareholders is presented separately in the consolidated income statement below the total comprehensive income line item.

When the amount of loss for the current period attributable to the non-controlling shareholders of a subsidiary exceeds the non-controlling shareholders' portion of the opening owners' equity of the subsidiary, the excess is still allocated against the non-controlling interests.

When the accounting period or accounting policies of a subsidiary are different from those of the Target Company, the Target Company makes necessary adjustments to the financial statements of the subsidiary based on the Target Company's own accounting period or accounting policies. Intra-group balances and transactions, and any unrealised profit or loss arising from intra-group transactions, are eliminated when preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, unless they represent impairment losses that are recognised in the financial statements.

(2) *Subsidiaries acquired through a business combination*

Where a subsidiary was acquired during the reporting period, through a business combination involving entities under common control, the financial statements of the subsidiary are included in the consolidated financial statements based on the carrying amounts of the assets and liabilities of the subsidiary in the financial statements of the ultimate controlling party as if the combination had occurred at the date that the ultimate controlling party first obtained control. The opening balances and the comparative figures of the consolidated financial statements are also restated.

Where a subsidiary was acquired during the reporting period, through a business combination involving entities not under common control, the identifiable assets and liabilities of the acquired subsidiaries are included in the scope of consolidation from the date that control commences, based on the fair value of those identifiable assets and liabilities at the acquisition date.

(3) *Disposal of subsidiaries*

When the Target Group loses control over a subsidiary, any resulting disposal gains or losses are recognised as investment income for the current period. The remaining equity interests is re-measured at its fair value at the date when control is lost, any resulting gains or losses are also recognised as investment income for the current period.

When the Target Group loses control of a subsidiary in multiple transactions in which it disposes of its long-term equity investment in the subsidiary in stages, the following are considered to determine whether the Target Group should account for the multiple transactions as a bundled transaction:

- arrangements are entered into at the same time or in contemplation of each other;
- arrangements work together to achieve an overall commercial effect;
- the occurrence of one arrangement is dependent on the occurrence of at least one other arrangement;
- 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 does not form part of a bundled transaction, the transactions conducted before the loss of control of the subsidiary are accounted for in accordance with the accounting policy for partial disposal of equity investment in subsidiaries where control is retained (see Note III.6(4)).

If each of the multiple transactions forms part of a bundled transaction which eventually results in the loss of control in the subsidiary, these multiple transactions are accounted for as a single transaction. In the Historical Financial Information, the difference between the consideration received and the corresponding proportion of the subsidiary's net assets (calculated continuously from the acquisition date) in each transaction prior to the loss of control shall be recognised in other comprehensive income and transferred to profit or loss when the parent eventually loses control of the subsidiary.

*(4) Changes in non-controlling interests*

Where the Target Company acquires a non-controlling interest from a subsidiary's non-controlling shareholders or disposes of a portion of an interest in a subsidiary without a change in control, the difference between the proportion interests of the subsidiary's net assets being acquired or disposed and the amount of the consideration paid or received is adjusted to the capital reserve (capital premium) in the consolidated balance sheet, with any excess adjusted to retained earnings.

7 ***Cash and cash equivalents***

Cash and cash equivalents comprise cash on hand, deposits that can be readily withdrawn on demand, and short-term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

8 ***Foreign currency transactions***

When the Target Group receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate at the date of the receipt. Other foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates on the dates of the transactions.

Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the balance sheet date. The resulting exchange differences are generally recognised in profit or loss. Non-monetary items that are measured at historical cost in foreign currencies are translated to Renminbi using the exchange rate at the transaction date.

9 ***Financial instruments***

Financial instruments include cash at bank and on hand, investments in equity securities other than those classified as long-term equity investments (see Note III.12), receivables, payables, loans and borrowings, short-term debentures payable and paid-in capital.

*(1) Recognition and measurement of financial assets and financial liabilities*

A financial asset or financial liability is recognised in the balance sheet when the Target Group becomes a party to the contractual provisions of a financial instrument.

The Target Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

The Target Group has no financial assets and financial liabilities at fair value through profit or loss or held-to-maturity investment in the reporting periods.

Financial assets and financial liabilities are measured initially at fair value. Any related directly attributable transaction costs are included in their initial costs. Subsequent to initial recognition, financial assets and liabilities are measured as follows:

- Receivables

  Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

  Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method.

- Available-for-sale financial assets

  Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available for sale and other financial assets which do not fall into any of the above categories.

  Available-for-sale investments in equity instruments whose fair value cannot be measured reliably are measured at cost subsequent to initial recognition. Other available-for-sale financial assets are measured at fair value subsequent to initial recognition and changes therein are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses from monetary financial assets which are recognised directly in profit or loss. When an investment is derecognised, the gain or loss accumulated in other comprehensive income is reclassified to profit or loss. Dividend income is recognised in profit or loss when the investee approves the dividends. Interest is recognised in profit or loss using the effective interest method (see Note III.23(3)).

- Other financial liabilities

  Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Other financial liabilities include liabilities arising from financial guarantee contracts. Financial guarantees are contracts that require the Target Group (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Where the Target Group issues a financial guarantee, subsequent to initial recognition, the guarantee is measured at the higher of the amount initially recognised less accumulated amortisation and the amount of a provision determined in accordance with the principles for contingent liabilities (see Note III.22).

Liabilities other than those arising from financial guarantee contracts are measured at amortised cost using the effective interest method.

(2) *Presentation of financial assets and financial liabilities*

Financial assets and financial liabilities are generally presented separately in the balance sheet, and are not offset. However, a financial asset and a financial liability are offset and the net amount is presented in the balance sheet when both of the following conditions are satisfied:

- the Target Group currently has a legally enforceable right to set off the recognised amounts;
- the Target Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

(3) *Derecognition of financial assets and financial liabilities*

A financial asset is derecognised when one of the following conditions is met:

- the Target Group's contractual rights to the cash flows from the financial asset expire;
- the financial asset has been transferred and the Target Group transfers substantially all of the risks and rewards of ownership of the financial asset; or
- the financial asset has been transferred, although the Target Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, it does not retain control over the transferred asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss:

- the carrying amount of the financial asset transferred;
- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised directly in owners' equity.

The Target Group derecognises a financial liability (or part of it) only when its contractual obligation (or part of it) is discharged or cancelled or expires.

*(4) Impairment of financial assets*

The carrying amounts of financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recognised.

Objective evidence that a financial asset is impaired includes but is not limited to:

(a) significant financial difficulty of the issuer or obligor;

(b) a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;

(c) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(d) the disappearance of an active market for that financial asset because of financial difficulties faced by the issuer;

(e) significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of an investment in an equity instrument may not be recovered by the investor;

(f) a significant (i.e. a decline of 50%) or prolonged decline in the fair value (i.e. a decline persisting for 12 months) of an investment in an equity instrument below its cost.

For the calculation method of impairment of receivables, refer to Note III.10. The impairment of available-for-sale financial assets is measured as follows:

Available-for-sale financial assets are assessed for impairment on an individual basis and on a collective group basis. When an available-for-sale financial asset is impaired, the cumulative loss arising from a decline in fair value that has been recognised directly in owners' equity is reclassified to profit or loss even though the financial asset has not been derecognised.

An impairment loss recognised for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. The impairment loss on an investment in an unquoted equity instrument whose fair value cannot be reliably measured is not reversed.

*(5) Equity instrument*

The Target Company has not issued any other equity instruments except for its paid-in capital received from its investors.

10 ***Impairment of receivables***

Receivables are assessed for impairment on an individual basis and on a collective group basis as follows.

Where impairment is assessed on an individual basis, an impairment loss in respect of a receivable is calculated as the excess of its carrying amount over the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate. Impairment losses are recognised in profit or loss.

The assessment is made collectively where receivables share similar credit risk characteristics (including those not having been individually assessed as impaired), based on their historical loss experiences, and adjusted by the observable factors reflecting current economic conditions.

If, after an impairment loss has been recognised on receivables, there is a recovery in the value of the financial asset which can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of an impairment loss will not result in the asset's carrying amount exceeding what the amortised cost would have been had no impairment loss been recognised in prior years at the date the impairment is reversed.

(a) *Receivables that are individually significant and assessed individually for impairment:*

| | |
|---|---|
| Judgement basis or criteria for receivables that are individually significant | The accounts receivable are individually above or equal to RMB 50,000,000.00 and other receivables are individually above or equal to RMB 5,000,000.00. |
| Method of provisioning for bad and doubtful debts for receivables that are individually significant and assessed individually | An impairment loss in respect of a receivable is calculated as the excess of its carrying amount over the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate. |

(b) *Receivables that are individually insignificant but assessed individually for impairment:*

| | |
|---|---|
| Reasons for assessing individually for impairment of receivables that are individually insignificant | There is a significant difference between the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate and the present value of the future cash flows according to the receivables with similar credit risk characteristics (excluding future credit losses that have not been incurred) discounted at the original effective interest rate. |
| Method of provisioning for bad and doubtful debts | An impairment loss in respect of a receivable is calculated as the excess of its carrying amount over the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate. |

*(c) Receivables that are collectively assessed for impairment based on credit risk characteristics:*

Receivables that have not been individually assessed as impaired in the assessments in (a) and (b) above, are included in the collective assessment of impairment for receivables sharing similar credit risk characteristics.

Basis for determination of groups

| | |
|---|---|
| Group 1 | In addition to the accounts receivable that are individually assessed for impairment, the Target Group identifies the groups of receivables sharing similar credit risk characteristics basing on aging analysis and past experience (including accounts receivable and vendor rebate included in other receivables). |
| Group 2 | Deposits included in other receivables |
| Group 3 | Staff advances and others included in other receivables |

Method of provisioning for receivables with similar credit risk characteristics that are collectively assessed for impairment

| | |
|---|---|
| Group 1 | Ageing analysis method |
| Group 2 | No provision |
| Group 3 | No provision |

The provisioning for groups of receivables using the ageing analysis method:

| **Ageing** | **Provision as a percentage of accounts receivable (%)** | **Provision as a percentage of other receivables (%)** |
|---|---:|---:|
| Within 1 year (inclusive) | 0.5% | 0.5% |
| Over 1 year but within 2 years (inclusive) | 30% | 30% |
| Over 2 years but within 3 years (inclusive) | 50% | 50% |
| Over 3 years | 100% | 100% |

11 ***Inventories***

*(1) Classification and cost*

Inventories include finished goods and reusable materials. Reusable materials include low-value consumables, packaging materials and other materials, which can be used repeatedly but do not meet the definition of fixed assets.

Inventories are initially measured at cost. Cost of inventories comprises all costs of purchase and other expenditure incurred in bringing the inventories to their present location and condition.

(2) *Measurement method of cost of inventories*

Cost of inventories recognised is calculated using the weighted average method.

Consumables including low-value consumables and packaging materials are charged to profit or loss upon receipt. The amortisation charge is included in the cost of the related assets or recognised in profit or loss for the current period.

(3) *Basis for determining the net realisable value and method for provision for obsolete inventories*

At the balance sheet date, inventories are carried at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. The net realisable value of the inventory held to satisfy sales or service contracts is measured based on the contract price, to the extent of the quantities specified in sales contracts, and the excess portion of inventories is measured based on general selling prices.

Any excess of the cost over the net realisable value of each item of inventories is recognised as a provision for obsolete inventories, and is recognised in profit or loss.

(4) *Inventory count system*

The Target Group maintains a perpetual inventory system.

12 ***Long-term equity investments***

(1) *Investment cost of long-term equity investments*

(a) Long-term equity investments acquired through a business combination

- The initial cost of a long-term equity investment acquired through a business combination involving entities under common control is the Target Company's share of the carrying amount of the subsidiary's equity in the consolidated financial statements of the ultimate controlling party at the combination date. The difference between the initial investment cost and the carrying amount of the consideration given is adjusted to the capital premium in the capital reserve, with any excess adjusted to retained earnings. For a long-term equity investment in a subsidiary acquired through a business combination achieved in stages which do not form a bundled transaction and involving entities under common control, the Target Company determines the initial cost of the investment in accordance with the above policies. The difference between this initial cost and the sum of the carrying amount of previously-held investment and the consideration paid for the shares newly acquired is adjusted to capital premium in the capital reserve, with any excess adjusted to retained earnings.

- For a long-term equity investment obtained through a business combination not involving entities under common control, the initial cost comprises the aggregate of the fair value of assets transferred, liabilities incurred or assumed, and equity securities issued by the Target Company, in exchange for control of the acquiree. For a long-term equity investment obtained through a business combination not involving entities under common control and achieved through multiple transactions in stages which do not form a bundled transaction, the initial cost comprises the carrying amount of the previously-held equity investment in the acquiree immediately before the acquisition date, and the additional investment cost at the acquisition date.

(b) Long-term equity investments acquired other than through a business combination

A long-term equity investment acquired other than through a business combination is initially recognised at the amount of cash paid if the Target Group acquires the investment by cash, or at the fair value of the equity securities issued if an investment is acquired by issuing equity securities.

*(2) Subsequent measurement of long-term equity investment*

Investments in subsidiaries

In the Target Company's Historical Financial Information, long-term equity investments in subsidiaries are accounted for using the cost method for subsequent measurement. Except for cash dividends or profit distributions declared but not yet distributed that have been included in the price or consideration paid in obtaining the investments, the Target Company recognises its share of the cash dividends or profit distributions declared by the investee as investment income for the current period.

The investments in subsidiaries are stated in the balance sheet at cost less accumulated impairment losses.

For the impairment of the investments in subsidiaries, refer to Note III.20.

In the Target Group's Historical Financial Information, subsidiaries are accounted for in accordance with the policies described in Note III.6.

13 ***Investment properties***

Investment properties are properties held either to earn rental income or for capital appreciation or for both. Investment properties are accounted for using the cost model and stated in the balance sheet at cost less accumulated depreciation, amortisation and impairment losses. The cost of investment property, less its estimated residual value and accumulated impairment losses, is depreciated using the straight-line method over its estimated useful life. For the impairment of the investment properties, refer to Note III.20.

The estimated useful lives, residual value rates and depreciation rates of each class of investment properties are as follows:

| Class | Estimated useful life (years) | Residual value rate (%) | Depreciation rate (%) |
|---|---|---|---|
| Plant and buildings | 30 years | 3% | 3.23% |

14 ***Fixed assets***

(1) *Recognition of fixed assets*

Fixed assets represent the tangible assets held by the Target Group for use in operating activities with useful lives over one accounting year.

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of self-constructed assets is measured in accordance with the policy set out in Note III.15.

Where the parts of an item of fixed assets have different useful lives or provide benefits to the Target Group in a different pattern, thus necessitating use of different depreciation rates or methods, each part is recognised as a separate fixed asset.

Any subsequent costs including the cost of replacing part of an item of fixed assets are recognised as assets when it is probable that the economic benefits associated with the costs will flow to the Target Group, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day maintenance of fixed assets are recognised in profit or loss as incurred.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

(2) *Depreciation of fixed assets*

The cost of a fixed asset, less its estimated residual value and accumulated impairment losses, is depreciated using the straight-line method over its estimated useful life.

The estimated useful lives, residual value rates and depreciation rates of each class of fixed assets are as follows:

| Class | Estimated useful life (years) | Residual value rate (%) | Depreciation rate (%) |
|---|---|---|---|
| Plant and buildings | 5 - 35 | 0% - 5% | 2.71% - 20.00% |
| Machinery and equipment | 3 - 15 | 1% - 5% | 6.33% - 33.00% |
| Office and other equipment | 2 - 18 | 1% - 5% | 5.28% - 49.50% |
| Motor vehicles | 5 - 10 | 3% - 5% | 9.50% - 19.40% |

Useful lives, estimated residual values and depreciation methods are reviewed at least at each year-end.

(3) *For the impairment of the fixed assets, refer to Note III.20.*

(4) *For the recognition, measurement and depreciation of fixed assets acquired under finance leases, refer to Note III.27(3).*

(5) *Disposal of fixed assets*

The carrying amount of a fixed asset is derecognised:

- when the fixed asset is holding for disposal; or

- when no future economic benefit is expected to be generated from its use or disposal.

Gains or losses arising from the retirement or disposal of an item of fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item, and are recognised in profit or loss on the date of retirement or disposal.

15 ***Construction in progress***

The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to working condition for its intended use.

A self-constructed asset is classified as construction in progress and transferred to fixed asset when it is ready for its intended use. No depreciation is provided against construction in progress.

Construction in progress is stated in the balance sheet at cost less accumulated impairment losses (see Note III.20).

16 ***Borrowing costs***

Borrowing costs are recognised as financial expenses when incurred.

17 ***Intangible assets***

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note III.20). For an intangible asset with finite useful life, its cost less estimated residual value and accumulated impairment losses is amortised using the straight-line method over its estimated useful life.

The respective amortisation periods for intangible assets are as follows:

| **Item** | **Amortisation period (years)** |
|---|---|
| Land use rights | 37 - 50 |
| Computer software | 5 |
| Pharmaceutical trade license | 8 - 10 |
| Distribution network and trademarks | 10 |

An intangible asset is regarded as having an indefinite useful life and is not amortised when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Target Group. At the balance sheet date, the Target Group does not have any intangible assets with indefinite useful lives.

18 ***Goodwill***

The initial cost of goodwill represents the excess of cost of acquisition over the acquirer's interest in the fair value of the identifiable net assets of the acquiree under a business combination not involving entities under common control.

Goodwill is not amortised and is stated in the balance sheet at cost less accumulated impairment losses (see Note III.20). On disposal of an asset group or a set of asset groups, any attributable goodwill is written off and included in the calculation of the profit or loss on disposal.

19 ***Long-term deferred expenses***

Long-term deferred expenses are amortised using a straight-line method within the benefit period.

The respective amortisation periods for such expenses are as follows:

| **Item** | **Amortisation period** |
|---|---|
| Leasehold improvements | 5 years |
| Other item | 5years or 10 years |

20 ***Impairment of assets other than inventories and financial assets***

The carrying amounts of the following assets are reviewed at each balance sheet date based on internal and external sources of information to determine whether there is any indication of impairment:

- fixed assets
- construction in progress
- intangible assets
- investment properties measured using a cost model
- long-term equity investments
- goodwill
- long-term deferred expenses, etc.

If any indication exists, the recoverable amount of the asset is estimated. In addition, the Target Group estimates the recoverable amounts of intangible assets not ready for use at least annually and the recoverable amounts of goodwill at each year-end, irrespective of whether there is any indication of impairment. Goodwill is allocated to each asset group or set of asset groups, which is expected to benefit from the synergies of the combination for the purpose of impairment testing.

The recoverable amount of an asset (or asset group, set of asset groups) is the higher of its fair value (see Note III.21) less costs to sell and its present value of expected future cash flows.

An asset group is composed of assets directly related to cash-generation and is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups.

The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using an appropriate pre-tax discount rate.

An impairment loss is recognised in profit or loss when the recoverable amount of an asset is less than its carrying amount. A provision for impairment of the asset is recognised accordingly. Impairment losses related to an asset group or a set of asset groups are allocated first to reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then to reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, such allocation would not reduce the carrying amount of an asset below the highest of its fair value less costs to sell (if measurable), its present value of expected future cash flows (if determinable) and zero.

Once an impairment loss is recognised, it is not reversed in a subsequent period.

21 ***Fair value measurement***

Unless otherwise specified, the Target Group measures fair value as follows:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When measuring fair value, the Target Group takes into account the characteristics of the particular asset or liability (including the condition and location of the asset and restrictions, if any, on the sale or use of the asset) that market participants would consider when pricing the asset or liability at the measurement date, and uses valuation techniques that are appropriate in the circumstances and for which sufficient data and other information are available to measure fair value. Valuation techniques mainly include the market approach, the income approach and the cost approach.

22 ***Provisions***

A provision is recognised for an obligation related to a contingency if the Target Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where there is a continuous range of possible outcomes for the expenditure required, and each possible outcome in that range is as likely as any other, the best estimate is the mid-point of that range. In other cases, the best estimate is determined according to the following circumstances:

- Where the contingency involves a single item, the best estimate is the most likely outcome.
- Where the contingency involves a large population of items, the best estimate is determined by weighting all possible outcomes by their associated probabilities.

The Target Group reviews the carrying amount of a provision at the balance sheet date and adjusts the carrying amount to the current best estimate.

23 ***Revenue recognition***

Revenue is the gross inflow of economic benefits arising in the course of the Target Group's ordinary activities when the inflows result in increase in equity, other than increase relating to contributions from owners. Revenue is recognised in profit or loss when it is probable that the economic benefits will flow to the Target Group, the revenue and costs can be measured reliably and the following conditions are met:

(1) *Sale of goods*

Revenue is recognised when the general conditions stated above and the following conditions are satisfied:

- Significant risks and rewards of ownership of goods have been transferred to the buyer;

- The Target Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable under the sales contract or agreement.

(2) *Rendering of services*

Revenue is measured at the fair value of the consideration received or receivable under the contract or agreement.

Where the outcome of a transaction involving the rendering of services can be estimated reliably, revenue is recognised by reference to the stage of completion based on the proportion of services performed to date to the total services to be performed.

Where the outcome cannot be estimated reliably, revenues are recognised to the extent of the costs incurred that are expected to be recoverable, and an equivalent amount is charged to profit or loss as service cost; otherwise, the costs incurred are recognised in profit or loss and no service revenue is recognised.

(3) *Interest income*

Interest income is recognised on a time proportion basis with reference to the principal outstanding and the applicable effective interest rate.

(4) *Operating leases income*

Income derived from operating leases is recognised using the straight-line method over the lease terms.

24 ***Employee benefits***

(1) *Short-term employee benefits*

Employee wages or salaries, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing fund, measured at the amount incurred or accured at the applicable benchmarks and rates, are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

(2) *Post-employment benefits — defined contribution plans*

Pursuant to the relevant laws and regulations of the People's Republic of China, the Target Group participated in a defined contribution basic pension insurance plan in the social insurance system established and managed by government organisations. The Target Group makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions payable are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or include in the cost of assets where appropriate.

(4) *Termination benefits*

When the Target Group terminates the employment with employees before the employment contracts expire, or provides compensation under an offer to encourage employees to accept voluntary redundancy, a provision is recognised with a corresponding expense in profit or loss at the earlier of the following dates:

- When the Target Group cannot unilaterally withdraw the offer of termination benefits because of an employee termination plan or a curtailment proposal;
- When the Target Group has a formal detailed restructuring plan involving the payment of termination benefits and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

25 ***Government grants***

Government grants are non-reciprocal transfers of monetary or non-monetary assets from the government to the Target Group except for capital contributions from the government in the capacity as an investor in the Target Group.

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Target Group will comply with the conditions attaching to the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at fair value.

Government grants related to assets are grants whose primary condition is that the Target Group qualifying for them should purchase, construct or otherwise acquire long-term assets. Government grants related to income are grants other than those related to assets. A government grant related to an asset is recognised as deferred income and amortised over the useful life of the related asset on a reasonable and systematic manner as other income or non-operating income. A grant that compensates the Target Group for expenses or losses to be incurred in the future is recognised as deferred income, and included in other income or non-operating income in the periods in which the expenses or losses are recognised. Or included in other income or non-operating income directly.

26 ***Income tax***

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to a business combination or items recognised directly in equity (including other comprehensive income).

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, plus any adjustment to tax payable in respect of previous years.

At the balance sheet date, current tax assets and liabilities are offset only if the Target Group has a legally enforceable right to set them off and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and deferred tax liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or deductible loss). Deferred tax is not recognised for taxable temporary differences arising from the initial recognition of goodwill.

At the balance sheet date, deferred tax is measured based on the tax consequences that would follow from the expected manner of recovery or settlement of the carrying amounts of the assets and liabilities, using tax rates enacted at the reporting date that are expected to be applied in the period when the asset is recovered or the liability is settled.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date, and is reduced to the extent that it is no longer probable that the related tax benefits will be utilised. Such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

At the balance sheet date, deferred tax assets and deferred tax liabilities are offset if all of the following conditions are met:

- the taxable entity has a legally enforceable right to offset current tax liabilities and current tax assets;

- they relate to income taxes levied by the same tax authority on either:

    - the same taxable entity; or

    - different taxable entities which intend either to settle the current tax liabilities and current tax assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or deferred tax assets are expected to be settled or recovered.

27 ***Operating leases and finance leases***

A lease is classified as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred. An operating lease is a lease other than a finance lease.

(1) *Operating lease charges*

Rental payments under operating leases are recognised as part of the cost of another related asset or as expenses on a straight-line basis over the lease term.

(2) *Assets leased out under operating leases*

Fixed assets leased out under operating leases, except for investment properties (see Note III.13), are depreciated in accordance with the Target Group's depreciation policies described in Note III.14(2). Impairment losses are recognised in accordance with the accounting policy described in Note III.20. Income derived from operating leases is recognised in profit or loss using the straight-line method over the lease term. If initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately.

(3) *Assets acquired under finance leases*

When the Target Group acquires an asset under a finance lease, the asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, each determined at the inception of the lease. At the commencement of the lease term, the minimum lease payments are recorded as long-term payables. The difference between the carrying amounts of the leased assets and the minimum lease payments is accounted for as unrecognised finance charges. Initial direct costs attributable to a finance lease that are incurred by the Target Group are added to the carrying amount of the leased asset. Depreciation and impairment losses are accounted for in accordance with the accounting policies described in Notes III.14(2) and III.20, respectively.

If there is reasonable certainty that the Target Group will obtain ownership of a leased asset at the end of the lease term, the leased asset is depreciated over its estimated useful life. Otherwise, the leased asset is depreciated over the shorter of the lease term and its estimated useful life.

Unrecognised finance charges arising from a finance lease are recognised using an effective interest method over the lease term. The amortisation is accounted for in accordance with the principles of borrowing costs (see Note III.16).

At the balance sheet date, the long-term payables arising from finance leases, net of the unrecognised finance charges, are analysed and separately presented as long-term payables or non-current liabilities due within one year.

28 ***Profit distributions***

Dividends or profit distributions proposed in the profit appropriation plan, which will be approved after the balance sheet date, are not recognised as a liability at the balance sheet date but are disclosed in the notes separately.

29 ***Related parties***

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Target Company is under common control only from the State and that have no other related party relationships are not regarded as related parties.

In addition to the related parties stated above, the Target Company determines related parties based on the disclosure requirements of Administrative Procedures on the Information Disclosures of Listed Companies issued by the CSRC.

30 ***Segment reporting***

Reportable segments are identified based on operating segments which are determined based on the structure of the Target Group's internal organisation, management requirements and internal reporting system after taking the materiality principle into account. Two or more operating segments may be aggregated into a single operating segment if the segments have the similar economic characteristics and are same or similar in respect of the nature of each segment's products and services, the nature of production processes, the types or classes of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

The Target Group operates as a whole with a unified internal organization, management evaluation system and internal reporting system. The Target Group does not have a separately managed operating segment during the reporting period and therefore the Target Group has only one operating segment.

31 ***Significant accounting estimates and judgements***

The preparation of the Historical Financial Information requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates as well as underlying assumptions and uncertainties involved are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Except for accounting estimates relating to depreciation and amortisation of assets such as investment property, fixed assets and intangible assets (see Notes III. 13, 14 and 17) and provision for impairment of various types of assets (see Notes V.3, 5, 6, 9, 10, 11, 12, 13 and Note XV.1, 2). Other significant accounting estimates include recognition of deferred tax assets (see Note V.15) and fair value measurements of financial instruments (see Note IX).

Significant judgements made by the Target Group in the application of accounting policies include significant judgements and assumptions in determining control over other entity (see Note VII.1 (1)).

32 ***Changes in significant accounting policies and accounting estimates***

*(1) Description and reasons of changes in accounting policies*

The MOF issued the revised Accounting Standards for Business Enterprises No. 16 — Government Grants ("CAS 16 (2017)") in May 2017. The effective date of CAS 16 (2017) is 12 June 2017.

The significant accounting policies after adopting the above accounting standards are summarised in Note 3.

Pursuant to CAS 16 (2017), the Target Group has revisited the existing government grants as of 1 January 2017, and applied the related accounting policies prospectively. No retrospective adjustments are made to the Target Group's accounting treatment and disclosures of the government grants in 2014, 2015 and 2016.

The impact of adoption of CAS 16 (2017) is as follows:

- A government grant related to income previously recognised as non-operating income is reclassified as other income in the income statement based on the economic substance if the government grant received is related to the Target Group's ordinary activities. The government grant is included in non-operating income if it is not related to the Target Group's ordinary activities.

*(2) Effect of changes in accounting policies on the Historical Financial Information*

The following tables provide estimates of the impact on each of the line items in the consolidated income statement and income statement, and the consolidated balance sheet and balance sheet for the nine months ended 30 September 2017 had the previous policies still been applied in the period.

- The effects on each of the line items in the consolidated income statement and income statement for the nine months ended 30 September 2017 are analysed as follows:

| | | **Effect of new policy** | |
|---|---|---|---|
| | *Note* | **The Target Group** | **The Target Company** |
| Other income | Note V. 42 | 2,327,023.15 | 1,930,000.02 |
| Non-operating income | Note V. 43 | (2,327,023.15) | (1,930,000.02) |
| Profit before income tax | | — | — |

- There is no effect on each of the line items in the consolidated balance sheet and balance sheet for the nine months ended 30 September 2017.

IV. **Taxation**

Main types of taxes and corresponding tax rates

| Tax type | Tax basis | Tax rate |
|---|---|---|
| Value-added tax (VAT) | Output VAT is calculated on product sales and taxable services revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period | Exempt from VAT (Note), 3%, 6%, 11%, 13%, 17% |
| Business tax | Based on taxable revenue before 1 May 2016. According to Caishui [2016] No. 36, jointly issued by MOF and the State Administration of Taxation, all taxpayers subject to business tax in China are included in the scope of the VAT pilot scheme. Effective from 1 May 2016, those taxpayers are required to pay VAT in lieu of business tax. | 5% |
| City maintenance and construction tax | Based on business tax and VAT paid | 7% |
| Education surcharges | Based on business tax and VAT paid | 3% |
| Local education surcharges | Based on business tax and VAT paid | 2% |
| Corporate income tax | Based on taxable profits | 16.5% or 25% |

Note: According to the Article 15 of Provision Regulations of the People's Republic of China on Value-added Tax (State Council of the People's Republic of China Order No. 538), contraceptive drugs and apparatuses sold by the Target Group are exempt from VAT.

The profits tax rate of the Target Group's subsidiaries located in Hong Kong during the reporting periods is 16.5%.

The corporate income tax rate applies to the Target Company and other subsidiaries of the Target Company is 25%.

V. **Notes to the Historical Financial Information**

1 ***Cash at bank and on hand***

| Item | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| Cash on hand | 306,878.76 | 275,708.93 | 920,434.30 | 694,756.19 |
| Deposits with banks | 1,481,336,198.06 | 1,802,211,419.16 | 1,092,986,003.39 | 1,080,756,209.12 |
| Other monetary funds | 606,975,168.60 | 829,655,913.86 | 936,458,382.29 | 629,003,156.89 |
| Total | 2,088,618,245.42 | 2,632,143,041.95 | 2,030,364,819.98 | 1,710,454,122.20 |
| Including: Total overseas deposits | 12,446,613.20 | 18,858,864.81 | 5,358,057.53 | 2,740,943.37 |

As at 30 September 2017, other monetary funds of the Target Group are deposits for bank acceptance bills of RMB 596,475,168.60 and bank loan mortgage of RMB 10,500,000.00.

As at 31 December 2016, other monetary funds of the Target Group are deposits for bank acceptance bills of RMB 818,520,081.39 and bank loan mortgage of RMB 11,135,832.47.

As at 31 December 2015, other monetary funds of the Target Group are deposits for bank acceptance bills of RMB 936,458,382.29.

As at 31 December 2014, other monetary funds of the Target Group are deposits for bank acceptance bills of RMB 618,621,176.88 and custom duty deposit of RMB 10,381,980.01.

2 ***Bills receivable***

*(1) Classification of bills receivable*

| Item | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| Bank acceptance bills | 219,384,705.43 | 296,049,344.12 | 160,377,997.72 | 201,946,624.24 |
| Commercial acceptance bills | 542,063,286.45 | 759,807,504.36 | 604,641,972.72 | 445,863,616.34 |
| Total | 761,447,991.88 | 1,055,856,848.48 | 765,019,970.44 | 647,810,240.58 |

All of the above bills are due within one year.

*(2) Outstanding endorsed or discounted bills that have not matured at the end of the period/year*

| Item | 30 September 2017 | | 31 December 2016 | | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|---|---|---|---|
| | Amount derecognised at period end | Amount not derecognised at period end | Amount derecognised at year end | Amount not derecognised at year end | Amount derecognised at year end | Amount not derecognised at year end | Amount derecognised at year end | Amount not derecognised at year end |
| Bank acceptance bills | 1,256,666,769.84 | 96,986,951.23 | 1,802,026,173.21 | 101,006,479.32 | 1,509,259,900.88 | 83,976,329.12 | 1,515,756,402.59 | — |
| Commercial acceptance bills | — | 8,973,647.73 | 7,880.00 | 174,990,540.52 | 168,783,723.60 | — | 1,341,093.33 | — |
| Total | 1,256,666,769.84 | 105,960,598.96 | 1,802,034,053.21 | 275,997,019.84 | 1,678,043,624.48 | 83,976,329.12 | 1,517,097,495.92 | — |

As at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014, the bills receivable of the Target Group, which are endorsed to suppliers but not derecognised, are RMB 96,986,951.23, RMB 101,006,479.32, RMB 83,976,329.12 and RMB0.00 respectively.

As at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014, the bills receivable of the Target Group, which are discounted to banks but not derecognised, are RMB 8,973,647.73, RMB 174,990,540.52, RMB 0.00 and RMB 0.00 respectively.

*(3) Bills transferred to accounts receivable due to non-performance of the issuers at the end of the period/year*

| Item | 30 September 2017 Amount transferred to accounts receivable at the end of the period | 31 December 2016 Amount transferred to accounts receivable at the end of the year | 31 December 2015 Amount transferred to accounts receivable at the end of the year | 31 December 2014 Amount transferred to accounts receivable at the end of the year |
|---|---|---|---|---|
| Commercial acceptance bills | — | — | 121,573,496.10 | — |

As at 31 December 2015, the commercial acceptance bills transferred to accounts receivable due to non-performance of the issuers of the Target Group are RMB 121,573,496.10. Among which, RMB 103,524,096.10 was collected in 2016 and the remaining RMB 18,049,400.00 has been fully impaired in 2016.

3 ***Accounts receivable***

*(1) Accounts receivable by customer type are as follows:*

| Type | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| Amounts due from related parties | 44,494,750.68 | 42,874,662.95 | 14,677,902.35 | 12,580,472.37 |
| Amounts due from other customers | 10,142,463,234.90 | 6,316,167,924.32 | 6,453,663,935.58 | 5,300,844,259.91 |
| Sub-total | 10,186,957,985.58 | 6,359,042,587.27 | 6,468,341,837.93 | 5,313,424,732.28 |
| Less: Provision for bad and doubtful debts | 156,791,363.74 | 114,425,494.85 | 84,819,160.32 | 59,704,640.14 |
| Total | 10,030,166,621.84 | 6,244,617,092.42 | 6,383,522,677.61 | 5,253,720,092.14 |

As at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014, the accounts receivable pledged as the securities for bank loans by the Target Group are RMB 1,303,207,418.18, RMB 537,945,238.39, RMB 355,711,363.98 and RMB 496,302,244.72 respectively (see Note V. 49).

*(2) The ageing analysis of accounts receivable is as follows:*

| Ageing | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| Within 1 year (inclusive) | 9,974,338,954.51 | 6,204,781,655.57 | 6,353,973,484.16 | 5,250,339,252.78 |
| Over 1 year but within 2 years (inclusive) | 123,144,447.41 | 74,307,640.37 | 70,768,122.93 | 38,190,525.94 |
| Over 2 years but within 3 years (inclusive) | 39,674,059.06 | 38,948,333.33 | 34,411,854.31 | 23,535,724.77 |
| Over 3 years | 49,800,524.60 | 41,004,958.00 | 9,188,376.53 | 1,359,228.79 |
| Sub-total | 10,186,957,985.58 | 6,359,042,587.27 | 6,468,341,837.93 | 5,313,424,732.28 |
| Less: Provision for bad and doubtful debts | 156,791,363.74 | 114,425,494.85 | 84,819,160.32 | 59,704,640.14 |
| Total | 10,030,166,621.84 | 6,244,617,092.42 | 6,383,522,677.61 | 5,253,720,092.14 |

The ageing is counted starting from the date when accounts receivable are recognised.

As at 31 December 2015, the accounts receivable transferred from commercial acceptance bills due to non-performance of the issuers of the Target Group are RMB 121,573,496.10 (see Note V. 2(3)), the ageing of which was counted starting from the date when the accounts receivable were initially recognised.

(3) *Accounts receivable by category*

| | | 30 September 2017 | | | | |
|---|---|---|---|---|---|---|
| | | Book value | | Provision for bad and doubtful debts | | |
| **Category** | *Note* | **Amount** | **Percentage** | **Amount** | **Percentage** | **Carrying amount** |
| Individually significant and assessed for impairment individually | | — | 0.0% | — | 0.0% | — |
| Individually insignificant but assessed for impairment individually | | 5,151,138.16 | 0.1% | 5,151,138.16 | 3.3% | — |
| Collectively assessed for impairment based on credit risk characteristics* | | | | | | |
| Group 1 | (a) | 10,181,806,847.42 | 99.9% | 151,640,225.58 | 96.7% | 10,030,166,621.84 |
| Total | | 10,186,957,985.58 | 100.0% | 156,791,363.74 | 100.0% | 10,030,166,621.84 |

| | | 31 December 2016 | | | | |
|---|---|---|---|---|---|---|
| | | Book value | | Provision for bad and doubtful debts | | |
| **Category** | *Note* | **Amount** | **Percentage** | **Amount** | **Percentage** | **Carrying amount** |
| Individually significant and assessed for impairment individually | | — | 0.0% | — | 0.0% | — |
| Individually insignificant but assessed for impairment individually | | 5,301,138.16 | 0.1% | 5,301,138.16 | 4.6% | — |
| Collectively assessed for impairment based on credit risk characteristics* | | | | | | |
| Group 1 | (a) | 6,353,741,449.11 | 99.9% | 109,124,356.69 | 95.4% | 6,244,617,092.42 |
| Total | | 6,359,042,587.27 | 100.0% | 114,425,494.85 | 100.0% | 6,244,617,092.42 |

| | | 31 December 2015 | | | | |
|---|---|---|---|---|---|---|
| | | Book value | | Provision for bad and doubtful debts | | |
| **Category** | *Note* | **Amount** | **Percentage** | **Amount** | **Percentage** | **Carrying amount** |
| Individually significant and assessed for impairment individually | | — | 0.0% | — | 0.0% | — |
| Individually insignificant but assessed for impairment individually | | 6,247,065.81 | 0.1% | 6,247,065.81 | 7.4% | — |
| Collectively assessed for impairment based on credit risk characteristics* | | | | | | |
| Group 1 | (a) | 6,462,094,772.12 | 99.9% | 78,572,094.51 | 92.6% | 6,383,522,677.61 |
| Total | | 6,468,341,837.93 | 100.0% | 84,819,160.32 | 100.0% | 6,383,522,677.61 |

| | | 31 December 2014 | | | | |
|---|---|---|---|---|---|---|
| | | Book value | | Provision for bad and doubtful debts | | |
| Category | *Note* | Amount | Percentage | Amount | Percentage | Carrying amount |
| Individually significant and assessed for impairment individually | | — | 0.0% | — | 0.0% | — |
| Individually insignificant but assessed for impairment individually | | 19,359,728.97 | 0.4% | 19,359,728.97 | 32.4% | — |
| Collectively assessed for impairment based on credit risk characteristics* | | | | | | |
| Group 1 | (a) | 5,294,065,003.31 | 99.6% | 40,344,911.17 | 67.6% | 5,253,720,092.14 |
| Total | | 5,313,424,732.28 | 100.0% | 59,704,640.14 | 100.0% | 5,253,720,092.14 |

Note*: This category includes accounts receivable having been individually assessed but not impaired.

(a) Accounts receivable which are collectively assessed for impairment using the ageing analysis method at the end of the period/year:

30 September 2017

| Ageing | Book value | Provision for bad and doubtful debts | Percentage |
|---|---|---|---|
| Within 1 year (inclusive) | 9,974,338,954.51 | 50,210,922.44 | 0.5% |
| Over 1 year but within 2 years (inclusive) | 123,144,447.41 | 36,942,887.17 | 30.0% |
| Over 2 years but within 3 years (inclusive) | 39,674,059.06 | 19,837,029.53 | 50.0% |
| Over 3 years | 44,649,386.44 | 44,649,386.44 | 100.0% |
| Total | 10,181,806,847.42 | 151,640,225.58 | 1.5% |

31 December 2016

| Ageing | Book value | Provision for bad and doubtful debts | Percentage |
|---|---|---|---|
| Within 1 year (inclusive) | 6,204,781,655.57 | 31,654,602.07 | 0.5% |
| Over 1 year but within 2 years (inclusive) | 74,307,640.37 | 22,292,292.11 | 30.0% |
| Over 2 years but within 3 years (inclusive) | 38,948,333.33 | 19,474,690.67 | 50.0% |
| Over 3 years | 35,703,819.84 | 35,702,771.84 | 100.0% |
| Total | 6,353,741,449.11 | 109,124,356.69 | 1.7% |

31 December 2015

| **Ageing** | **Book value** | **Provision for bad and doubtful debts** | **Percentage** |
|---|---|---|---|
| Within 1 year (inclusive) | 6,353,973,484.16 | 37,159,093.51 | 0.5% |
| Over 1 year but within 2 years (inclusive) | 70,768,122.93 | 21,230,436.88 | 30.0% |
| Over 2 years but within 3 years (inclusive) | 34,341,201.82 | 17,170,600.91 | 50.0% |
| Over 3 years | 3,011,963.21 | 3,011,963.21 | 100.0% |
| Total | 6,462,094,772.12 | 78,572,094.51 | 1.2% |

31 December 2014

| **Ageing** | **Book value** | **Provision for bad and doubtful debts** | **Percentage** |
|---|---|---|---|
| Within 1 year (inclusive) | 5,250,339,252.78 | 25,428,159.60 | 0.5% |
| Over 1 year but within 2 years (inclusive) | 38,132,358.45 | 11,440,441.14 | 30.0% |
| Over 2 years but within 3 years (inclusive) | 4,234,163.29 | 2,117,081.64 | 50.0% |
| Over 3 years | 1,359,228.79 | 1,359,228.79 | 100.0% |
| Total | 5,294,065,003.31 | 40,344,911.17 | 0.8% |

*(4) Additions, recoveries or reversals of provision for bad and doubtful debts*

| | **Nine months ended 30 September 2017** | **2016** | **2015** | **2014** |
|---|---|---|---|---|
| Balance at the beginning of the period/year | 114,425,494.85 | 84,819,160.32 | 59,704,640.14 | 55,729,488.11 |
| Additions during the period/year | 42,625,896.89 | 34,491,536.70 | 42,117,954.78 | 12,745,128.35 |
| Reversals during the period/year | (344,275.89) | (5,641,114.34) | (15,573,204.16) | (8,759,292.32) |
| Written-off during the period/year | (184,055.61) | (6,049.00) | (1,430,230.44) | (10,684.00) |
| Additions from the receipts of account receivable written-off in prior years | 268,303.50 | 761,961.17 | — | — |
| Balance at the end of the period/year | 156,791,363.74 | 114,425,494.85 | 84,819,160.32 | 59,704,640.14 |

(5) *Five largest accounts receivable by debtor at the end of the period/year*

As at 30 September 2017, the subtotal of five largest accounts receivable of the Target Group is RMB 996,867,457.69, representing 9.8% of the total accounts receivable, and the provisions of bad and doubtful debts is RMB 5,012,132.85.

As at 31 December 2016, the subtotal of five largest accounts receivable of the Target Group is RMB 496,804,821.22, representing 7.8% of the total accounts receivable, and the provisions of bad and doubtful debts is RMB 2,592,346.48.

As at 31 December 2015, the subtotal of five largest accounts receivable of the Target Group is RMB 442,245,633.83, representing 6.8% of the total accounts receivable, and the provisions of bad and doubtful debts is RMB 3,346,240.76.

As at 31 December 2014, the subtotal of five largest accounts receivable of the Target Group is RMB 396,023,942.55, representing 7.5% of the total accounts receivable, and the provisions of bad and doubtful debts is RMB 2,623,493.38.

(6) *Derecognition of accounts receivable due to transfer of financial assets*

As at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014, the unsettled balances of accounts receivable derecognised by the Target Group due to the transfer of financial assets are RMB 228,558,329.94, RMB 383,074,157.71, RMB 424,627,264.21 and RMB 225,154,683.14, respectively.

4 ***Prepayments***

(1) *Prepayments by category:*

| **Item** | **30 September 2017** | **31 December 2016** | **31 December 2015** | **31 December 2014** |
|---|---|---|---|---|
| Prepayments for purchases and lease etc. | 459,411,138.65 | 1,415,320,751.99 | 1,443,438,653.60 | 1,109,613,047.93 |

*(2) The ageing analysis of prepayments is as follows:*

| Aging | 30 September 2017 Amount | Percentage | 31 December 2016 Amount | Percentage | 31 December 2015 Amount | Percentage | 31 December 2014 Amount | Percentage |
|---|---|---|---|---|---|---|---|---|
| Within 1 year (inclusive) | 452,899,578.47 | 98.6% | 1,410,649,996.12 | 99.7% | 1,423,289,148.87 | 98.6% | 1,106,784,263.52 | 99.7% |
| Over 1 year but within 2 years (inclusive) | 3,609,097.44 | 0.8% | 2,367,165.33 | 0.2% | 17,533,153.51 | 1.2% | 2,302,800.00 | 0.2% |
| Over 2 years but within 3 years (inclusive) | 805,308.09 | 0.2% | 3,049.32 | 0.0% | 2,095,178.81 | 0.2% | 525,984.41 | 0.1% |
| Over 3 years | 2,097,154.65 | 0.4% | 2,300,541.22 | 0.1% | 521,172.41 | 0.0% | — | 0.0% |
| Total | 459,411,138.65 | 100.0% | 1,415,320,751.99 | 100.0% | 1,443,438,653.60 | 100.0% | 1,109,613,047.93 | 100.0% |

The ageing is counted starting from the date when prepayments are recognised.

As at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014, there are no prepayments of significant amounts with ageing over one year.

*(3) Five largest prepayments by debtor at the end of the period/year:*

As at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014, the total of five largest prepayments of the Target Group are RMB 218,120,791.74, RMB 684,469,052.03, RMB 566,415,887.93 and RMB603,027,789.56, representing 47.5%, 48.4%, 39.2% and 54.3% of the total prepayments respectively.

5 ***Other receivables***

*(1) Other receivables by customer type:*

| Customer type | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| Amounts due from related parties | 290,178.58 | 1,930,425.44 | 115,000.00 | 23,127,172.58 |
| Amounts due from others | 630,200,729.18 | 585,079,940.76 | 400,542,491.79 | 202,821,960.85 |
| Sub-total | 630,490,907.76 | 587,010,366.20 | 400,657,491.79 | 225,949,133.43 |
| Less: Provision for bad and doubtful debts | 4,475,540.18 | 3,483,009.39 | 3,185,183.05 | 2,051,009.04 |
| Total | 626,015,367.58 | 583,527,356.81 | 397,472,308.74 | 223,898,124.39 |

(2) *The ageing analysis of other receivables is as follows:*

| Ageing | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| Within 1 year (inclusive) | 598,825,935.18 | 571,622,973.15 | 305,871,194.42 | 174,569,253.85 |
| Over 1 year but within 2 years (inclusive) | 17,327,866.45 | 6,883,887.15 | 79,880,508.57 | 47,250,295.87 |
| Over 2 years but within 3 years (inclusive) | 6,356,224.73 | 3,990,867.50 | 12,313,784.48 | 3,771,930.12 |
| Over 3 years | 7,980,881.40 | 4,512,638.40 | 2,592,004.32 | 357,653.59 |
| Sub-total | 630,490,907.76 | 587,010,366.20 | 400,657,491.79 | 225,949,133.43 |
| Less: Provision for bad and doubtful debts | 4,475,540.18 | 3,483,009.39 | 3,185,183.05 | 2,051,009.04 |
| Total | 626,015,367.58 | 583,527,356.81 | 397,472,308.74 | 223,898,124.39 |

The ageing is counted starting from the date when other receivables are recognised.

(3) *Other receivables by category:*

| | | 30 September 2017 | | | | |
|---|---|---|---|---|---|---|
| | | Book value | | Provision for bad and doubtful debts | | |
| Category | *Note* | Amount | Percentage | Amount | Percentage | Carrying amount |
| Individually significant and assessed for impairment individually | | — | 0.0% | — | 0.0% | — |
| Individually insignificant but assessed for impairment individually | | 1,434,210.92 | 0.2% | 1,434,210.92 | 32.0% | — |
| Collectively assessed for impairment based on credit risk characteristics* | | | | | | |
| Group 1 | (a) | 473,389,030.70 | 75.1% | 3,041,329.26 | 68.0% | 470,347,701.44 |
| Group 2 | | 97,976,471.92 | 15.5% | — | 0.0% | 97,976,471.92 |
| Group 3 | | 57,691,194.22 | 9.2% | — | 0.0% | 57,691,194.22 |
| Total | | 630,490,907.76 | 100.0% | 4,475,540.18 | 100.0% | 626,015,367.58 |

| | | 31 December 2016 | | | | |
|---|---|---|---|---|---|---|
| | | Book value | | Provision for bad and doubtful debts | | |
| **Category** | *Note* | **Amount** | **Percentage** | **Amount** | **Percentage** | **Carrying amount** |
| Individually significant and assessed for impairment individually | | — | 0.0% | — | 0.0% | — |
| Individually insignificant but assessed for impairment individually | | 884,377.13 | 0.2% | 884,377.13 | 25.4% | — |
| Collectively assessed for impairment based on credit risk characteristics* | | | | | | |
| Group 1 | (a) | 405,420,289.65 | 69.0% | 2,598,632.26 | 74.6% | 402,821,657.39 |
| Group 2 | | 135,610,495.02 | 23.1% | — | 0.0% | 135,610,495.02 |
| Group 3 | | 45,095,204.40 | 7.7% | — | 0.0% | 45,095,204.40 |
| Total | | 587,010,366.20 | 100.0% | 3,483,009.39 | 100.0% | 583,527,356.81 |

| | | 31 December 2015 | | | | |
|---|---|---|---|---|---|---|
| | | Book value | | Provision for bad and doubtful debts | | |
| **Category** | *Note* | **Amount** | **Percentage** | **Amount** | **Percentage** | **Carrying amount** |
| Individually significant and assessed for impairment individually | | — | 0.0% | — | 0.0% | — |
| Individually insignificant but assessed for impairment individually | | 918,613.52 | 0.2% | 918,613.52 | 28.8% | — |
| Collectively assessed for impairment based on credit risk characteristics* | | | | | | |
| Group 1 | (a) | 297,143,549.36 | 74.2% | 2,266,569.53 | 71.2% | 294,876,979.83 |
| Group 2 | | 61,421,349.36 | 15.3% | — | 0.0% | 61,421,349.36 |
| Group 3 | | 41,173,979.55 | 10.3% | — | 0.0% | 41,173,979.55 |
| Total | | 400,657,491.79 | 100.0% | 3,185,183.05 | 100.0% | 397,472,308.74 |

| | | 31 December 2014 | | | | |
|---|---|---|---|---|---|---|
| | | Book value | | Provision for bad and doubtful debts | | |
| **Category** | *Note* | **Amount** | **Percentage** | **Amount** | **Percentage** | **Carrying amount** |
| Individually significant and assessed for impairment individually | | — | 0.0% | — | 0.0% | — |
| Individually insignificant but assessed for impairment individually | | 1,183,308.40 | 0.5% | 1,183,308.40 | 57.7% | — |
| Collectively assessed for impairment based on credit risk characteristics* | | | | | | |
| Group 1 | (a) | 134,960,175.58 | 59.7% | 867,700.64 | 42.3% | 134,092,474.94 |
| Group 2 | | 46,708,269.24 | 20.7% | — | 0.0% | 46,708,269.24 |
| Group 3 | | 43,097,380.21 | 19.1% | — | 0.0% | 43,097,380.21 |
| Total | | 225,949,133.43 | 100.0% | 2,051,009.04 | 100.0% | 223,898,124.39 |

Note*: This category includes other receivables having been individually assessed but not impaired.

(a) Other receivables which are collectively assessed for impairment using the ageing analysis method in the Target Group at the end of the period/year:

30 September 2017

| **Ageing** | **Book value** | **Provision for bad and doubtful debts** | **Percentage** |
|---|---|---|---|
| Within 1 year (inclusive) | 472,553,710.00 | 2,362,768.55 | 0.5% |
| Over 1 year but within 2 years (inclusive) | 77,128.02 | 23,138.41 | 30.0% |
| Over 2 years but within 3 years (inclusive) | 205,540.77 | 102,770.39 | 50.0% |
| Over 3 years | 552,651.91 | 552,651.91 | 100.0% |
| Total | 473,389,030.70 | 3,041,329.26 | 0.6% |

31December 2016

| **Ageing** | **Book value** | **Provision for bad and doubtful debts** | **Percentage** |
|---|---|---|---|
| Within 1 year (inclusive) | 404,158,768.34 | 1,988,490.40 | 0.5% |
| Over 1 year but within 2 years (inclusive) | 109,978.14 | 32,993.44 | 30.0% |
| Over 2 years but within 3 years (inclusive) | 1,148,789.51 | 574,394.76 | 50.0% |
| Over 3 years | 2,753.66 | 2,753.66 | 100.0% |
| Total | 405,420,289.65 | 2,598,632.26 | 0.6% |

31 December 2015

| **Ageing** | **Book value** | **Provision for bad and doubtful debts** | **Percentage** |
|---|---|---|---|
| Within 1 year (inclusive) | 294,579,099.49 | 1,364,467.40 | 0.5% |
| Over 1 year but within 2 years (inclusive) | 2,096,071.37 | 628,821.38 | 30.0% |
| Over 2 years but within 3 years (inclusive) | 390,195.50 | 195,097.75 | 50.0% |
| Over 3 years | 78,183.00 | 78,183.00 | 100.0% |
| Total | 297,143,549.36 | 2,266,569.53 | 0.8% |

31 December 2014

| Ageing | Book value | Provision for bad and doubtful debts | Percentage |
|---|---|---|---|
| Within 1 year (inclusive) | 134,491,797.08 | 672,458.99 | 0.5% |
| Over 1 year but within 2 years (inclusive) | 390,195.50 | 117,058.65 | 30.0% |
| Over 2 years but within 3 years (inclusive) | — | — | 0.0% |
| Over 3 years | 78,183.00 | 78,183.00 | 100.0% |
| Total | 134,960,175.58 | 867,700.64 | 0.6% |

(4) *Additions, recoveries or reversals of provision for bad and doubtful debts*

| | Nine months ended 30 September 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Balance at the beginning of the period/year | 3,483,009.39 | 3,185,183.05 | 2,051,009.04 | 1,580,653.97 |
| Additions during the period/year | 1,011,938.15 | 431,370.30 | 1,697,035.71 | 514,531.62 |
| Reversals during the period/year | (2,071.20) | (133,543.96) | (502,861.70) | (44,176.55) |
| Written-off during the period/year | (17,336.16) | — | (60,000.00) | — |
| Balance at the end of the period/year | 4,475,540.18 | 3,483,009.39 | 3,185,183.05 | 2,051,009.04 |

(5) *Other receivables categorised by nature*

| Nature of other receivables | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| Vendor rebate | 473,389,030.70 | 405,420,289.65 | 297,143,549.36 | 134,960,175.58 |
| Deposits | 97,976,471.92 | 135,610,495.02 | 61,421,349.36 | 46,708,269.24 |
| Others | 59,125,405.14 | 45,979,581.53 | 42,092,593.07 | 44,280,688.61 |
| Sub-total | 630,490,907.76 | 587,010,366.20 | 400,657,491.79 | 225,949,133.43 |
| Less: Provision for bad and doubtful debts | 4,475,540.18 | 3,483,009.39 | 3,185,183.05 | 2,051,009.04 |
| Total | 626,015,367.58 | 583,527,356.81 | 397,472,308.74 | 223,898,124.39 |

(6) *Five largest other receivables by debtor at the end of the period/year*

30 September 2017

| Debtor | Relationship with the Target Group | Balance at the end of the period | Ageing | Percentage of total other receivables | Ending balance of provision for bad and doubtful debts |
|---|---|---|---|---|---|
| Debtor 1 | Third party | 40,000,000.00 | Within one year | 6.34% | — |
| Debtor 2 | Third party | 29,519,124.75 | Within one year | 4.68% | 14,782.12 |
| Debtor 3 | Third party | 21,540,286.83 | Within one year | 3.42% | 107,701.43 |
| Debtor 4 | Third party | 15,236,222.29 | Within one year | 2.42% | 40,102.14 |
| Debtor 5 | Third party | 14,640,024.63 | Within one year | 2.32% | 73,200.12 |
| Total | | 120,935,658.50 | | 19.18% | 235,785.81 |

31 December 2016

| Debtor | Relationship with the Target Group | Balance at the end of the year | Ageing | Percentage of total other receivables | Ending balance of provision for bad and doubtful debts |
|---|---|---|---|---|---|
| Debtor 1 | Third party | 80,000,000.00 | Within one year | 13.63% | — |
| Debtor 2 | Third party | 30,676,933.20 | Within one year | 5.23% | 149,463.17 |
| Debtor 3 | Third party | 29,880,000.00 | Within one year | 5.09% | — |
| Debtor 4 | Third party | 19,960,630.53 | Within one year | 3.40% | 94,562.78 |
| Debtor 5 | Third party | 14,563,192.26 | Within one year | 2.48% | 71,481.61 |
| Total | | 175,080,755.99 | | 29.83% | 315,507.56 |

31 December 2015

| Debtor | Relationship with the Target Group | Balance at the end of the year | Ageing | Percentage of total other receivables | Ending balance of provision for bad and doubtful debts |
|---|---|---|---|---|---|
| Debtor 1 | Third party | 40,000,000.00 | Within one year | 9.98% | — |
| Debtor 2 | Third party | 30,632,878.62 | Within one year | 7.65% | 153,164.39 |
| Debtor 3 | Third party | 24,326,826.41 | Within one year | 6.07% | 121,455.21 |
| Debtor 4 | Third party | 18,236,755.11 | Within one year | 4.55% | 91,183.77 |
| Debtor 5 | Third party | 16,509,157.81 | Within two years | 4.12% | 185,795.78 |
| Total | | 129,705,617.95 | | 32.37% | 551,599.15 |

31 December 2014

| Debtor | Relationship with the Target Group | Balance at the end of the year | Ageing | Percentage of total other receivables | Ending balance of provision for bad and doubtful debts |
|---|---|---|---|---|---|
| Debtor 1 | Third party | 36,190,016.88 | Within one year | 16.02% | 180,950.08 |
| Debtor 2 | Third party | 24,144,306.50 | Within one year | 10.69% | — |
| Debtor 3 | Related party | 22,989,126.92 | Within one year | 10.17% | 25,000.00 |
| Debtor 4 | Third party | 8,017,250.00 | Within one year | 3.55% | 40,086.25 |
| Debtor 5 | Third party | 7,175,400.65 | Within one year | 3.18% | 71,481.09 |
| Total | | 98,516,100.95 | | 43.61% | 317,517.42 |

6 ***Inventories***

(1) *Inventories by category:*

| | 30 September 2017 | | |
|---|---|---|---|
| Item | Book value | Provision for impairment of inventories | Carrying amount |
| Finished goods | 3,682,884,456.89 | 41,268,026.85 | 3,641,616,430.04 |

| | 31 December 2016 | | |
|---|---|---|---|
| Item | Book value | Provision for impairment of inventories | Carrying amount |
| Finished goods | 3,653,148,381.81 | 16,359,434.72 | 3,636,788,947.09 |

| | 31 December 2015 | | |
|---|---|---|---|
| Item | Book value | Provision for impairment of inventories | Carrying amount |
| Finished goods | 3,623,425,223.45 | 14,032,950.56 | 3,609,392,272.89 |

| | 31 December 2014 | | |
|---|---|---|---|
| Item | Book value | Provision for impairment of inventories | Carrying amount |
| Finished goods | 2,808,847,924.35 | 8,154,655.32 | 2,800,693,269.03 |

*(2) Provision for impairment of inventories:*

Nine months ended 30 September 2017

| Item | Balance at the beginning of the period | Additions during the period<br>Provision | Written back during the period<br>Reversals or written-off | Balance at the end of the period |
|---|---|---|---|---|
| Finished goods | 16,359,434.72 | 27,170,065.42 | (2,261,473.29) | 41,268,026.85 |

2016

| Item | Balance at the beginning of the year | Additions during the year<br>Provision | Written back during the year<br>Reversals or written-off | Balance at the end of the year |
|---|---|---|---|---|
| Finished goods | 14,032,950.56 | 6,386,299.24 | (4,059,815.08) | 16,359,434.72 |

2015

| Item | Balance at the beginning of the year | Additions during the year<br>Provision | Written back during the year<br>Reversals or written-off | Balance at the end of the year |
|---|---|---|---|---|
| Finished goods | 8,154,655.32 | 6,621,468.11 | (743,172.87) | 14,032,950.56 |

2014

| Item | Balance at the beginning of the year | Additions during the year<br>Provision | Written back during the year<br>Reversals or written-off | Balance at the end of the year |
|---|---|---|---|---|
| Finished goods | 5,679,741.58 | 2,626,179.93 | (151,266.19) | 8,154,655.32 |

7 ***Other current assets***

| Item | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| Input VAT to be credited | 16,497,689.14 | 145,370,062.81 | 91,734,063.72 | 79,149,007.02 |
| Input VAT to be verified | 118,772,705.81 | 146,439,766.93 | 115,084,885.74 | 72,489,452.01 |
| Total | 135,270,394.95 | 291,809,829.74 | 206,818,949.46 | 151,638,459.03 |

8 ***Available-for-sale financial assets***

*(1) Available-for-sale financial assets*

| Item | 30 September 2017 | | |
|---|---|---|---|
| | Book value | Provision for impairment | Carrying amount |
| Available-for-sale equity instruments | | | |
| - At fair value | 783,761.61 | — | 783,761.61 |

| Item | 31 December 2016 | | |
|---|---|---|---|
| | Book value | Provision for impairment | Carrying amount |
| Available-for-sale equity instruments | | | |
| - At fair value | 714,424.09 | — | 714,424.09 |

| Item | 31 December 2015 | | |
|---|---|---|---|
| | Book value | Provision for impairment | Carrying amount |
| Available-for-sale equity instruments | | | |
| - At fair value | 1,898,562.78 | — | 1,898,562.78 |

| Item | 31 December 2014 | | |
|---|---|---|---|
| | Book value | Provision for impairment | Carrying amount |
| Available-for-sale equity instruments | | | |
| - At fair value | 1,359,827.22 | — | 1,359,827.22 |

(2) *Available-for-sale financial assets at fair value at the end of the period/year:*

| Item | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| Cost of equity instruments | 190,432.80 | 190,432.80 | 220,432.80 | 220,432.80 |
| Fair value | 783,761.61 | 714,424.09 | 1,898,562.78 | 1,359,827.22 |
| Cumulative fair value changes recognised in other comprehensive income | 593,328.81 | 523,991.29 | 1,678,129.98 | 1,139,394.42 |
| Provision for impairment | — | — | — | — |

The fair value of the Target Group's available-for-sale financial assets are all equity investments in companies traded on the Shanghai Stock Exchange or Shenzhen Stock Exchange, and the fair value of the available-for-sale financial assets are measured at the closing prices at the end of each period year.

9 ***Investment properties***

Investment properties measured at cost model:

| | **Buildings** |
|---|---|
| Cost | |
| Balance at 1 January 2014, 31 December 2014, 31 December 2015, 31 December 2016 and 30 September 2017 | 411,201.30 |
| Accumulated depreciation | |
| Balance at 1 January 2014 | 228,212.91 |
| Charge for the year | 13,293.36 |
| Balance at 31 December 2014 | 241,506.27 |
| Charge for the year | 13,293.36 |
| Balance at 31 December 2015 | 254,799.63 |
| Charge for the year | 13,293.36 |
| Balance at 31 December 2016 | 268,092.99 |
| Charge for the period | 9,970.02 |
| Balance at 30 September 2017 | 278,063.01 |
| Carrying amounts | |
| 30 September 2017 | 133,138.29 |
| 31 December 2016 | 143,108.31 |
| 31 December 2015 | 156,401.67 |
| 31 December 2014 | 169,695.03 |

As at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014, there are no investment properties pledged as collateral for the Target Group's liabilities.

## 10 *Fixed assets*

### *(1) Fixed assets*

| Item | Plant & buildings | Machinery & equipment | Office & other equipment | Motor vehicles | Total |
|---|---|---|---|---|---|
| Cost | | | | | |
| Balance at 1 January 2014 | 167,095,329.03 | 35,706,125.87 | 52,433,759.41 | 36,314,623.20 | 291,549,837.51 |
| Additions during the year | | | | | |
| - Purchases | 268,135.37 | 14,487,521.46 | 8,232,265.33 | 5,591,649.00 | 28,579,571.16 |
| - Transfers from construction in progress | 1,198,956.48 | 3,980,006.46 | 4,381,545.69 | 972,387.60 | 10,532,896.23 |
| Disposals during the year | — | (14,176.74) | (2,218,052.68) | (1,871,110.35) | (4,103,339.77) |
| Balance at 31 December 2014 | 168,562,420.88 | 54,159,477.05 | 62,829,517.75 | 41,007,549.45 | 326,558,965.13 |
| Additions during the year | | | | | |
| - Purchases | — | 45,804,582.73 | 10,447,730.89 | 9,041,455.89 | 65,293,769.51 |
| - Transfers from construction in progress | 2,301,910.28 | 982,369.22 | 1,870,277.46 | — | 5,154,556.96 |
| - Additions due to business combinations involving entities not under common control | 26,735.29 | 15,381.14 | 4,590.15 | 70,928.41 | 117,634.99 |
| Disposals during the year | (120,500.00) | (24,830.00) | (1,514,051.69) | (480,000.00) | (2,139,381.69) |
| Balance at 31 December 2015 | 170,770,566.45 | 100,936,980.14 | 73,638,064.56 | 49,639,933.75 | 394,985,544.90 |
| Additions during the year | | | | | |
| - Purchases | 301,022.95 | 26,237,112.28 | 9,793,930.89 | 1,559,284.74 | 37,891,350.86 |
| - Transfers from construction in progress | 792,137.44 | 33,081,326.89 | 347,218.73 | 35,358.34 | 34,256,041.40 |
| Disposals during the year | — | (719,983.48) | (2,111,480.93) | (3,891,927.22) | (6,723,391.63) |
| Balance at 31 December 2016 | 171,863,726.84 | 159,535,435.83 | 81,667,733.25 | 47,342,649.61 | 460,409,545.53 |
| Additions during the period | | | | | |
| - Purchases | 11,200.00 | 1,764,444.60 | 11,478,299.82 | 1,254,416.71 | 14,508,361.13 |
| - Transfers from construction in progress | 801,706.14 | 38,848,244.18 | 2,419,525.69 | — | 42,069,476.01 |
| Disposals during the period | — | (26,376.45) | (2,212,489.70) | (493,403.01) | (2,732,269.16) |
| Balance at 30 September 2017 | 172,676,632.98 | 200,121,748.16 | 93,353,069.06 | 48,103,663.31 | 514,255,113.51 |
| Accumulated depreciation | | | | | |
| Balance at 1 January 2014 | 80,684,497.36 | 24,837,482.12 | 33,278,841.22 | 14,877,440.20 | 153,678,260.90 |
| Charge for the year | 5,609,520.96 | 3,433,047.61 | 6,563,795.86 | 3,379,169.28 | 18,985,533.71 |
| Written-off on disposal | — | (12,238.94) | (2,091,883.03) | (1,329,177.54) | (3,433,299.51) |
| Balance at 31 December 2014 | 86,294,018.32 | 28,258,290.79 | 37,750,754.05 | 16,927,431.94 | 169,230,495.10 |
| Charge for the year | 5,810,553.12 | 6,370,489.04 | 7,705,847.29 | 3,657,795.58 | 23,544,685.03 |
| Written-off on disposal | (93,764.71) | (23,751.86) | (1,442,267.14) | (465,600.00) | (2,025,383.71) |
| Balance at 31 December 2015 | 92,010,806.73 | 34,605,027.97 | 44,014,334.20 | 20,119,627.52 | 190,749,796.42 |

| Item | Plant & buildings | Machinery & equipment | Office & other equipment | Motor vehicles | Total |
|---|---|---|---|---|---|
| Charge for the year | 6,340,529.84 | 10,916,059.43 | 8,914,556.66 | 4,078,452.55 | 30,249,598.48 |
| Written-off on disposal | — | (676,425.36) | (2,003,706.55) | (2,468,663.99) | (5,148,795.90) |
| Balance at 31 December 2016 | 98,351,336.57 | 44,844,662.04 | 50,925,184.31 | 21,729,416.08 | 215,850,599.00 |
| Charge for the period | 4,298,373.34 | 10,758,482.76 | 7,842,997.03 | 2,959,683.09 | 25,859,536.22 |
| Written-off on disposal | — | (18,736.44) | (2,086,385.18) | (401,504.21) | (2,506,625.83) |
| Balance at 30 September 2017 | 102,649,709.91 | 55,584,408.36 | 56,681,796.16 | 24,287,594.96 | 239,203,509.39 |
| Provision for impairment | | | | | |
| Balance at 1 January 2014, 31 December 2014, 31 December 2015, 31 December 2016 and 30 September 2017 | 7,564,797.12 | 323,385.07 | — | — | 7,888,182.19 |
| Carrying amounts | | | | | |
| 30 September 2017 | 62,462,125.95 | 144,213,954.73 | 36,671,272.90 | 23,816,068.35 | 267,163,421.93 |
| 31 December 2016 | 65,947,593.15 | 114,367,388.72 | 30,742,548.94 | 25,613,233.53 | 236,670,764.34 |
| 31 December 2015 | 71,194,962.60 | 66,008,567.10 | 29,623,730.36 | 29,520,306.23 | 196,347,566.29 |
| 31 December 2014 | 74,703,605.44 | 25,577,801.19 | 25,078,763.70 | 24,080,117.51 | 149,440,287.84 |

As at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014, there are no fixed assets pledged as collateral for the Target Group's liabilities.

As at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014, the book value of the buildings pending ownership certificates of the Target Group are RMB 15,377,404.60, RMB 15,927,554.26, RMB 16,661,087.14 and RMB17,394,620.02, respectively. The Target Group are allowed to occupy or use the buildings.

*(2) Fixed assets acquired under finance leases*

| | 30 September 2017 | | |
|---|---|---|---|
| **Item** | **Cost** | **Accumulated depreciation** | **Carrying amount** |
| IRON Hospital Pharmacy Automation System | 9,572,649.57 | 3,170,375.53 | 6,402,274.04 |
| Medication Management Systems for Project Southern Hospital of Southern Medical University ("Project Nanfang") | 45,179,162.78 | 9,299,648.72 | 35,879,514.06 |
| Robotic Systems for Project Guang Dong Hospital of Traditional Chinese Medicine ("Project GD TCM") | 23,652,977.18 | 3,745,133.56 | 19,907,843.62 |
| Robotic Systems for Project Panyu Hexian Memorial Hospital ("Project Panyu") | 11,080,872.90 | 1,315,890.59 | 9,764,982.31 |
| Medication Management Systems for Project Jiangmen Wuyi Hospital of Traditional Chinese Medicine ("Project Jiangmen TCM") | 8,631,293.30 | 751,667.69 | 7,879,625.61 |
| Auto-Dispensing System for Project People's Hospital of Huadu | 5,564,025.78 | 352,399.42 | 5,211,626.36 |
| Robotic Systems & Dispensing System for Project The first affiliated Hospital of Guangzhou University of Chinese Medicine ("Project GZTCM No.1") | 5,126,715.97 | 243,520.71 | 4,883,195.26 |
| Robotic Dispensing & Automated Tablets Packing System for Project Guangzhou Maternity Healthcare Centre | 5,741,548.86 | 90,907.86 | 5,650,641.00 |
| Pharmacy Intravenous Admixture Services (PIVAS) Automation System for Project Jiangmen TCM | 10,102,763.49 | — | 10,102,763.49 |
| Others | 27,763,143.83 | 1,934,373.52 | 25,828,770.31 |
| Total | 152,415,153.66 | 20,903,917.60 | 131,511,236.06 |

| Item | 31 December 2016 Cost | Accumulated depreciation | Carrying amount |
|---|---|---|---|
| IRON Hospital Pharmacy Automation System | 9,572,649.57 | 2,488,295.50 | 7,084,354.07 |
| Medication Management Systems for Project Nanfang | 45,179,162.78 | 6,080,497.85 | 39,098,664.93 |
| Robotic Systems for Project GD TCM | 23,652,977.18 | 2,059,787.98 | 21,593,189.20 |
| Robotic Systems for Project Panyu | 11,080,872.90 | 526,345.16 | 10,554,527.74 |
| Medication Management Systems for Project Jiangmen TCM | 8,631,293.30 | 136,662.14 | 8,494,631.16 |
| Others | 15,449,953.75 | 355,195.49 | 15,094,758.26 |
| Total | 113,566,909.48 | 11,646,784.12 | 101,920,125.36 |

| Item | 31 December 2015 Cost | Accumulated depreciation | Carrying amount |
|---|---|---|---|
| IRON Hospital Pharmacy Automation System | 9,572,649.57 | 1,591,491.36 | 7,981,158.21 |
| Medication Management Systems for Project Nanfang | 45,179,162.78 | 1,788,341.86 | 43,390,820.92 |
| Others | 4,520,512.76 | 485,167.24 | 4,035,345.52 |
| Total | 59,272,325.11 | 3,865,000.46 | 55,407,324.65 |

| Item | 31 December 2014 Cost | Accumulated depreciation | Carrying amount |
|---|---|---|---|
| IRON Hospital Pharmacy Automation System | 9,572,649.57 | 682,051.32 | 8,890,598.25 |
| Others | 4,511,111.10 | 71,425.94 | 4,439,685.16 |
| Total | 14,083,760.67 | 753,477.26 | 13,330,283.41 |

11 ***Construction in progress***

*(1) Construction in progress*

| Project | 30 September 2017 Book value | Provision for impairment | Carrying amount |
|---|---|---|---|
| Baiyun Logistics Centre | 2,862,128.67 | — | 2,862,128.67 |
| Mobile Caring system software for Project People's Hospital of QingYuan ("Project Qingyuan") | 545,393.18 | — | 545,393.18 |
| Hospital intelligent rail logistics transmission system for Project Qingyuan | 27,195,779.72 | — | 27,195,779.72 |
| PIVAS Management Software for Project Nanfang | 271,844.66 | — | 271,844.66 |
| Pharmacy warehouse system software for Project The Second People's Hospital of Shunde ("Project Shunde") | 2,217,095.43 | — | 2,217,095.43 |
| Medication Management Software for Project Panyu | 2,430,512.82 | — | 2,430,512.82 |
| Pharmacy Storage System software for Project Panyu | 1,457,197.88 | — | 1,457,197.88 |
| Medication Management Software for Project Jiangmen TCM | 437,318.42 | — | 437,318.42 |
| Drug clinical trial system software for Project Guang Dong Second Provincial Central Hospital ("Project GD No.2") | 362,820.50 | — | 362,820.50 |
| Storage of Drug clinical trial system for Project GD No.2 | 284,855.02 | — | 284,855.02 |
| Medicine Basket Dispensing System for Project GD No.2 | 233,397.39 | — | 233,397.39 |
| Others | 10,115,582.90 | — | 10,115,582.90 |
| Total | 48,413,926.59 | — | 48,413,926.59 |

| Project | 31 December 2016<br>Book value | Provision for impairment | Carrying amount |
|---|---|---|---|
| Baiyun Logistics Centre | 2,517,317.43 | — | 2,517,317.43 |
| RDC decoration for Project Nanfang | 587,012.06 | — | 587,012.06 |
| Hospital intelligent rail logistics transmission system for Project Qingyuan | 2,818,809.03 | — | 2,818,809.03 |
| Mobile Caring system software for Project Qingyuan | 2,308,624.90 | — | 2,308,624.90 |
| 2nd-stage of Mobile Caring system software for Project GD No.2 | 1,106,623.93 | — | 1,106,623.93 |
| PIVAS Management Software for Project Nanfang | 645,638.83 | — | 645,638.83 |
| Pharmacy Decoration for Project Guangzhou Maternity Healthcare Centre | 293,815.72 | — | 293,815.72 |
| Pharmacy storage Management Software for Project Guangzhou Maternity Healthcare Centre | 175,970.88 | — | 175,970.88 |
| Pharmacy Decoration for Project Qingyuan | 19,954.07 | — | 19,954.07 |
| Pharmacy warehouse system software for Project Shunde | 13,612.00 | — | 13,612.00 |
| Others | 2,749,531.89 | — | 2,749,531.89 |
| Total | 13,236,910.74 | — | 13,236,910.74 |

| | 31 December 2015 | | |
|---|---|---|---|
| Project | Book value | Provision for impairment | Carrying amount |
| Baiyun Logistics Centre | 356,505.57 | — | 356,505.57 |
| RDC decoration for Project Nanfang | 190,004.87 | — | 190,004.87 |
| 1st-stage of Mobile Caring system software for Project GD No.2 | 189,170.94 | — | 189,170.94 |
| Smart Community Healthcare Platform for Project GD TCM | 1,886,792.40 | — | 1,886,792.40 |
| RDC decoration for Project Qingyuan | 286,904.79 | — | 286,904.79 |
| Pharmacy storage management software for Project Qingyuan | 187,735.85 | — | 187,735.85 |
| Interface for GD drug trading platform | 127,358.49 | — | 127,358.49 |
| Pharmacy storage management software for Project Panyu | 47,169.81 | — | 47,169.81 |
| Others | 956,220.63 | — | 956,220.63 |
| Total | 4,227,863.35 | — | 4,227,863.35 |

| | 31 December 2014 | | |
|---|---|---|---|
| Project | Book value | Provision for impairment | Carrying amount |
| Baiyun Logistics Centre | 165,463.33 | — | 165,463.33 |
| 1st-stage of Mobile Caring system software for Project GD No.2 | 189,170.94 | — | 189,170.94 |
| Others | 1,144,388.71 | — | 1,144,388.71 |
| Total | 1,499,022.98 | — | 1,499,022.98 |

*(2) Movements of major construction projects in progress during the period/year*

Nine months ended 30 September 2017

| Project | Budget | Balance at the beginning of the period | Additions during the period | Transfers to fixed assets/ other decreases | Balance at the end of the period | Percentage of actual cost to budget | Project progress | Sources of funding |
|---|---|---|---|---|---|---|---|---|
| Baiyun Logistics Centre | 439,900,000.00 | 2,517,317.43 | 344,811.24 | — | 2,862,128.67 | 1.31% | In progress | Owned funds |
| RDC decoration for Project Nanfang | 1,932,423.72 | 587,012.06 | — | (587,012.06) | — | 100.00% | Finished | Owned funds |
| Hospital intelligent rail logistics transmission system for Project Qingyuan | 32,388,136.96 | 2,818,809.03 | 24,376,970.69 | — | 27,195,779.72 | 83.97% | In progress | Owned funds |
| Mobile Caring system software for Project Qingyuan | 3,184,283.14 | 2,308,624.90 | 95,258.80 | (1,858,490.52) | 545,393.18 | 75.49% | In progress | Owned funds |
| 2nd-stage of Mobile Caring system software for Project GD No.2 | 2,555,555.55 | 1,106,623.93 | 1,448,931.62 | (2,555,555.55) | — | 100.00% | Finished | Owned funds |
| PIVAS Management Software for Project Nanfang | 1,338,080.02 | 645,638.83 | 692,441.19 | (1,066,235.36) | 271,844.66 | 100.00% | In progress | Owned funds |
| Pharmacy Decoration for Project Guangzhou Maternity Healthcare Centre | 354,324.95 | 293,815.72 | 60,509.23 | (354,324.95) | — | 100.00% | Finished | Owned funds |
| Pharmacy storage Management Software for Project Guangzhou Maternity Healthcare Centre | 175,970.88 | 175,970.88 | — | (175,970.88) | — | 100.00% | Finished | Owned funds |
| Pharmacy Decoration for Project Qingyuan | 19,954.07 | 19,954.07 | — | (19,954.07) | — | 100.00% | Finished | Owned funds |
| Pharmacy warehouse system software for Project Shunde | 3,903,275.32 | 13,612.00 | 2,203,483.43 | — | 2,217,095.43 | 56.80% | In progress | Owned funds |
| Medication Management Software for Project Panyu | 2,430,512.82 | — | 2,430,512.82 | — | 2,430,512.82 | 100.00% | In progress | Owned funds |
| Pharmacy Storage System software for Project Panyu | 3,782,736.41 | — | 1,457,197.88 | — | 1,457,197.88 | 38.52% | In progress | Owned funds |
| Medication Management Software for Project Jiangmen TCM | 1,059,829.06 | — | 437,318.42 | — | 437,318.42 | 41.26% | In progress | Owned funds |
| Drug clinical trial system software for Project GD No.2 | 725,641.03 | — | 362,820.50 | — | 362,820.50 | 50.00% | In progress | Owned funds |
| Storage of Drug clinical trial system for Project GD No.2 | 299,228.03 | — | 284,855.02 | — | 284,855.02 | 95.20% | In progress | Owned funds |

| Project | Budget | Balance at the beginning of the period | Additions during the period | Transfers to fixed assets/ other decreases | Balance at the end of the period | Percentage of actual cost to budget | Project progress | Sources of funding |
|---|---|---|---|---|---|---|---|---|
| Medicine Basket Dispensing System for Project GD No.2 | 567,058.46 | — | 233,397.39 | — | 233,397.39 | 41.16% | In progress | Owned funds |
| Semi-Automatic Dispensing System for Project Qingyuan | 5,976,412.36 | — | 5,976,412.36 | (5,976,412.36) | — | 100.00% | Finished | Owned funds |
| Pharmacy Intravenous Admixture Services (PIVAS) Automation System for Project Jiangmen TCM | 10,102,763.49 | — | 10,102,763.49 | (10,102,763.49) | — | 100.00% | Finished | Owned funds |
| Robotic Dispensing & Automated Tablets Packing System for Project Guangzhou Maternity Healthcare Centre | 5,741,548.86 | — | 5,741,548.86 | (5,741,548.86) | — | 100.00% | Finished | Owned funds |
| 3rd Party Logistics management platform for Project Guangzhou Maternity Healthcare Centre | 4,871,794.86 | — | 4,871,794.86 | (4,871,794.86) | — | 100.00% | Finished | Owned funds |
| Others | 30,633,618.08 | 2,749,531.89 | 21,900,279.44 | (14,534,228.43) | 10,115,582.90 | | In progress | Owned funds |
| Total | 551,943,148.07 | 13,236,910.74 | 83,021,307.24 | (47,844,291.39) | 48,413,926.59 | | | |

2016

| Project | Budget | Balance at the beginning of the year | Additions during the year | Transfers to fixed assets/ other decreases | Balance at the end of the year | Percentage of actual cost to budget | Project progress | Sources of funding |
|---|---|---|---|---|---|---|---|---|
| Baiyun Logistics Centre | 439,900,000.00 | 356,505.57 | 2,160,811.86 | — | 2,517,317.43 | 1.23% | In progress | Owned funds |
| RDC decoration for Project Nanfang | 1,932,423.72 | 190,004.87 | 1,742,418.85 | (1,345,411.66) | 587,012.06 | 79.46% | In progress | Owned funds |
| Smart Community Healthcare Platform for Project GD TCM | 1,886,792.40 | 1,886,792.40 | — | (1,886,792.40) | — | 100.00% | Finished | Owned funds |
| RDC decoration for Project Qingyuan | 1,291,853.56 | 286,904.79 | 1,004,948.77 | (1,291,853.56) | — | 100.00% | Finished | Owned funds |
| 1st-stage of Mobile Caring system software for Project GD No.2 | 236,666.66 | 189,170.94 | 47,495.72 | (236,666.66) | — | 100.00% | Finished | Owned funds |
| Pharmacy storage management software for Project Qingyuan | 405,668.45 | 187,735.85 | 217,932.60 | (405,668.45) | — | 100.00% | Finished | Owned funds |
| Interface for GD drug trading platform for Project Nanfang | 212,264.15 | 127,358.49 | 84,905.66 | (212,264.15) | — | 100.00% | Finished | Owned funds |
| Pharmacy storage management software for Project Panyu | 47,169.81 | 47,169.81 | — | (47,169.81) | — | 100.00% | Finished | Owned funds |
| Hospital intelligent rail logistics transmission system for Project Qingyuan | 32,388,136.96 | — | 2,818,809.03 | — | 2,818,809.03 | 8.70% | In progress | Owned funds |
| Mobile Caring system software for Project Qingyuan | 3,184,283.14 | — | 2,308,624.90 | — | 2,308,624.90 | 72.50% | In progress | Owned funds |
| 2nd-stage of Mobile Caring system software for Project GD No.2 | 2,555,555.55 | — | 1,134,649.57 | (28,025.64) | 1,106,623.93 | 44.40% | In progress | Owned funds |
| PIVAS Management Software for Project Nanfang | 1,338,080.02 | — | 645,638.83 | — | 645,638.83 | 48.25% | In progress | Owned funds |
| Pharmacy Decoration for Project Guangzhou Maternity Healthcare Centre | 354,324.95 | — | 293,815.72 | — | 293,815.72 | 82.92% | In progress | Owned funds |
| Pharmacy storage Management Software for Project Guangzhou Maternity Healthcare Centre | 175,970.88 | — | 175,970.88 | — | 175,970.88 | 100.00% | In progress | Owned funds |
| Pharmacy Decoration for Project Qingyuan | 19,954.07 | — | 19,954.07 | — | 19,954.07 | 100.00% | In progress | Owned funds |
| Pharmacy warehouse system software for Project Shunde | 3,903,275.32 | — | 13,612.00 | — | 13,612.00 | 0.35% | In progress | Owned funds |
| Auto Dispensing System for Project Qingyuan | 4,493,919.06 | — | 4,493,919.06 | (4,493,919.06) | — | 100.00% | Finished | Owned funds |
| Auto Dispensing System for Project Panyu | 11,080,872.90 | — | 11,080,872.90 | (11,080,872.90) | — | 100.00% | Finished | Owned funds |
| Others | 26,354,081.22 | 956,220.63 | 22,737,097.94 | (20,943,786.68) | 2,749,531.89 | | In progress | Owned funds |
| Total | 531,761,292.82 | 4,227,863.35 | 50,981,478.36 | (41,972,430.97) | 13,236,910.74 | | | |

2015

| Project | Budget | Balance at the beginning of the year | Additions during the year | Transfers to fixed assets/ other decreases | Balance at the end of the year | Percentage of actual cost to budget | Project progress | Sources of funding |
|---|---|---|---|---|---|---|---|---|
| Baiyun Logistics Centre | 439,900,000.00 | 165,463.33 | 191,042.24 | — | 356,505.57 | 0.74% | In progress | Owned funds |
| RDC decoration for Project Nanfang | 1,932,423.72 | — | 190,004.87 | — | 190,004.87 | 9.83% | In progress | Owned funds |
| 1st-stage of Mobile Caring system software for Project GD No.2 | 236,666.66 | 189,170.94 | — | — | 189,170.94 | 79.93% | In progress | Owned funds |
| Smart Community Healthcare Platform for Project GD TCM | 1,886,792.40 | — | 1,886,792.40 | — | 1,886,792.40 | 100.00% | In progress | Owned funds |
| RDC decoration for Project Qingyuan | 1,291,853.56 | — | 286,904.79 | — | 286,904.79 | 22.21% | In progress | Owned funds |
| Pharmacy storage management software for Project Qingyuan | 405,668.45 | — | 187,735.85 | — | 187,735.85 | 46.28% | In progress | Owned funds |
| Interface of GD drug trading platform for Project Nanfang | 212,264.15 | — | 127,358.49 | — | 127,358.49 | 60.00% | In progress | Owned funds |
| Pharmacy storage management software for Project Panyu | 47,169.81 | — | 47,169.81 | — | 47,169.81 | 100.00% | In progress | Owned funds |
| Others | 16,529,379.57 | 1,144,388.71 | 14,428,770.23 | (14,616,938.31) | 956,220.63 | | In progress | Owned funds |
| Total | 462,442,218.32 | 1,499,022.98 | 17,345,778.68 | (14,616,938.31) | 4,227,863.35 | | | |

2014

| Project | Budget | Balance at the beginning of the year | Additions during the year | Transfers to fixed assets/ other decreases | Balance at the end of the year | Percentage of actual cost to budget | Project progress | Sources of funding |
|---|---|---|---|---|---|---|---|---|
| Baiyun Logistics Centre | 439,900,000.00 | 1,607,827.49 | — | (1,442,364.16) | 165,463.33 | 0.69% | In progress | Owned funds |
| 1st-stage of Mobile Caring system software for Project GD No.2 | 236,666.66 | — | 189,170.94 | — | 189,170.94 | 79.93% | In progress | Owned funds |
| Pharmacy Storage decoration for Project GD No.2 | 904,206.11 | — | 904,206.11 | (904,206.11) | — | 100.00% | Finished | Owned funds |
| Others | 10,634,227.41 | 1,303,512.74 | 8,027,201.93 | (8,186,325.96) | 1,144,388.71 | 87.74% | In progress | Owned funds |
| Total | 451,675,100.18 | 2,911,340.23 | 9,120,578.98 | (10,532,896.23) | 1,499,022.98 | | | |

## 12 *Intangible assets*

| Item | Land use rights | Computer software | Distribution network and trademarks | Pharmaceutical trade license | Total |
|---|---|---|---|---|---|
| Cost | | | | | |
| Balance at 1 January 2014 | 76,404,386.00 | 10,407,883.08 | 18,436,294.74 | 10,845,953.36 | 116,094,517.18 |
| - Purchases | 1,505,480.00 | 2,792,363.90 | — | — | 4,297,843.90 |
| - Additions due to business combinations involving entities not under common control | — | — | 1,020,000.00 | — | 1,020,000.00 |
| Balance at 31 December 2014 | 77,909,866.00 | 13,200,246.98 | 19,456,294.74 | 10,845,953.36 | 121,412,361.08 |
| - Purchases | — | 1,549,308.05 | — | — | 1,549,308.05 |
| - Transfers from construction in progress | — | 1,472,815.54 | — | — | 1,472,815.54 |
| - Additions due to business combinations involving entities not under common control | — | — | 1,479,600.00 | — | 1,479,600.00 |
| Balance at 31 December 2015 | 77,909,866.00 | 16,222,370.57 | 20,935,894.74 | 10,845,953.36 | 125,914,084.67 |
| - Purchases | — | 4,776,997.77 | — | — | 4,776,997.77 |
| - Transfers from construction in progress | — | 2,404,590.01 | — | — | 2,404,590.01 |
| Balance at 31 December 2016 | 77,909,866.00 | 23,403,958.35 | 20,935,894.74 | 10,845,953.36 | 133,095,672.45 |
| - Purchases | — | 2,845,179.19 | — | — | 2,845,179.19 |
| - Transfers from construction in progress | — | 4,734,955.49 | — | — | 4,734,955.49 |
| Balance at 30 September 2017 | 77,909,866.00 | 30,984,093.03 | 20,935,894.74 | 10,845,953.36 | 140,675,807.13 |
| | | | | | |
| Accumulated amortisation | | | | | |
| Balance at 1 January 2014 | 11,896,744.05 | 8,982,867.30 | 4,926,757.97 | 3,107,973.81 | 28,914,343.13 |
| Charge for the year | 1,753,238.34 | 711,103.47 | 1,855,629.48 | 1,239,994.69 | 5,559,965.98 |
| Balance at 31 December 2014 | 13,649,982.39 | 9,693,970.77 | 6,782,387.45 | 4,347,968.50 | 34,474,309.11 |
| Charge for the year | 1,753,190.25 | 1,383,201.18 | 1,924,269.47 | 1,119,994.70 | 6,180,655.60 |
| Balance at 31 December 2015 | 15,403,172.64 | 11,077,171.95 | 8,706,656.92 | 5,467,963.20 | 40,654,964.71 |
| Charge for the year | 1,753,331.43 | 2,492,349.60 | 1,973,589.47 | 999,994.70 | 7,219,265.20 |
| Balance at 31 December 2016 | 17,156,504.07 | 13,569,521.55 | 10,680,246.39 | 6,467,957.90 | 47,874,229.91 |
| Charge for the period | 1,314,952.08 | 2,873,382.00 | 1,480,192.09 | 749,996.04 | 6,418,522.21 |
| Balance at 30 September 2017 | 18,471,456.15 | 16,442,903.55 | 12,160,438.48 | 7,217,953.94 | 54,292,752.12 |
| | | | | | |
| Carrying amounts | | | | | |
| 30 September 2017 | 59,438,409.85 | 14,541,189.48 | 8,775,456.26 | 3,627,999.42 | 86,383,055.01 |
| 31 December 2016 | 60,753,361.93 | 9,834,436.80 | 10,255,648.35 | 4,377,995.46 | 85,221,442.54 |
| 31 December 2015 | 62,506,693.36 | 5,145,198.62 | 12,229,237.82 | 5,377,990.16 | 85,259,119.96 |
| 31 December 2014 | 64,259,883.61 | 3,506,276.21 | 12,673,907.29 | 6,497,984.86 | 86,938,051.97 |

The Target Group has no intangible assets arising from internal development.

As at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014, there are no intangible assets pledged as collateral for the Target Group's liabilities.

As at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014, the book value of land use rights pending ownership certificates of the Target Group are RMB 46,308,558.06, RMB 47,071,871.92, RMB 48,259,310.76 and RMB49,107,361.03 respectively. The Target Group are allowed to occupy or use such land use rights.

13 ***Goodwill***

| **Name of investee** | **30 September 2017** | **31 December 2016** | **31 December 2015** | **31 December 2014** |
|---|---|---|---|---|
| Foshan Guangyao Jianze Pharmaceutical Company Limited | 1,230,292.01 | 1,230,292.01 | 1,230,292.01 | 1,230,292.01 |
| Hunan Guangyao Hengsheng Pharmaceutical Company Limited | 5,763,549.50 | 5,763,549.50 | 5,763,549.50 | 5,763,549.50 |
| Hainan Guangyao Chenfei Pharmaceutical Company Limited | 7,816,423.48 | 7,816,423.48 | 7,816,423.48 | 7,816,423.48 |
| Shaanxi Guangyao Kangjian Pharmaceutical Company Limited | 11,270,921.43 | 11,270,921.43 | 11,270,921.43 | 11,270,921.43 |
| Guangdong Meixian Pharmaceutical Company Limited | 7,301,943.24 | 7,301,943.24 | 7,301,943.24 | 7,301,943.24 |
| Chengdu Guangyao Xinhuiyuan Pharmaceutical Company Limited | 11,514,071.82 | 11,514,071.82 | 11,514,071.82 | 11,514,071.82 |
| Guangxi Guangyao Xinshidai Pharmaceutical Company Limited | 3,733,175.00 | 3,733,175.00 | 3,733,175.00 | 3,733,175.00 |
| Hubei Guangyao An Kang Pharmaceutical Company Limited | 514,500.00 | 514,500.00 | 514,500.00 | 514,500.00 |
| Zhuhai Guangyao Kang Ming Pharmaceutical Company Limited | 1,796,419.09 | 1,796,419.09 | 1,796,419.09 | — |
| Total | 50,941,295.57 | 50,941,295.57 | 50,941,295.57 | 49,144,876.48 |

The recoverable amount of the above asset group is determined based on the present value of expected future cash flows. The present value of expected future cash flows was projected based on the most recent five-year financial budgets approved by management and a post-tax discount rate of 10.02% - 14.21%. The cash flows beyond the five-year budget period were assumed to keep stable. Based on the estimated recoverable amount, no impairment loss was recognised. However, as key assumptions on which management has made in respect of future cash projections are subject to change, an adverse change in the assumptions could cause the carrying amount to exceed its recoverable amount.

The calculation of present value of expected future cash flows of the asset group was based on the key assumptions as gross profit ratio and sales amount, which was determined by management base on the past performance up to the budget period.

## 14 Long-term deferred expenses

Nine months ended 30 September 2017

| Item | Balance at the beginning of the period | Additions during the period | Amortisation for the period | Balance at the end of the period |
|---|---|---|---|---|
| Leasehold improvements | 32,117,168.51 | 3,817,013.73 | 9,913,521.97 | 26,020,660.27 |
| Others | 457,591.79 | 182,405.45 | 137,239.25 | 502,757.99 |
| Total | 32,574,760.30 | 3,999,419.18 | 10,050,761.22 | 26,523,418.26 |

2016

| Item | Balance at the beginning of the year | Additions during the year | Amortisation for the year | Balance at the end of the year |
|---|---|---|---|---|
| Leasehold improvements | 35,847,315.17 | 8,988,779.78 | 12,718,926.44 | 32,117,168.51 |
| Others | 304,386.72 | 269,306.05 | 116,100.98 | 457,591.79 |
| Total | 36,151,701.89 | 9,258,085.83 | 12,835,027.42 | 32,574,760.30 |

2015

| Item | Balance at the beginning of the year | Additions during the year | Amortisation for the year | Balance at the end of the year |
|---|---|---|---|---|
| Leasehold improvements | 38,762,388.50 | 7,877,663.76 | 10,792,737.09 | 35,847,315.17 |
| Others | 279,667.17 | 98,392.30 | 73,672.75 | 304,386.72 |
| Total | 39,042,055.67 | 7,976,056.06 | 10,866,409.84 | 36,151,701.89 |

2014

| Item | Balance at the beginning of the year | Additions during the year | Amortisation for the year | Balance at the end of the year |
|---|---|---|---|---|
| Leasehold improvements | 24,199,565.77 | 22,859,900.26 | 8,297,077.53 | 38,762,388.50 |
| Others | 397,670.67 | 74,349.29 | 192,352.79 | 279,667.17 |
| Total | 24,597,236.44 | 22,934,249.55 | 8,489,430.32 | 39,042,055.67 |

15 **Deferred tax assets and deferred tax liabilities**

(1) ***Deferred tax assets and liabilities***

| Item | 30 September 2017 | | 31 December 2016 | | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|---|---|---|---|
| | Deductible or taxable temporary differences ("( )" for taxable temporary difference) | Deferred tax assets/ deferred tax liabilities ("( )" for liabilities) | Deductible or taxable temporary differences ("( )" for taxable temporary difference) | Deferred tax assets/ deferred tax liabilities ("( )" for liabilities) | Deductible or taxable temporary differences ("( )" for taxable temporary difference) | Deferred tax assets/ deferred tax liabilities ("( )" for liabilities) | Deductible or taxable temporary differences ("( )" for taxable temporary difference) | Deferred tax assets/ deferred tax liabilities ("( )" for liabilities) |
| Deferred tax assets: | | | | | | | | |
| Provision for bad and doubtful debts | 149,849,559.60 | 37,462,389.90 | 106,298,842.96 | 26,574,710.74 | 78,841,771.64 | 19,710,442.91 | 39,480,414.28 | 9,870,103.57 |
| Provision for impairment of inventories | 41,268,026.85 | 10,317,006.75 | 14,220,943.80 | 3,555,235.95 | 14,027,014.44 | 3,506,753.61 | 8,154,655.36 | 2,038,663.84 |
| Provision for impairment of fixed assets | 124,588.36 | 31,147.09 | 124,588.36 | 31,147.09 | 234,437.32 | 58,609.33 | 467,823.16 | 116,955.79 |
| Employee benefits payable | 14,957,165.32 | 3,739,291.33 | 18,514,650.56 | 4,628,662.64 | 17,743,685.80 | 4,435,921.45 | 39,242,327.92 | 9,810,581.98 |
| Other payables | 23,433,841.56 | 5,858,460.39 | 28,803,899.24 | 7,200,974.81 | 8,086,543.40 | 2,021,635.85 | 7,564,911.44 | 1,891,227.86 |
| Unrealized profit of inventories | 13,410,663.24 | 3,352,665.81 | 11,033,229.04 | 2,758,307.26 | 7,233,642.92 | 1,808,410.73 | 5,482,173.32 | 1,370,543.33 |
| Deductible tax losses | 7,745,862.16 | 1,936,465.54 | — | — | 1,231,592.56 | 307,898.14 | — | — |
| Assets acquired under financial leases | 2,848,449.84 | 712,112.46 | 1,509,444.44 | 377,361.11 | 530,406.80 | 132,601.70 | — | — |
| Others | 1,469,371.28 | 367,342.82 | 1,583,603.92 | 395,900.98 | 1,654,824.48 | 413,706.12 | 1,231,010.60 | 307,752.65 |
| Sub-total | 255,107,528.21 | 63,776,882.09 | 182,089,202.32 | 45,522,300.58 | 129,583,919.36 | 32,395,979.84 | 101,623,316.08 | 25,405,829.02 |
| Amount of offsetting | (593,328.81) | (148,332.20) | (523,991.29) | (130,997.82) | (1,678,129.98) | (419,532.50) | — | — |
| Balance after offsetting | 254,514,199.40 | 63,628,549.89 | 181,565,211.03 | 45,391,302.76 | 127,905,789.38 | 31,976,447.34 | 101,623,316.08 | 25,405,829.02 |
| Deferred tax liabilities: | | | | | | | | |
| Valuation gains of available-for-sale financial assets | (593,328.81) | (148,332.20) | (523,991.29) | (130,997.82) | (1,678,129.98) | (419,532.50) | — | — |
| Valuation gains of intangible assets and fixed assets due to business combination | (12,403,455.68) | (3,100,863.92) | (14,633,643.80) | (3,658,410.95) | (17,607,228.00) | (4,401,807.00) | (19,051,892.08) | (4,762,973.02) |
| Sub-total | (12,996,784.49) | (3,249,196.12) | (15,157,635.09) | (3,789,408.77) | (19,285,357.98) | (4,821,339.50) | (19,051,892.08) | (4,762,973.02) |
| Amount of offsetting | 593,328.81 | 148,332.20 | 523,991.29 | 130,997.82 | 1,678,129.98 | 419,532.50 | — | — |
| Balance after offsetting | (12,403,455.68) | (3,100,863.92) | (14,633,643.80) | (3,658,410.95) | (17,607,228.00) | (4,401,807.00) | (19,051,892.08) | (4,762,973.02) |

(2) ***Details of unrecognised deferred tax assets***

| **Item** | **30 September 2017** | **31 December 2016** | **31 December 2015** | **31 December 2014** |
|---|---|---|---|---|
| Deductible temporary differences | 6,178,844.16 | 8,486,818.72 | 9,432,746.37 | 22,962,753.35 |
| Deductible tax losses | 10,213,926.04 | 10,213,926.04 | 7,805,484.36 | 5,265,856.38 |
| Total | 16,392,770.20 | 18,700,744.76 | 17,238,230.73 | 28,228,609.73 |

(3) ***Expiration of deductible tax losses for unrecognised deferred tax assets***

| **Year** | **30 September 2017** | **31 December 2016** | **31 December 2015** | **31 December 2014** |
|---|---|---|---|---|
| 2018 | 2,958,016.24 | 2,958,016.24 | 2,958,016.24 | 2,958,016.24 |
| 2019 | 2,307,840.14 | 2,307,840.14 | 2,307,840.14 | 2,307,840.14 |
| 2020 | 2,539,627.98 | 2,539,627.98 | 2,539,627.98 | — |
| 2021 | 2,408,441.68 | 2,408,441.68 | — | — |
| Total | 10,213,926.04 | 10,213,926.04 | 7,805,484.36 | 5,265,856.38 |

16 **Short-term loans**

| **Item** | **30 September 2017** | **31 December 2016** | **31 December 2015** | **31 December 2014** |
|---|---|---|---|---|
| **Unsecured loans** | **5,299,266,885.68** | **4,696,053,080.72** | **3,322,012,451.19** | **2,328,043,984.50** |
| Pledged loans | 780,163,204.12 | 152,018,851.28 | 185,786,108.08 | 317,361,536.85 |
| - Loans secured by account receivables | 720,163,204.12 | 128,518,851.28 | 185,786,108.08 | 317,361,536.85 |
| - Loans secured by mortgages | 60,000,000.00 | 23,500,000.00 | — | — |
| Guaranteed loans | 60,000,000.00 | 60,000,000.00 | 830,900,000.00 | 1,104,407,314.00 |
| Discounted bills but not matured | 8,973,647.73 | 174,990,540.52 | — | — |
| Total | 6,148,403,737.53 | 5,083,062,472.52 | 4,338,698,559.27 | 3,749,812,835.35 |

As at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014, there are no overdue borrowings.

17 **Bills payable**

| **Item** | **30 September 2017** | **31 December 2016** | **31 December 2015** | **31 December 2014** |
|---|---|---|---|---|
| Bank acceptance bills | 1,616,081,920.46 | 2,072,051,315.86 | 2,378,051,128.97 | 1,981,815,247.66 |
| Commercial acceptance bills | 84,548,448.35 | 374,796,875.17 | 570,469,820.00 | 279,932,139.50 |
| Total | 1,700,630,368.81 | 2,446,848,191.03 | 2,948,520,948.97 | 2,261,747,387.16 |

As at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014, there are no overdue bills payable.

## 18 Accounts payable

### (1) *Accounts payable by supplier type are as follows:*

| Item | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| Amounts due to related parties | 56,401,330.17 | 20,127,585.10 | 16,962,204.15 | 12,399,873.95 |
| Amounts due to others | 5,741,346,894.54 | 4,058,600,442.36 | 4,205,905,655.78 | 3,519,204,856.96 |
| Total | 5,797,748,224.71 | 4,078,728,027.46 | 4,222,867,859.93 | 3,531,604,730.91 |

### (2) *The ageing analysis of accounts payable is as follows:*

| Ageing | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| Within 1 year (inclusive) | 5,641,514,011.25 | 3,945,334,512.15 | 4,152,622,739.60 | 3,484,556,793.40 |
| Over 1 year | 156,234,213.46 | 133,393,515.31 | 70,245,120.33 | 47,047,937.51 |
| Total | 5,797,748,224.71 | 4,078,728,027.46 | 4,222,867,859.93 | 3,531,604,730.91 |

The ageing is counted starting from the date when accounts payable are recognised.

## 19 Advances from customers

| Item | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| Advances from customers | 49,409,464.69 | 110,183,592.44 | 178,092,875.29 | 30,711,604.78 |

As at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014, there are no significant advances from customers with ageing of more than one year.

## 20 Employee benefits payable

### (1) *Employee benefits payable:*

Nine months ended 30 September 2017

| | Balance at the beginning of the period | Accrued during the period | Decreased during the period | Balance at the end of the period |
|---|---|---|---|---|
| Short-term employee benefits | 37,613,133.31 | 418,078,058.70 | (422,159,865.50) | 33,531,326.51 |
| Post-employment benefits - defined contribution plans | — | 34,701,733.81 | (34,701,733.81) | — |
| Total | 37,613,133.31 | 452,779,792.51 | (456,861,599.31) | 33,531,326.51 |

2016

| | Balance at the beginning of the year | Accrued during the year | Decreased during the year | Balance at the end of the year |
|---|---|---|---|---|
| Short-term employee benefits | 42,494,646.36 | 499,996,918.09 | (504,878,431.14) | 37,613,133.31 |
| Post-employment benefits - defined contribution plans | — | 40,882,892.24 | (40,882,892.24) | — |
| Total | 42,494,646.36 | 540,879,810.33 | (545,761,323.38) | 37,613,133.31 |

2015

| | Balance at the beginning of the year | Accrued during the year | Decreased during the year | Balance at the end of the year |
|---|---|---|---|---|
| Short-term employee benefits | 40,967,154.17 | 447,442,120.33 | (445,914,628.14) | 42,494,646.36 |
| Post-employment benefits - defined contribution plans | — | 37,707,224.85 | (37,707,224.85) | — |
| Total | 40,967,154.17 | 485,149,345.18 | (483,621,852.99) | 42,494,646.36 |

2014

| | Balance at the beginning of the year | Accrued during the year | Decreased during the year | Balance at the end of the year |
|---|---|---|---|---|
| Short-term employee benefits | 35,822,593.01 | 377,375,055.38 | (372,230,494.22) | 40,967,154.17 |
| Post-employment benefits - defined contribution plans | 8,305.64 | 37,842,434.76 | (37,850,740.40) | — |
| Total | 35,830,898.65 | 415,217,490.14 | (410,081,234.62) | 40,967,154.17 |

(2) ***Short-term employee benefits***

Nine months ended 30 September 2017

| Item | Balance at the beginning of the period | Accrued during the period | Decreased during the period | Balance at the end of the period |
|---|---|---|---|---|
| Salaries, bonuses, allowances | 36,308,527.26 | 351,771,201.63 | (357,140,048.11) | 30,939,680.78 |
| Staff welfare | 47,817.89 | 18,525,887.30 | (18,299,715.47) | 273,989.72 |
| Social insurance | | | | |
| Medical insurance | — | 14,329,306.42 | (14,329,306.42) | — |
| Work-related injury insurance | — | 427,275.36 | (427,275.36) | — |
| Maternity insurance | — | 1,532,810.21 | (1,532,810.21) | — |
| Housing fund | 17,300.00 | 23,241,584.24 | (23,239,864.24) | 19,020.00 |
| Labour union fee, staff and workers' education fee | 1,239,488.16 | 8,249,993.54 | (7,190,845.69) | 2,298,636.01 |
| Total | 37,613,133.31 | 418,078,058.70 | (422,159,865.50) | 33,531,326.51 |

2016

| Item | Balance at the beginning of the year | Accrued during the year | Decreased during the year | Balance at the end of the year |
|---|---|---|---|---|
| Salaries, bonuses, allowances | 41,386,612.40 | 411,338,226.19 | (416,416,311.33) | 36,308,527.26 |
| Staff welfare | 99,008.47 | 23,679,658.54 | (23,730,849.12) | 47,817.89 |
| Social insurance | | | | |
| Medical insurance | — | 18,369,888.52 | (18,369,888.52) | — |
| Work-related injury insurance | — | 680,053.27 | (680,053.27) | — |
| Maternity insurance | — | 1,840,390.91 | (1,840,390.91) | — |
| Housing fund | — | 33,910,908.49 | (33,893,608.49) | 17,300.00 |
| Labour union fee, staff and workers' education fee | 1,009,025.49 | 10,177,792.17 | (9,947,329.50) | 1,239,488.16 |
| Total | 42,494,646.36 | 499,996,918.09 | (504,878,431.14) | 37,613,133.31 |

2015

| Item | Balance at the beginning of the year | Accrued during the year | Additions arising from business combination | Decreased during the year | Balance at the end of the year |
|---|---|---|---|---|---|
| Salaries, bonuses, allowances | 40,131,405.04 | 352,474,047.45 | 3,763,308.50 | (354,982,148.59) | 41,386,612.40 |
| Staff welfare | 128,760.22 | 25,434,570.27 | — | (25,464,322.02) | 99,008.47 |
| Social insurance | | | | | |
| Medical insurance | — | 16,911,522.39 | — | (16,911,522.39) | — |
| Work-related injury insurance | — | 977,168.96 | — | (977,168.96) | — |
| Maternity insurance | — | 1,682,718.79 | — | (1,682,718.79) | — |
| Housing fund | — | 36,374,046.15 | — | (36,374,046.15) | — |
| Labour union fee, staff and workers' education fee | 706,988.91 | 9,824,737.82 | — | (9,522,701.24) | 1,009,025.49 |
| Total | 40,967,154.17 | 443,678,811.83 | 3,763,308.50 | (445,914,628.14) | 42,494,646.36 |

2014

| Item | Balance at the beginning of the year | Accrued during the year | Decreased during the year | Balance at the end of the year |
|---|---|---|---|---|
| Salaries, bonuses, allowances | 35,037,964.35 | 301,859,146.08 | (296,765,705.39) | 40,131,405.04 |
| Staff welfare | 95,607.46 | 22,025,256.59 | (21,992,103.83) | 128,760.22 |
| Social insurance | | | | |
| Medical insurance | 1,612.52 | 12,794,092.78 | (12,795,705.30) | — |
| Work-related injury insurance | — | 754,288.43 | (754,288.43) | — |
| Maternity insurance | 101.84 | 1,022,077.06 | (1,022,178.90) | — |
| Housing fund | 6,350.00 | 30,266,771.88 | (30,273,121.88) | — |
| Labour union fee, staff and workers' education fee | 680,956.84 | 8,653,422.56 | (8,627,390.49) | 706,988.91 |
| Total | 35,822,593.01 | 377,375,055.38 | (372,230,494.22) | 40,967,154.17 |

(3) ***Post-employment benefits - defined contribution plans***

Nine months ended 30 September 2017

| Item | Balance at the beginning of the period | Accrued during the period | Decreased during the period | Balance at the end of the period |
|---|---|---|---|---|
| Basic pension insurance | — | 27,341,161.24 | (27,341,161.24) | — |
| Unemployment insurance | — | 876,377.80 | (876,377.80) | — |
| Annuity | — | 6,484,194.77 | (6,484,194.77) | — |
| Total | — | 34,701,733.81 | (34,701,733.81) | — |

2016

| Item | Balance at the beginning of the year | Accrued during the year | Decreased during the year | Balance at the end of the year |
|---|---|---|---|---|
| Basic pension insurance | — | 32,141,758.16 | (32,141,758.16) | — |
| Unemployment insurance | — | 1,072,791.90 | (1,072,791.90) | — |
| Annuity | — | 7,668,342.18 | (7,668,342.18) | — |
| Total | — | 40,882,892.24 | (40,882,892.24) | — |

2015

| Item | Balance at the beginning of the year | Accrued during the year | Decreased during the year | Balance at the end of the year |
|---|---|---|---|---|
| Basic pension insurance | — | 28,773,372.38 | (28,773,372.38) | — |
| Unemployment insurance | — | 1,887,005.23 | (1,887,005.23) | — |
| Annuity | — | 7,046,847.24 | (7,046,847.24) | — |
| Total | — | 37,707,224.85 | (37,707,224.85) | — |

2014

| Item | Balance at the beginning of the year | Accrued during the year | Decreased during the year | Balance at the end of the year |
|---|---|---|---|---|
| Basic pension insurance | 7,391.20 | 27,903,399.52 | (27,910,790.72) | — |
| Unemployment insurance | 914.44 | 1,537,584.66 | (1,538,499.10) | — |
| Annuity | — | 8,401,450.58 | (8,401,450.58) | — |
| Total | 8,305.64 | 37,842,434.76 | (37,850,740.40) | — |

## 21 *Taxes payable*

| Item | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| VAT payable | 24,941,238.14 | 12,647,600.10 | 10,355,033.00 | 8,105,333.70 |
| Business tax payable | — | — | 222,116.04 | 709,282.79 |
| Income tax payable | 41,327,039.28 | 39,988,135.63 | 27,168,441.22 | 26,057,246.26 |
| Education surcharge payable | 980,825.81 | 558,118.86 | 502,714.85 | 515,452.19 |
| City construction tax payable | 1,736,910.99 | 891,031.44 | 885,026.77 | 721,645.44 |
| Individual income tax payable | 2,083,758.22 | 1,607,327.77 | 2,955,031.96 | 3,610,187.27 |
| Anti-flood expense payable | 269,757.82 | 306,401.83 | 463,036.73 | 3,794,258.49 |
| Others | 2,085,639.22 | 1,118,863.35 | 1,684,822.74 | 1,555,859.03 |
| Total | 73,425,169.48 | 57,117,478.98 | 44,236,223.31 | 45,069,265.17 |

22 ***Interest payable***

| Item | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| Interest payable on short-term loans | 14,989,736.54 | 26,352,425.99 | 18,553,041.39 | 20,519,256.59 |
| Interest payable on long-term loans | 846,793.06 | 1,964,427.68 | — | — |
| Total | 15,836,529.60 | 28,316,853.67 | 18,553,041.39 | 20,519,256.59 |

As at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014, there are no overdue interest payable.

23 ***Dividends payable***

| Item | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| Dividends payable to non-controlling shareholders | — | — | 2,500,000.00 | — |

As at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014, there are no significant dividends unpaid over one year.

24 ***Other payables***

Details of other payables by nature are as follows:

| Item | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| Amounts due to related parties | 4,476,456.31 | 3,572,724.16 | 919,316.54 | 3,154,111.60 |
| Loans and interests from non-controlling shareholders | 25,000,000.00 | 59,648,956.05 | 32,260,387.22 | 10,787,200.00 |
| Payable finance | 221,441,670.06 | 567,877,525.95 | 284,385,018.70 | 105,036,511.73 |
| Deposits | 102,088,552.43 | 46,793,205.74 | 17,157,774.67 | 15,115,318.77 |
| Transportation expense | 30,549,600.00 | 33,998,696.03 | 29,437,644.94 | 16,827,174.00 |
| Others | 115,943,847.31 | 84,589,569.12 | 94,562,721.68 | 85,330,792.63 |
| Total | 499,500,126.11 | 796,480,677.05 | 458,722,863.75 | 236,251,108.73 |

As at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014, there are no significant other payables aged over one year.

25 **Non-current liabilities due within one year**

| Item | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| Long-term loans due within one year | 221,887,068.94 | — | — | — |
| Long-term payables due within one year | 41,339,844.40 | 23,004,853.09 | 9,656,764.71 | 1,644,376.68 |
| Total | 263,226,913.34 | 23,004,853.09 | 9,656,764.71 | 1,644,376.68 |

## 26 Other current liabilities

| Item | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| Short-term debentures payable | — | 400,000,000.00 | 400,000,000.00 | — |

The movements of short-term debentures payable:

Nine months ended 30 September 2017

| Debenture | Face value | Issuance date | Maturity period | Issuance amount | Balance at the beginning of the period | Issuance during the period | Interest at face value | Repayment during the period | Balance at the end of the period |
|---|---|---|---|---|---|---|---|---|---|
| 16 GPC CP001 | 100.00 | 17/03/2016 | 365 days | 400,000,000.00 | 400,000,000.00 | — | 3.0% | (400,000,000.00) | — |

2016

| Debenture | Face value | Issuance date | Maturity period | Issuance amount | Balance at the beginning of the year | Issuance during the year | Interest at face value | Repayment during the year | Balance at the end of the year |
|---|---|---|---|---|---|---|---|---|---|
| 16 GPC CP001 | 100.00 | 17/03/2016 | 365 days | 400,000,000.00 | — | 400,000,000.00 | 3.0% | — | 400,000,000.00 |
| 15 GPC CP001 | 100.00 | 14/12/2015 | 365 days | 400,000,000.00 | 400,000,000.00 | — | 3.7% | (400,000,000.00) | — |

2015

| Debenture | Face value | Issuance date | Maturity period | Issuance amount | Balance at the beginning of the year | Issuance during the year | Interest at face value | Repayment during the year | Balance at the end of the year |
|---|---|---|---|---|---|---|---|---|---|
| 15 GPC CP001 | 100.00 | 14/12/2015 | 365 days | 400,000,000.00 | — | 400,000,000.00 | 3.7% | — | 400,000,000.00 |

2014

| Debenture | Face value | Issuance date | Maturity period | Issuance amount | Balance at the beginning of the year | Issuance during the year | Interest at face value | Repayment during the year | Balance at the end of the year |
|---|---|---|---|---|---|---|---|---|---|
| 13 GPC CP001 | 100.00 | 09/06/2013 | 365 days | 400,000,000.00 | 400,000,000.00 | — | 5.1% | (400,000,000.00) | — |

27 **Long-term loans**

| Item | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| **Unsecured loans** | | | | |
| - Within 1 year (inclusive) | 221,887,068.94 | — | — | — |
| - After 1 year but within 2 years (inclusive) | 138,378,960.43 | 265,666,029.37 | — | — |
| - After 2 years but within 5 years (inclusive) | 493,000,000.00 | 146,000,000.00 | — | — |
| Sub-total | 853,266,029.37 | 411,666,029.37 | — | — |
| Less: Long-term loans due within one year | 221,887,068.94 | — | — | — |
| Total | 631,378,960.43 | 411,666,029.37 | — | — |

## 28 Long-term payables

| Item | *Note* | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|---|
| Obligations under finance leases | (1) | 125,267,605.97 | 77,200,832.43 | 36,633,293.99 | 4,677,954.86 |
| Less: obligations under finance leases due within one year | | 41,339,844.40 | 23,004,853.09 | 9,656,764.71 | 1,644,376.68 |
| Total | | 83,927,761.57 | 54,195,979.34 | 26,976,529.28 | 3,033,578.18 |

### (1) *Details of obligations under finance leases included in long-term payables*

| Minimum lease payments | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| Within 1 year (inclusive) | 47,654,374.72 | 26,193,349.52 | 11,475,717.95 | 2,256,410.26 |
| After 1 year but within 2 years (inclusive) | 43,826,465.58 | 21,533,591.80 | 7,527,000.00 | 3,384,615.38 |
| After 2 years but within 3 years (inclusive) | 26,275,654.42 | 19,576,342.47 | 7,527,000.00 | — |
| After 3 years but within 5 years (inclusive) | 17,243,634.06 | 16,658,181.49 | 14,369,700.02 | — |
| Subtotal | 135,000,128.78 | 83,961,465.28 | 40,899,417.97 | 5,641,025.64 |
| Less: Unrecognised finance charges | 9,732,522.81 | 6,760,632.85 | 4,266,123.98 | 963,070.78 |
| Total | 125,267,605.97 | 77,200,832.43 | 36,633,293.99 | 4,677,954.86 |

## 29 Deferred income

| Item | *Note* | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|---|
| Government grant | (1) | 3,420,043.35 | 4,932,066.50 | 7,487,693.48 | 9,049,999.94 |
| Others | | — | 758,389.00 | 600,243.00 | 459,716.00 |
| Total | | 3,420,043.35 | 5,690,455.50 | 8,087,936.48 | 9,509,715.94 |

(1) ***Details of government grants recognised as deferred income***

Nine months ended 30 September 2017

| Item | Balance at the beginning of the period | Additions during the period | Reductions during the period | Balance at the end of the period | Reason for deferral |
|---|---|---|---|---|---|
| **Government grants (Note)** | | | | | |
| - related to assets | 4,611,666.60 | 500,000.00 | (1,940,000.02) | 3,171,666.58 | Government grants related to assets |
| - related to income | 320,399.90 | — | (72,023.13) | 248,376.77 | Government grants related to income for compensating future expenses |
| Total | 4,932,066.50 | 500,000.00 | (2,012,023.15) | 3,420,043.35 | |

Note: For government grant of the Target Group recognized as deferred income, please refer to note V.42.

2016

| Item | Balance at the beginning of the year | Additions during the year | Reductions during the year | Balance at the end of the year | Reason for deferral |
|---|---|---|---|---|---|
| **Government grants** | | | | | |
| - related to assets | 7,271,666.60 | — | (2,660,000.00) | 4,611,666.60 | Government grants related to assets |
| - related to income | 216,026.88 | 310,400.00 | (206,026.98) | 320,399.90 | Government grants related to income for compensating future expenses |
| Total | 7,487,693.48 | 310,400.00 | (2,866,026.98) | 4,932,066.50 | |

2015

| Item | Balance at the beginning of the year | Additions during the year | Reductions during the year | Balance at the end of the year | Reason for deferral |
|---|---|---|---|---|---|
| **Government grants** | | | | | |
| - related to assets | 9,049,999.94 | 900,000.00 | (2,678,333.34) | 7,271,666.60 | Government grants related to assets |
| - related to income | — | 463,110.11 | (247,083.23) | 216,026.88 | Government grants related to income for compensating future expenses |
| Total | 9,049,999.94 | 1,363,110.11 | (2,925,416.57) | 7,487,693.48 | |

2014

| Item | Balance at the beginning of the year | Additions during the year | Reductions during the year | Balance at the end of the year | Reason for deferral |
|---|---|---|---|---|---|
| **Government grants** | | | | | |
| - related to assets | 370,000.00 | 12,000,000.00 | (3,320,000.06) | 9,049,999.94 | Government grants related to assets |

Items involving government grant:

Nine months ended 30 September of 2017

| Item | Balance at the beginning of the period | Additions during the period | Transfer to other income | Balance at the end of the period | Reason for deferral |
|---|---|---|---|---|---|
| Special fund for development of modern logistics | 2,999,999.98 | — | 1,500,000.03 | 1,499,999.95 | related to assets |
| Special fund for development of electronic business platform | 983,333.29 | — | 300,000.06 | 683,333.23 | related to assets |
| Special fund for expansion of retail stores | 10,000.00 | — | 10,000.00 | — | related to assets |
| Special fund for information technology development | 325,000.00 | 500,000.00 | 99,999.96 | 725,000.04 | related to assets |
| Special fund for development of cold chain logistics | 293,333.33 | — | 29,999.97 | 263,333.36 | related to assets |
| Special fund for e-commerce business | 320,399.90 | — | 72,023.13 | 248,376.77 | related to income |
| Total | 4,932,066.50 | 500,000.00 | 2,012,023.15 | 3,420,043.35 | |

2016

| Item | Balance at the beginning of the year | Additions during the year | Transfer to non-operating income | Balance at the end of the year | Reason for deferral |
|---|---|---|---|---|---|
| Special fund for development of modern logistics | 4,999,999.98 | — | 2,000,000.00 | 2,999,999.98 | related to assets |
| Special fund for development of electronic business platform | 1,383,333.29 | — | 400,000.00 | 983,333.29 | related to assets |
| Special fund for expansion of retail stores | 130,000.00 | — | 120,000.00 | 10,000.00 | related to assets |
| Special fund for information technology development | 425,000.00 | — | 100,000.00 | 325,000.00 | related to assets |
| Special fund for development of cold chain logistics | 333,333.33 | — | 40,000.00 | 293,333.33 | related to assets |
| Special fund for e-commerce business | 216,026.88 | 310,400.00 | 206,026.98 | 320,399.90 | related to income |
| Total | 7,487,693.48 | 310,400.00 | 2,866,026.98 | 4,932,066.50 | |

2015

| Item | Balance at the beginning of the year | Additions during the year | Transfer to non-operating income | Balance at the end of the year | Reason for deferral |
|---|---|---|---|---|---|
| Special fund for development of modern logistics | 6,999,999.98 | — | 2,000,000.00 | 4,999,999.98 | related to assets |
| Special fund for development of electronic business platform | 1,799,999.96 | — | 416,666.67 | 1,383,333.29 | related to assets |
| Special fund for expansion of retail stores | 250,000.00 | — | 120,000.00 | 130,000.00 | related to assets |
| Special fund for information technology development | — | 500,000.00 | 75,000.00 | 425,000.00 | related to assets |
| Special fund for development of cold chain logistics | — | 400,000.00 | 66,666.67 | 333,333.33 | related to assets |
| Special fund for e-commerce business | — | 463,110.11 | 247,083.23 | 216,026.88 | related to income |
| Total | 9,049,999.94 | 1,363,110.11 | 2,925,416.57 | 7,487,693.48 | |

2014

| Item | Balance at the beginning of the year | Additions during the year | Transfer to non-operating income | Balance at the end of the year | Reason for deferral |
|---|---|---|---|---|---|
| Special fund for development of modern logistics | — | 10,000,000.00 | 3,000,000.02 | 6,999,999.98 | related to assets |
| Special fund for development of electronic business platform | — | 2,000,000.00 | 200,000.04 | 1,799,999.96 | related to assets |
| Special fund for expansion of retail stores | 370,000.00 | — | 120,000.00 | 250,000.00 | related to assets |
| Total | 370,000.00 | 12,000,000.00 | 3,320,000.06 | 9,049,999.94 | |

## 30 Paid-in capital

| | September 30 2017 | | 31 December 2016 | | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % | Amount | % |
| Baiyunshan | 350,000,000.00 | 50% | 350,000,000.00 | 50% | 350,000,000.00 | 50% | 350,000,000.00 | 50% |
| Alliance BMP | 350,000,000.00 | 50% | 350,000,000.00 | 50% | 350,000,000.00 | 50% | 350,000,000.00 | 50% |
| Total | 700,000,000.00 | 100% | 700,000,000.00 | 100% | 700,000,000.00 | 100% | 700,000,000.00 | 100% |

## 31 Capital reserve

Nine months ended 30 September 2017

| Item | Balance at the beginning of the period | Additions during the period | Reductions during the period | Balance at the end of the period |
|---|---|---|---|---|
| Capital premiums | 362,591,756.18 | — | — | 362,591,756.18 |
| Other capital reserves | 14,480,784.33 | — | — | 14,480,784.33 |
| Total | 377,072,540.51 | — | — | 377,072,540.51 |

2016

| Item | Balance at the beginning of the year | Additions during the year | Reductions during the year | Balance at the end of the year |
|---|---|---|---|---|
| Capital premiums | 362,586,462.75 | 5,293.43 | — | 362,591,756.18 |
| Other capital reserves | 14,480,784.33 | — | — | 14,480,784.33 |
| Total | 377,067,247.08 | 5,293.43 | — | 377,072,540.51 |

2015

| Item | Balance at the beginning of the year | Additions during the year | Reductions during the year | Balance at the end of the year |
|---|---|---|---|---|
| Capital premiums | 362,365,268.08 | 221,194.67 | — | 362,586,462.75 |
| Other capital reserves | 14,480,784.33 | — | — | 14,480,784.33 |
| Total | 376,846,052.41 | 221,194.67 | — | 377,067,247.08 |

2014

| Item | Balance at the beginning of the year | Additions during the year | Reductions during the year | Balance at the end of the year |
|---|---|---|---|---|
| Capital premiums | 364,415,478.59 | 1,215,471.33 | (3,265,681.84) | 362,365,268.08 |
| Other capital reserves | 14,480,784.33 | — | — | 14,480,784.33 |
| Total | 378,896,262.92 | 1,215,471.33 | (3,265,681.84) | 376,846,052.41 |

Pursuant to the shareholders agreement and the board minutes dated 3 March 2014, 16 February 2015 and 8 August 2016, the Target Company made additional capital injection in cash for 2.77%, 0.85% and 0.82% equity interest of Shaanxi Guangyao Kangjian Pharmaceutical Company Limited ("Guangyao Kangjian") in 2014, 2015 and 2016, respectively. The difference of RMB 1,215,471.33, RMB 221,194.67 and RMB 5,293.43 between the proportion interests of Guangyao Kangjian's net assets being acquired and the amount of the capital injection were adjusted to capital reserve in the consolidated balance sheet respectively.

Pursuant to the equity interest transfer agreement dated 20 March 2014, the Target Company acquired 40% equity interest of Hunan Guangyao Hengsheng Pharmaceutical Company Limited ("Guangyao Hengsheng") by way of cash payment by installments. The difference of RMB 3,265,681.84 between the proportion interests of Guangyao Hengsheng's net assets being acquired and the purchase price was adjusted to capital reserve in the consolidated balance sheet.

## 32 Other comprehensive income

Nine months ended 30 September 2017

| Item | Balance at the beginning of the period attributable to owners of the Target Company | Movements during the period Before-tax amount | Less: Previously recognised amount transferred to profit or loss | Less: Income tax expense | Net-of-tax amount attributable to owners of the Target Company | Net-of-tax amount attributable to non-controlling interests | Balance at the end of the period attributable to owners of the Target Company |
|---|---|---|---|---|---|---|---|
| Items that may be reclassified to profit or loss | 392,993.47 | 69,337.52 | — | 17,334.38 | 52,003.14 | — | 444,996.61 |
| Including: | | | | | | | |
| Gain or loss arising from changes in fair value of available-for-sale financial assets | 392,993.47 | 69,337.52 | — | 17,334.38 | 52,003.14 | — | 444,996.61 |
| Total | 392,993.47 | 69,337.52 | — | 17,334.38 | 52,003.14 | — | 444,996.61 |

2016

| Item | Balance at the beginning of the year attributable to owners of the Target Company | Movements during the year Before-tax amount | Less: Previously recognised amount transferred to profit or loss | Less: Income tax expense | Net-of-tax amount attributable to owners of the Target Company | Net-of-tax amount attributable to non-controlling interests | Balance at the end of the year attributable to owners of the Target Company |
|---|---|---|---|---|---|---|---|
| Items that may be reclassified to profit or loss | 639,042.14 | (82,957.41) | 1,071,181.30 | (288,534.68) | (246,048.67) | (619,555.32) | 392,993.47 |
| Including: | | | | | | | |
| Gain or loss arising from changes in fair value of available-for-sale financial assets | 639,042.14 | (82,957.41) | 1,071,181.30 | (288,534.68) | (246,048.67) | (619,555.32) | 392,993.47 |
| Total | 639,042.14 | (82,957.41) | 1,071,181.30 | (288,534.68) | (246,048.67) | (619,555.32) | 392,993.47 |

2015

| Item | Balance at the beginning of the year attributable to owners of the Target Company | Movements during the year Before-tax amount | Less: Previously recognised amount transferred to profit or loss | Less: Income tax expense | Net-of-tax amount attributable to owners of the Target Company | Net-of-tax amount attributable to non-controlling interests | Balance at the end of the year attributable to owners of the Target Company |
|---|---|---|---|---|---|---|---|
| Items that may be reclassified to profit or loss | 646,044.82 | 538,735.58 | — | 419,532.50 | (7,002.68) | 126,205.76 | 639,042.14 |
| Including: | | | | | | | |
| Gain or loss arising from changes in fair value of available-for-sale financial assets | 646,044.82 | 538,735.58 | — | 419,532.50 | (7,002.68) | 126,205.76 | 639,042.14 |
| Total | 646,044.82 | 538,735.58 | — | 419,532.50 | (7,002.68) | 126,205.76 | 639,042.14 |

2014

| Item | Balance at the beginning of the year attributable to owners of the Target Company | Movements during the year Before-tax amount | Less: Previously recognised amount transferred to profit or loss | Less: Income tax expense | Net-of-tax amount attributable to owners of the Target Company | Net-of-tax amount attributable to non-controlling interests | Balance at the end of the year attributable to owners of the Target Company |
|---|---|---|---|---|---|---|---|
| Items that may be reclassified to profit or loss | 178,508.28 | 534,895.36 | — | — | 467,536.54 | 67,358.82 | 646,044.82 |
| Including: | | | | | | | |
| Gain or loss arising from changes in fair value of available-for-sale financial assets | 178,508.28 | 534,895.36 | — | — | 467,536.54 | 67,358.82 | 646,044.82 |
| Total | 178,508.28 | 534,895.36 | — | — | 467,536.54 | 67,358.82 | 646,044.82 |

## 33 Surplus reserve

Nine months ended 30 September 2017

| Item | Balance at the beginning of the period | Additions during the period | Balance at the end of the period |
|---|---|---|---|
| General reserve fund | 153,610,436.28 | — | 153,610,436.28 |
| Enterprise expansion fund | 243,729,612.36 | — | 243,729,612.36 |
| Total | 397,340,048.64 | — | 397,340,048.64 |

2016

| Item | Balance at the beginning of the year | Additions during the year | Balance at the end of the year |
|---|---|---|---|
| General reserve fund | 141,952,672.89 | 11,657,763.39 | 153,610,436.28 |
| Enterprise expansion fund | 212,049,359.89 | 31,680,252.47 | 243,729,612.36 |
| Total | 354,002,032.78 | 43,338,015.86 | 397,340,048.64 |

2015

| Item | Balance at the beginning of the year | Additions during the year | Balance at the end of the year |
|---|---|---|---|
| General reserve fund | 126,112,546.65 | 15,840,126.24 | 141,952,672.89 |
| Enterprise expansion fund | 168,019,081.08 | 44,030,278.81 | 212,049,359.89 |
| Total | 294,131,627.73 | 59,870,405.05 | 354,002,032.78 |

2014

| Item | Balance at the beginning of the year | Additions during the year | Balance at the end of the year |
|---|---|---|---|
| General reserve fund | 112,696,492.36 | 13,416,054.29 | 126,112,546.65 |
| Enterprise expansion fund | 144,111,331.24 | 23,907,749.84 | 168,019,081.08 |
| Total | 256,807,823.60 | 37,323,804.13 | 294,131,627.73 |

Pursuant to the Articles of Association, the Target Company appropriate 10% of net profit for each year to the general reserve fund.

In the period from 1 January 2017 to 30 September 2017, the Target Company did not make any board resolution regarding the withdrawal of the enterprise expansion fund.

In 2016, pursuant to the Board of Directors' resolutions on 17 March 2016, the Target Company made 20% Enterprise expansion fund based on the net profit of 2015.

In 2015, pursuant to the Board of Directors' resolutions on 24 March 2015, the Target Company made 20% Enterprise expansion fund based on the net profit of 2014.

In 2014, pursuant to the Board of Directors' resolutions on 6 March 2014, the Target Company made 20% Enterprise expansion fund based on the net profit of 2013.

## 34 Retained earnings

| Item | Nine months ended 30 September 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Retained earnings at the beginning of the period/year | 1,078,189,979.77 | 895,622,444.97 | 739,692,891.96 | 585,528,918.13 |
| Add: Net profits for the year/period attributable to owners of the Target Company | 183,989,462.30 | 225,905,550.66 | 215,799,958.06 | 191,487,777.96 |
| Less: General reserve fund | — | 11,657,763.39 | 15,840,126.24 | 13,416,054.29 |
| Less: Enterprise expansion fund | — | 31,680,252.47 | 44,030,278.81 | 23,907,749.84 |
| Retained earnings at the end of the period/year | 1,262,179,442.07 | 1,078,189,979.77 | 895,622,444.97 | 739,692,891.96 |

### (1) *Cash dividends appropriated to owners*

In the nine months ended 30 September 2017 and 30 September 2016 and the years ended 31 December 2016, 31 December 2015, 31 December 2014, no cash dividend was declared and paid to the Target Company's owners.

### (2) *Retained earnings at the end of the period/year*

As at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014, the consolidated retained earnings attributable to the Target Company included appropriation to surplus reserves made by the Target Company's subsidiaries amounting to RMB 158,026,815.14, RMB 158,026,815.14, RMB 124,259,653.54 and RMB 100,824,384.07 respectively.

## 35 Operating income and operating costs

| Item | Nine months ended 30 September 2017 | | Nine months ended 30 September 2016 | | 2016 | | 2015 | | 2014 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Income | Cost | Income | Cost | Income | Cost | Income | Cost | Income | Cost |
| | | | *(Unaudited)* | *(Unaudited)* | | | | | | |
| Principal activities | 27,210,988,229.40 | 25,624,513,153.38 | 25,773,150,100.37 | 24,473,045,836.33 | 32,958,561,474.72 | 31,219,005,132.27 | 29,360,136,259.56 | 27,789,919,994.16 | 26,212,640,320.43 | 24,846,265,004.84 |
| Other operating activities | 59,930,683.42 | 2,079,651.03 | 35,791,564.82 | 508,599.38 | 46,243,940.94 | 1,138,594.20 | 33,038,970.09 | 786,397.14 | 25,932,477.35 | 842,300.26 |
| Total | 27,270,918,912.82 | 25,626,592,804.41 | 25,808,941,665.19 | 24,473,554,435.71 | 33,004,805,415.66 | 31,220,143,726.47 | 29,393,175,229.65 | 27,790,706,391.30 | 26,238,572,797.78 | 24,847,107,305.10 |

### Details of operating income

| | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| | | *(Unaudited)* | | | |
| Operating income from principal activities | 27,210,988,229.40 | 25,773,150,100.37 | 32,958,561,474.72 | 29,360,136,259.56 | 26,212,640,320.43 |
| -Wholesale | 26,680,813,684.88 | 25,343,419,736.44 | 32,344,715,753.89 | 28,904,687,318.24 | 25,836,407,887.39 |
| -Retail | 352,838,381.90 | 303,787,605.02 | 414,452,743.55 | 325,609,665.92 | 278,020,151.69 |
| -Online sales | 165,898,931.87 | 113,729,582.64 | 178,509,664.93 | 110,491,244.51 | 75,385,718.80 |
| -Warehousing and logistics services | 11,437,230.75 | 12,213,176.27 | 20,883,312.35 | 19,348,030.89 | 22,826,562.55 |
| Other operating income | 59,930,683.42 | 35,791,564.82 | 46,243,940.94 | 33,038,970.09 | 25,932,477.35 |
| -E-commerce service | 27,273,907.57 | 18,720,448.37 | 20,756,236.16 | 24,921,599.71 | 20,415,499.13 |
| -Others | 32,656,775.85 | 17,071,116.45 | 25,487,704.78 | 8,117,370.38 | 5,516,978.22 |
| Total | 27,270,918,912.82 | 25,808,941,665.19 | 33,004,805,415.66 | 29,393,175,229.65 | 26,238,572,797.78 |

## 36 Taxes and surcharges

| Item | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 *(Unaudited)* | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Business tax | — | 231,351.00 | 231,351.00 | 2,146,047.24 | 2,065,601.56 |
| City construction tax | 13,869,882.01 | 12,023,463.46 | 15,913,445.75 | 13,745,032.59 | 11,913,970.49 |
| Education surcharge | 9,890,705.95 | 8,581,383.16 | 11,356,113.02 | 9,823,435.44 | 8,519,951.29 |
| Stamp duty | 10,421,866.45 | 4,865,135.01 | 7,012,656.49 | — | — |
| Others | 699,550.88 | 161,854.38 | 1,540,242.98 | 730,794.97 | 648,607.35 |
| Total | 34,882,005.29 | 25,863,187.01 | 36,053,809.24 | 26,445,310.24 | 23,148,130.69 |

Pursuant to "Provisions Concerning the Accounting Treatments on Value-Added Tax" (Caikuai [2016] No.22), issued by MOF on 3 December 2016, the account caption of "Business taxes and surcharges" in the consolidated income statement is renamed as "Taxes and surcharges". In addition to consumption tax, city construction tax, resources tax and education surcharges, this account caption shall also include tax items such as property tax, land use tax, vehicle and vessel usage tax and stamp duty, etc since 1 May 2016.

## 37 Selling and distribution expenses

| Item | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 *(Unaudited)* | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Employee benefits expenses | 322,796,105.04 | 281,619,849.43 | 379,969,254.02 | 330,742,989.20 | 283,367,346.02 |
| Promotion and travelling expenses | 89,663,252.98 | 42,694,001.19 | 69,518,298.96 | 63,855,742.88 | 51,692,059.13 |
| Conference expenses | 20,327,889.73 | 19,990,938.34 | 28,304,775.15 | 27,641,549.56 | 24,007,045.97 |
| Logistic expenses | 177,155,334.29 | 154,827,053.45 | 215,637,967.71 | 180,062,046.84 | 177,398,045.14 |
| Depreciation and amortization | 20,070,045.25 | 17,240,123.51 | 22,932,232.16 | 17,652,425.38 | 12,484,201.53 |
| Pharmacy hosting service fee | 146,813,270.15 | 52,682,213.28 | 63,959,597.89 | 36,597,133.31 | — |
| Others | 55,231,551.17 | 32,101,813.79 | 56,315,329.79 | 33,887,644.63 | 25,737,754.08 |
| Total | 832,057,448.61 | 601,155,992.99 | 836,637,455.68 | 690,439,531.80 | 574,686,451.87 |

## 38 General and administrative expenses

| Item | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 *(Unaudited)* | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Employee benefits expenses | 129,983,687.47 | 116,712,397.11 | 160,910,556.31 | 150,643,047.48 | 131,850,144.12 |
| Depreciation and amortization | 22,268,744.42 | 20,374,450.45 | 27,384,952.30 | 22,952,618.45 | 20,371,669.05 |
| Travelling expenses | 4,244,555.09 | 3,734,493.87 | 4,812,165.04 | 4,409,752.09 | 4,756,150.65 |
| Conference expenses | 5,432,134.24 | 4,770,951.25 | 7,192,749.98 | 6,287,391.87 | 7,208,226.60 |
| Rental and office expenses | 18,159,038.89 | 17,007,476.26 | 27,117,989.68 | 22,008,169.73 | 23,938,272.88 |
| Other taxes | — | 5,406,908.17 | 5,406,908.17 | 12,642,933.17 | 10,795,080.34 |
| Auditors' remuneration | — | — | 1,480,000.00 | 1,480,000.00 | 1,480,000.00 |
| Others | 23,386,039.27 | 22,716,616.58 | 33,807,336.64 | 44,308,194.50 | 44,394,913.92 |
| Total | 203,474,199.38 | 190,723,293.69 | 268,112,658.12 | 264,732,107.29 | 244,794,457.56 |

## 39 Financial expenses

| Item | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 *(Unaudited)* | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Interest expenses from loans and payables | 245,055,675.62 | 211,336,026.56 | 283,039,339.61 | 282,783,652.81 | 254,859,958.07 |
| Interest income | (12,678,114.07) | (11,014,532.59) | (18,732,964.80) | (20,943,293.90) | (21,213,354.35) |
| Net exchange losses / (gains) | 555,149.86 | (33,849.67) | (471,630.69) | 104,442.41 | (1,236,164.06) |
| Others | 10,574,819.74 | 8,332,125.73 | 15,472,302.23 | 20,270,299.33 | 23,261,405.16 |
| Total | 243,507,531.15 | 208,619,770.03 | 279,307,046.35 | 282,215,100.65 | 255,671,844.82 |

## 40 Impairment losses

| Item | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 *(Unaudited)* | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Accounts receivable | 42,281,621.00 | 41,320,215.95 | 28,850,422.36 | 26,544,750.62 | 3,985,836.03 |
| Other receivables | 1,009,866.95 | 734,081.17 | 297,826.34 | 1,194,174.01 | 470,355.07 |
| Inventories | 27,066,566.72 | (639,356.62) | 2,326,484.16 | 5,878,295.24 | 2,474,913.74 |
| Total | 70,358,054.67 | 41,414,940.50 | 31,474,732.86 | 33,617,219.87 | 6,931,104.84 |

## 41 Investment income

### Investment income by item

| Item | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 *(Unaudited)* | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Investment income from holding available-for-sale financial assets | 33,616.32 | 34,254.82 | 34,254.82 | 44,589.49 | 40,307.94 |
| Investment income from disposal of available-for-sale financial assets | — | — | 620,374.97 | — | — |
| Total | 33,616.32 | 34,254.82 | 654,629.79 | 44,589.49 | 40,307.94 |

42 **Government grants**

| **Item** | **Nine months ended 30 September 2017** |
|---|---|
| Government grants related to assets | 1,940,000.02 |
| Government grants related to income | 387,023.13 |
| Total | 2,327,023.15 |

(1) ***Government grants related to assets***

**Nine months ended 30 September 2017**

| **Item** | **Balance at the beginning of the period** | **Additions during the period** | **Recognition as other income** | **Balance at the end of the period** |
|---|---|---|---|---|
| Special fund for development of modern logistics | 2,999,999.98 | — | 1,500,000.03 | 1,499,999.95 |
| Special fund for development of electronic business platform | 983,333.29 | — | 300,000.06 | 683,333.23 |
| Special fund for expansion of retail stores | 10,000.00 | — | 10,000.00 | — |
| Special fund for information technology development | 325,000.00 | 500,000.00 | 99,999.96 | 725,000.04 |
| Special fund for development of cold chain logistics | 293,333.33 | — | 29,999.97 | 263,333.36 |
| Total | 4,611,666.60 | 500,000.00 | 1,940,000.02 | 3,171,666.58 |

(2) ***Government grants related to income***

| **Item** | **Balance at the beginning of the period** | **Additions during the period** | **Recognition as other income** | **Balance at the end of the period** |
|---|---|---|---|---|
| Special fund for e-commerce business | 320,399.90 | — | 72,023.13 | 248,376.77 |

In the nine months ended 30 September 2017, the government grants related to income obtained by the Target Group amounted to RMB 315,000. The above government grants are used to compensate for expenses or losses incurred and are included in "other income" directly.

## 43 Non-operating income

### (1) *Non-operating income by item is as follows:*

| Item | Nine months ended 30 September 2017 | Amount recognized in extraordinary gain and loss in nine months ended 30 September 2017 | Nine months ended 30 September 2016 | Amount recognized in extraordinary gain and loss in nine months ended 30 September 2016 | 2016 | Amount recognized in extraordinary gain and loss in 2016 | 2015 | Amount recognized in extraordinary gain and loss in 2015 | 2014 | Amount recognized in extraordinary gain and loss in 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | *(Unaudited)* | *(Unaudited)* | | | | | | |
| Gains from disposal of non-current assets | 15,986.68 | 15,986.68 | 921.76 | 921.76 | 13,706.04 | 13,706.04 | 253,025.62 | 253,025.62 | 36,665.64 | 36,665.64 |
| Including: Disposal of fixed assets | 15,986.68 | 15,986.68 | 921.76 | 921.76 | 13,706.04 | 13,706.04 | 253,025.62 | 253,025.62 | 36,665.64 | 36,665.64 |
| Government grants | — | — | 5,201,026.98 | 5,201,026.98 | 8,394,600.04 | 8,394,600.04 | 3,204,812.57 | 3,204,812.57 | 3,417,215.06 | 3,417,215.06 |
| Written off on payables | 191,074.47 | 191,074.47 | 6,962.30 | 6,962.30 | 29,938.17 | 29,938.17 | 1,876,779.62 | 1,876,779.62 | 42,741.59 | 42,741.59 |
| Others | 1,004,585.95 | 1,004,585.95 | 567,486.69 | 567,486.69 | 2,933,005.06 | 2,933,005.06 | 2,162,253.67 | 2,162,253.67 | 951,296.82 | 951,296.82 |
| Total | 1,211,647.10 | 1,211,647.10 | 5,776,397.73 | 5,776,397.73 | 11,371,249.31 | 11,371,249.31 | 7,496,871.48 | 7,496,871.48 | 4,447,919.11 | 4,447,919.11 |

(2) ***Details of government grants***

| Item | Nine months ended 30 September 2016 *(Unaudited)* | 2016 | 2015 | 2014 | Related to assets/income |
|---|---|---|---|---|---|
| Special fund for development of modern logistics system | 1,500,000.00 | 2,000,000.00 | 2,000,000.00 | 3,000,000.02 | Related to assets |
| Special fund for development of electronic business platform | 300,000.00 | 400,000.00 | 416,666.67 | 200,000.04 | Related to assets |
| Special fund for expansion of retail stores | 90,000.00 | 120,000.00 | 120,000.00 | 120,000.00 | Related to assets |
| Special fund for information technology development | 75,000.00 | 100,000.00 | 75,000.00 | — | Related to assets |
| Special fund for development of cold chain logistics | 30,000.00 | 40,000.00 | 66,666.67 | — | Related to assets |
| Special fund for imports | 3,000,000.00 | 3,000,000.00 | — | — | Related to income |
| Others | 206,026.98 | 2,734,600.04 | 526,479.23 | 97,215.00 | Related to income |
| Total | 5,201,026.98 | 8,394,600.04 | 3,204,812.57 | 3,417,215.06 | |

## 44 Non-operating expenses

| Item | Nine months ended 30 September 2017 | Amount recognized in extraordinary gain and loss in nine months ended 30 September 2017 | Nine months ended 30 September 2016 (Unaudited) | Amount recognized in extraordinary gain and loss in nine months ended 30 September 2016 (Unaudited) | 2016 | Amount recognized in extraordinary gain and loss in 2016 | 2015 | Amount recognized in extraordinary gain and loss in 2015 | 2014 | Amount recognized in extraordinary gain and loss in 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| Losses from disposal of non-current assets | 185,418.75 | 185,418.75 | 683,604.77 | 683,604.77 | 1,046,894.90 | 1,046,894.90 | 78,008.40 | 78,008.40 | 258,672.05 | 258,672.05 |
| Including: disposal of fixed assets | 185,418.75 | 185,418.75 | 683,604.77 | 683,604.77 | 1,046,894.90 | 1,046,894.90 | 78,008.40 | 78,008.40 | 258,672.05 | 258,672.05 |
| Donations | 119,666.94 | 119,666.94 | 63,900.00 | 63,900.00 | 44,900.00 | 44,900.00 | 187,848.00 | 187,848.00 | 723,350.00 | 723,350.00 |
| Others | 520,306.81 | 520,306.81 | 725,918.30 | 725,918.30 | 800,246.96 | 800,246.96 | 417,938.29 | 417,938.29 | 218,592.89 | 218,592.89 |
| Total | 825,392.50 | 825,392.50 | 1,473,423.07 | 1,473,423.07 | 1,892,041.86 | 1,892,041.86 | 683,794.69 | 683,794.69 | 1,200,614.94 | 1,200,614.94 |

45 **Income tax expenses**

(1) ***Details of income tax expenses***

| **Item** | **Nine months ended 30 September 2017** | **Nine months ended 30 September 2016** *(Unaudited)* | **2016** | **2015** | **2014** |
|---|---|---|---|---|---|
| Current tax expense for the period/year based on tax law and regulations | 87,198,973.68 | 82,846,353.26 | 103,332,714.86 | 87,459,141.46 | 82,516,765.99 |
| Changes in deferred tax assets / liabilities | (18,812,128.54) | (11,441,061.72) | (13,869,716.79) | (7,721,216.84) | (1,989,908.08) |
| Tax filling differences | (126,623.66) | 3,668,055.53 | 3,668,055.53 | (3,168,624.70) | 1,831,114.36 |
| Total | 68,260,221.48 | 75,073,347.07 | 93,131,053.60 | 76,569,299.92 | 82,357,972.27 |

(2) ***The analysis of changes in deferred tax assets / liabilities is set out below:***

| **Item** | **Nine months ended 30 September 2017** | **Nine months ended 30 September 2016** *(Unaudited)* | **2016** | **2015** | **2014** |
|---|---|---|---|---|---|
| Origination and reversal of temporary differences | (18,812,128.54) | (11,441,061.72) | (13,869,716.79) | (7,721,216.84) | (1,989,908.08) |

(3) ***Reconciliation between income tax expenses and accounting profit:***

| **Item** | **Nine months ended 30 September 2017** | **Nine months ended 30 September 2016** *(Unaudited)* | **2016** | **2015** | **2014** |
|---|---|---|---|---|---|
| Profits before taxation | 262,793,763.38 | 271,947,274.74 | 343,209,824.18 | 311,877,234.78 | 289,521,115.01 |
| Expected income tax expenses at tax rate of 25% | 65,698,440.85 | 67,986,818.69 | 85,802,456.05 | 77,969,308.70 | 72,380,278.75 |
| Effect of different tax rates applied by subsidiaries | (61,264.20) | (103,590.32) | (141,229.59) | (36,052.37) | 4,206.67 |
| Adjustments to income tax of previous years | (126,623.66) | 3,668,055.53 | 3,668,055.53 | (3,168,624.70) | 1,831,114.36 |
| Effect of non-taxable income | (8,404.08) | (8,563.70) | (8,563.70) | (11,147.37) | (10,076.98) |
| Effect of non-deductible costs, expense and losses | 2,795,572.57 | 3,068,080.35 | 3,444,706.80 | 4,255,512.27 | 4,863,308.16 |
| Effect of deductible temporary differences or deductible losses for which no deferred tax asset was recognized this period/year | — | 509,194.16 | 602,110.42 | 942,805.14 | 3,289,141.31 |
| Effect of using the deductible temporary differences for which no deferred tax asset was recognized in previous period/year | (37,500.00) | (46,647.64) | (236,481.91) | (3,382,501.75) | — |
| Income tax expenses | 68,260,221.48 | 75,073,347.07 | 93,131,053.60 | 76,569,299.92 | 82,357,972.27 |

46 **Supplementary information on income statement**

Expenses are analysed by their nature:

| Item | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| | | *(Unaudited)* | | | |
| Operating income | 27,270,918,912.82 | 25,808,941,665.19 | 33,004,805,415.66 | 29,393,175,229.65 | 26,238,572,797.78 |
| Less: Changes in inventories of finished goods | 25,617,273,663.21 | 24,465,170,537.38 | 31,207,979,914.63 | 27,778,029,970.07 | 24,828,305,666.48 |
| Employee benefits expenses | 452,779,792.51 | 398,332,246.54 | 540,879,810.33 | 481,386,036.68 | 415,217,490.14 |
| Depreciation and amortisation expenses | 42,338,789.67 | 37,614,573.96 | 50,317,184.46 | 40,605,043.83 | 32,855,870.58 |
| Impairment losses | 70,358,054.67 | 41,414,940.50 | 31,474,732.86 | 33,617,219.87 | 6,931,104.84 |
| Distribution and logistic expenses | 177,155,334.29 | 154,827,053.45 | 215,637,967.71 | 180,062,046.84 | 177,398,045.14 |
| Rental and office expenses | 18,159,038.89 | 17,007,476.26 | 27,117,989.68 | 22,008,169.73 | 23,938,272.88 |
| Financial expenses | 243,507,531.15 | 208,619,770.03 | 279,307,046.35 | 282,215,100.65 | 255,671,844.82 |
| Others | 386,939,199.65 | 218,310,766.99 | 318,360,152.91 | 270,187,483.99 | 211,980,692.06 |
| Operating profit | 262,407,508.78 | 267,644,300.08 | 333,730,616.73 | 305,064,157.99 | 286,273,810.84 |

## 47 Cash flow statement

### (1) *Proceeds relating to other operating activities:*

| Item | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| | | *(Unaudited)* | | | |
| Interest income | 12,678,114.07 | 11,014,532.59 | 18,732,964.80 | 20,943,293.90 | 14,851,773.03 |
| Government grants | 815,000.00 | 3,310,400.00 | 6,045,000.04 | 1,426,479.23 | 12,097,215.00 |
| Others | 1,195,660.42 | 574,449.00 | 2,756,916.25 | 594,767.06 | 994,038.41 |
| Total | 14,688,774.49 | 14,899,381.59 | 27,534,881.09 | 22,964,540.19 | 27,943,026.44 |

### (2) *Payments relating to other operating activities:*

| Item | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| | | *(Unaudited)* | | | |
| Selling, distribution and administrative expenses | 537,377,654.33 | 360,999,837.60 | 511,144,764.49 | 369,486,239.10 | 346,817,564.92 |
| Bank charges | 7,444,008.98 | 7,543,995.48 | 12,008,107.23 | 10,547,498.11 | 14,731,601.65 |
| Others | 639,973.75 | 789,818.30 | 845,146.94 | 605,786.29 | 11,323,922.90 |
| Total | 545,461,637.06 | 369,333,651.38 | 523,998,018.66 | 380,639,523.50 | 372,873,089.47 |

### (3) *Proceeds relating to other financing activities:*

| Item | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| | | *(Unaudited)* | | | |
| Bank deposits pledged for bills payable | 2,185,628,493.89 | 2,228,425,882.23 | 3,430,787,680.93 | 2,708,351,317.12 | 1,559,934,883.64 |
| Bank deposits pledged for bank borrowings | 4,135,832.47 | — | — | — | — |
| Total | 2,189,764,326.36 | 2,228,425,882.23 | 3,430,787,680.93 | 2,708,351,317.12 | 1,559,934,883.64 |

(4) ***Payments relating to other financing activities:***

| Item | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| | | *(Unaudited)* | | | |
| Bank deposits pledged for bills payable | 1,963,583,581.10 | 2,057,725,084.95 | 3,312,849,380.03 | 3,026,188,522.53 | 1,865,380,731.05 |
| Bank deposits pledged for bank borrowings | 3,500,000.00 | 11,135,832.47 | 11,135,832.47 | — | — |
| Rental payments under finance leases | 32,556,761.26 | 24,165,201.99 | 28,364,675.68 | 14,025,138.93 | 9,405,805.81 |
| Payment of foreign currency loan guarantees | — | — | — | 10,129,771.22 | 12,334,910.16 |
| Total | 1,999,640,342.36 | 2,093,026,119.41 | 3,352,349,888.18 | 3,050,343,432.68 | 1,887,121,447.02 |

## 48 Supplementary information on cash flow statement

(1) ***Supplement to cash flow statement***

a. *Reconciliation of net profit to cash flows from operating activities:*

| Item | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| | | *(Unaudited)* | | | |
| Net profit | 194,533,541.90 | 196,873,927.67 | 250,078,770.58 | 235,307,934.86 | 207,163,142.74 |
| Add: Provisions for impairment of assets | 70,358,054.67 | 41,414,940.50 | 31,474,732.86 | 33,617,219.87 | 6,931,104.84 |
| Depreciation of fixed assets and investment property | 25,869,506.24 | 22,680,257.48 | 30,262,891.84 | 23,557,978.39 | 18,998,827.07 |
| Amortization of intangible assets | 6,418,522.21 | 5,339,969.35 | 7,219,265.20 | 6,180,655.60 | 5,559,965.98 |
| Amortisation of long-term deferred expenses | 10,050,761.22 | 9,594,347.13 | 12,835,027.42 | 10,866,409.84 | 8,489,430.32 |
| Losses from disposal of fixed assets, intangible assets, and other long-term assets ("( )" for gains) | 169,432.07 | 682,683.01 | 1,033,188.86 | (175,017.22) | 222,006.41 |
| Financial expenses | 248,186,486.38 | 212,124,156.81 | 286,503,534.61 | 288,846,160.92 | 257,028,180.26 |
| Investment income | (33,616.32) | (34,254.82) | (654,629.79) | (44,589.49) | (40,307.94) |
| Increase in deferred tax assets | (18,254,581.51) | (10,889,589.49) | (13,126,320.74) | (6,990,150.82) | (1,283,502.01) |
| Decrease in deferred tax liabilities | (557,547.03) | (557,547.03) | (743,396.05) | (731,066.02) | (706,406.07) |
| Increase in gross inventories | (31,894,049.67) | (24,066,041.33) | (29,723,158.36) | (811,143,163.97) | (526,008,540.75) |
| Increase in operating receivables | (2,616,640,862.57) | (2,456,656,675.73) | (341,341,245.06) | (1,747,784,707.17) | (1,571,121,984.55) |
| Increase in operating payables | 325,235,762.31 | 826,222,832.47 | 120,394,881.70 | 2,100,896,860.04 | 1,681,626,179.45 |
| Net cash inflow from operating activities | (1,786,558,590.10) | (1,177,270,993.98) | 354,213,543.07 | 132,404,524.83 | 86,858,095.75 |

b. *Significant investing and financing activities not requiring the use of cash:*

| Item | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| | | *(Unaudited)* | | | |
| Accounts payable financing | 1,275,366,229.72 | 1,515,806,833.28 | 1,749,643,425.34 | 1,191,712,451.19 | 778,423,017.07 |
| Acquisition of fixed assets under finance leases | 38,848,244.18 | 43,076,870.66 | 54,294,584.37 | 45,188,564.44 | 14,083,760.67 |

In the nine months ended 30 September 2016 and 30 September 2017 and the years ended 31 December 2016, 31 December 2015, 31 December 2014, the Target Group entered into accounts payable financing agreements with certain banks, which required the banks to make direct payments to supplies to settle the accounts payable upon due day. The Target Group would repay the amounts to the banks upon the due day of each accounts payable financing agreements. When the banks made payments to suppliers, the Target Group owned the liabilities to the banks. As there are no actual cash inflows and outflows in the Target Group, these financing activities were considered to be financing activities not requiring the use of cash or cash equivalent. When the Target Group made repayments to the banks, the relevant cash outflows were accounted for as operating cash outflows, which in substance were to settle the accounts payable.

c. *Change in cash and cash equivalents:*

| Item | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| | | *(Unaudited)* | | | |
| Cash at the end of the period/year | 1,481,643,076.82 | 1,353,433,509.92 | 1,802,487,128.09 | 1,093,906,437.69 | 1,081,450,965.31 |
| Less: Cash at the beginning of the period/year | 1,802,487,128.09 | 1,093,906,437.69 | 1,093,906,437.69 | 1,081,450,965.31 | 964,749,258.18 |
| Net increase in cash and cash equivalents ("( )" for decrease) | (320,844,051.27) | 259,527,072.23 | 708,580,690.40 | 12,455,472.38 | 116,701,707.13 |

(2) ***Information on acquisition of subsidiaries and other business units:***

| Item | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| | | *(Unaudited)* | | | |
| Consideration for acquiring subsidiaries | — | — | — | 3,265,101.13 | 22,400,000.00 |
| Cash prepaid in prior years | — | — | — | — | 22,400,000.00 |
| Cash and cash equivalents paid during the year/period for acquiring subsidiaries during the year/period | — | — | — | 3,265,101.13 | — |
| Less: Cash and cash equivalents held by acquired subsidiaries | — | — | — | 1,112,813.35 | 22,600,000.00 |
| Net cash paid for/(received from) the acquisition | — | — | — | 2,152,287.78 | (22,600,000.00) |

For non-cash assets and liabilities held by the acquired subsidiaries, refer to Note VI.1(3).

(3) ***Details of cash and cash equivalents***

| Item | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| | | *(Unaudited)* | | | |
| Cash at bank and on hand | 1,481,643,076.82 | 1,353,433,509.92 | 1,802,487,128.09 | 1,093,906,437.69 | 1,081,450,965.31 |
| Including: Cash on hand | 306,878.76 | 403,089.65 | 275,708.93 | 920,434.30 | 694,756.19 |
| Bank deposits available on demand | 1,481,336,198.06 | 1,353,030,420.27 | 1,802,211,419.16 | 1,092,986,003.39 | 1,080,756,209.12 |
| Cash equivalents | — | — | — | — | — |
| Closing balance of cash and cash equivalents | 1,481,643,076.82 | 1,353,433,509.92 | 1,802,487,128.09 | 1,093,906,437.69 | 1,081,450,965.31 |

## 49 Assets with restrictive ownership title or right of use

Nine months ended 30 September 2017

| Item | Balance at the beginning of the period | Additions during the period | Decreases during the period | Balance at the end of the period | Reason for restriction |
|---|---|---|---|---|---|
| Cash at bank and on hand | 829,655,913.86 | 1,967,083,581.10 | (2,189,764,326.36) | 606,975,168.60 | As collateral for bank acceptance bills and borrowings |
| Accounts Receivable | 537,945,238.39 | 1,549,262,494.29 | (784,000,314.50) | 1,303,207,418.18 | As collateral for borrowings |
| Total | 1,367,601,152.25 | 3,516,346,075.39 | (2,973,764,640.86) | 1,910,182,586.78 | |

2016

| Item | Balance at the beginning of the year | Additions during the year | Decreases during the year | Balance at the end of the year | Reason for restriction |
|---|---|---|---|---|---|
| Cash at bank and on hand | 936,458,382.29 | 3,323,985,212.50 | (3,430,787,680.93) | 829,655,913.86 | As collateral for bank acceptance bills and borrowings |
| Accounts Receivable | 355,711,363.98 | 804,796,718.90 | (622,562,844.49) | 537,945,238.39 | As collateral for borrowings |
| Total | 1,292,169,746.27 | 4,128,781,931.40 | (4,053,350,525.42) | 1,367,601,152.25 | |

2015

| Item | Balance at the beginning of the year | Additions during the year | Decreases during the year | Balance at the end of the year | Reason for restriction |
|---|---|---|---|---|---|
| Cash at bank and on hand | 629,003,156.89 | 3,026,188,522.53 | (2,718,733,297.13) | 936,458,382.29 | As collateral for bank acceptance bills and deposits for custom duty deposit |
| Accounts Receivable | 496,302,244.72 | 633,049,085.89 | (773,639,966.63) | 355,711,363.98 | As collateral for borrowings |
| Total | 1,125,305,401.61 | 3,659,237,608.42 | (3,492,373,263.76) | 1,292,169,746.27 | |

2014

| Item | Balance at the beginning of the year | Additions during the year | Decreases during the year | Balance at the end of the year | Reason for restriction |
|---|---|---|---|---|---|
| Cash at bank and on hand | 313,175,329.47 | 2,097,720,555.92 | (1,781,892,728.50) | 629,003,156.89 | As collateral for bank acceptance bills and deposits for custom duty deposit |
| Accounts Receivable | 158,246,274.10 | 727,808,035.25 | (389,752,064.63) | 496,302,244.72 | As collateral for borrowings |
| Total | 471,421,603.57 | 2,825,528,591.17 | (2,171,644,793.13) | 1,125,305,401.61 | |

## VI CHANGE OF CONSOLIDATION SCOPE

### 1 Business combinations involving entities not under common control

### (1) *Business combinations involving entities not under common control occurred during the period/year*

2015

| Name of acquiree | Acquisition date of equity investment | Cost of equity investment | Shareholding acquired | Acquisition method | Acquisition date | Basis of acquisition date determination | Acquiree from acquisition date to 31 December 2015 | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Income | Net profit | Net cash inflow |
| Zhuhai Guangyao Kang Ming Pharmaceutical Company Limited | 30 April 2015 | 3,265,101.13 | 100% | Acquisition | 30 April 2015 | Transfer of control | 50,548,397.27 | 75,924.39 | 1,829,323.08 |

Zhuhai Guangyao Kang Ming Pharmaceutical Company Limited ("Guangyao Kang Ming") is a company registered in Zhuhai, Guangdong Province on 3 August 1999, with its headquarters located in Zhuhai, Guangdong Province, and is mainly engaged in wholesale of pharmaceutical products. Prior to the acquisition, the parent company of Guangyao Kang Ming was Zhuhai Doumen Pharmaceuticals Controlling Company, and the ultimate controller of Zhuhai Kang Ming was State-owned Assets Supervision and Administration Committee of Zhuhai Doumen District.

2014

| Name of acquiree | Acquisition date of equity investment | Cost of equity investment | Shareholding acquired | Acquisition method | Acquisition date | Basis of acquisition date determination | Acquiree from acquisition date to 31 December 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Income | Net profit | Net cash inflow |
| Hubei Guangyao Jida Pharmaceutical Company Limited | 1 January 2014 | 22,400,000.00 | 70% | Acquisition | 1 January 2014 | Transfer of control | 235,690,077.66 | 1,453,921.82 | 3,352,298.16 |

Hubei Guangyao Jida Pharmaceutical Company Limited ("Guangyao Jida") is a company registered in Wuhan, Hubei Province on 11 November 2013, with its headquarters located in Wuhan, Hubei Province, and is mainly engaged in wholesale of pharmaceutical products. Prior to the acquisition, the parent company of Guangyao Jida was Hubei Qinjida Pharmaceuticals Co., Ltd., and the ultimate controller of Guangyao Jida was an individual.

(2) **Acquisition cost and goodwill**

| **Acquisition cost** | **Zhuhai Guangyao Kang Ming Pharmaceutical Company Limited** | **Hubei Guangyao Jida Pharmaceutical Company Limited** |
|---|---|---|
| | Fair value | Fair value |
| Cash | 3,265,101.13 | 22,400,000.00 |
| Total acquisition cost | 3,265,101.13 | 22,400,000.00 |
| Less: share of the fair value of the identifiable net assets acquired | 1,468,682.04 | 21,885,500.00 |
| Goodwill | 1,796,419.09 | 514,500.00 |

(3) **Identifiable assets and liabilities of the acquiree at the acquisition date**

| | **Zhuhai Guangyao Kang Ming Pharmaceutical Company Limited** | |
|---|---|---|
| | Carrying amount | Fair value |
| Assets | | |
| Cash at bank and on hand | 1,112,813.35 | 1,112,813.35 |
| Bills receivable | 300,000.00 | 300,000.00 |
| Accounts receivable | 9,882,701.41 | 9,882,701.41 |
| Prepayments | 201,289.41 | 201,289.41 |
| Other receivables | 85,507.55 | 85,507.55 |
| Inventories | 3,434,135.13 | 3,434,135.13 |
| Fixed assets | 117,634.99 | 117,634.99 |
| Intangible assets | — | 1,479,600.00 |
| Long-term deferred expenses | 80,359.49 | 80,359.49 |
| Liabilities | | |
| Accounts payable | 5,768,799.36 | 5,768,799.36 |
| Advances from customers | 752,124.35 | 752,124.35 |
| Employee benefits payable | 3,763,308.50 | 3,763,308.50 |
| Taxes payable | (402,475.53) | (402,475.53) |
| Other creditors | 6,898.09 | 6,898.09 |
| Other payables | 4,925,331.02 | 4,925,331.02 |
| Accrued expenses | 41,473.50 | 41,473.50 |
| Deferred tax liabilities | — | 369,900.00 |
| Net assets acquired | 358,982.04 | 1,468,682.04 |

| | Hubei Guangyao Jida Pharmaceutical Company Limited | |
|---|---|---|
| | Carrying amount | Fair value |
| Assets | | |
| Cash at bank and on hand | 22,600,000.00 | 22,600,000.00 |
| Other receivables | 7,900,000.00 | 7,900,000.00 |
| Intangible assets | — | 1,020,000.00 |
| Liabilities | | |
| Deferred tax liabilities | — | 255,000.00 |
| Net assets acquired | 30,500,000.00 | 31,265,000.00 |

If there is an active market for the above identifiable assets, the quoted prices in the active market are used to establish their fair value; if there is no active market, their fair values are estimated based on the market prices of the same or similar types of assets which have an active market; if there is no active market for the same asset or similar types of assets, valuation techniques are used to determine the fair value.

For the above identifiable liabilities, the payable amount or the present value of the payable amount is its fair value.

## VII. INTERESTS IN OTHER ENTITIES

### 1 Interests in subsidiaries

#### (1) *Composition of the Target Group*

30 September 2017

| Name of the Subsidiary | Principal place of business | Registration place | Business nature | Registered capital | Shareholding (%) | | Acquisition method |
|---|---|---|---|---|---|---|---|
| | | | | | Direct | Indirect | |
| Guangzhou Gou Ying Company Limited (a) | Guangzhou | Guangzhou | Medicine wholesale and retail | RMB 465,000,000.00 | 100.00% | — | Establishment |
| Guangzhou Pharmaceutical Corporation Limited of Jianmin Medicine Chain. | Guangzhou | Guangzhou | Medicine wholesale and retail | RMB 86,000,000.00 | 100.00% | — | Establishment |
| Guangzhou Xinte Pharmaceuticals Company Limited | Guangzhou | Guangzhou | Medicine wholesale | RMB 50,000,000.00 | 100.00% | — | Establishment |
| Jiangmen Guangyao Qiaokang Pharmaceutical Company Limited | Jiangmen | Jiangmen | Medicine wholesale | RMB 15,000,000.00 | 100.00% | — | Establishment |
| Guangzhou Qihua Medical Equipment Company Limited | Guangzhou | Guangzhou | Medical equipment wholesale and retail | RMB 11,880,000.00 | 100.00% | — | Establishment |
| Guangzhou Wankang Orthopedics Medical Instrument Company Limited (b) | Guangzhou | Guangzhou | Medical equipment wholesale and retail | RMB 10,000,000.00 | — | 100.00% | Establishment |
| Guangzhou Jianmin Pharmaceutical Company Limited | Guangzhou | Guangzhou | Medicine wholesale | RMB 8,000,000.00 | — | 100.00% | Establishment |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Hubei Guangyao An Kang Pharmaceutical Company Limited | Wuhan | Wuhan | Medicine wholesale | RMB 6,000,000.00 | 51.00% | — | Establishment |
| Foshan Guangyao Fengkang Pharmaceutical Company Limited (b) | Foshan | Foshan | Medicine wholesale and retail | RMB 5,100,000.00 | 100.00% | — | Establishment |
| Guangzhou Pharmaceuticals (Hong Kong) Limited | Hong Kong | Hong Kong | Medicine wholesale | RMB 500,000.00 | 100.00% | — | Establishment |
| Jianmin International Company Limited | Hong Kong | Hong Kong | Medicine retail | HKD 300,000.00 | — | 100.00% | Establishment |
| Shaanxi Guangyao Kangjian Pharmaceutical Company Limited (c) | Xi'an | Xi'an | Medicine wholesale | RMB 87,500,000.00 | 60.00% | — | Business combinations involving entities under common control |
| Hainan Guangyao Chenfei Pharmaceutical Company Limited | Haikou | Haikou | Medicine wholesale and retail | RMB 56,000,000.00 | 60.00% | — | Business combinations involving entities under common control |
| Hunan Guangyao Hengsheng Pharmaceutical Company Limited | Changsha | Changsha | Medicine wholesale | RMB 55,000,000.00 | 100.00% | — | Business combinations involving entities under common control |
| Guangxi Guangyao Xinshidai Pharmaceutical Company Limited | Nanning | Nanning | Medicine wholesale | RMB 50,000,000.00 | 70.00% | — | Business combinations involving entities under common control |
| Chengdu Guangyao Xinhuiyuan Pharmaceutical Company Limited | Chengdu | Chengdu | Medicine wholesale | RMB 50,000,000.00 | 51.00% | — | Business combinations involving entities under common control |
| Hubei Guangyao Jida Pharmaceutical Company Limited | Wuhan | Wuhan | Medicine wholesale | RMB 30,500,000.00 | 70.00% | — | Business combinations involving entities under common control |
| Fujian Guangyao Jieda Company Limited | Fuzhou | Fuzhou | Medicine wholesale | RMB 30,100,000.00 | 52.00% | — | Business combinations involving entities under common control |
| Guangdong Meixian Pharmaceutical Company Limited | Meizhou | Meizhou | Medicine wholesale | RMB 14,000,000.00 | 60.00% | — | Business combinations involving entities under common control |
| Foshan Guangyao Jianze Pharmaceutical Company Limited | Foshan | Foshan | Medicine wholesale and retail | RMB 13,500,000.00 | 60.00% | — | Business combinations involving entities under common control |
| Zhuhai Guangy Kang Ming Pharmaceutical Company Limited | Zhuhai | Zhuhai | Medicine wholesale and retail | RMB 550,000.00 | 100.00% | — | Business combinations involving entities under common control |
| Shenzhen Guangyao Liankang Pharmaceutical Company Limited | Shenzhen | Shenzhen | Medicine wholesale | RMB 15,000,000.00 | 100.00% | — | Acquisition of asset |

31 December 2016

| Name of the Subsidiary | Principal place of business | Registration place | Business nature | Registered capital | Shareholding (%) Direct | Indirect | Acquisition method |
|---|---|---|---|---|---|---|---|
| Guangzhou Gou Ying Company Limited (a) | Guangzhou | Guangzhou | Medicine wholesale and retail | RMB 465,000,000.00 | 100.00% | — | Establishment |
| Guangzhou Pharmaceutical Corporation Limited of Jianmin Medicine Chain. | Guangzhou | Guangzhou | Medicine wholesale and retail | RMB 86,000,000.00 | 100.00% | — | Establishment |
| Guangzhou Xinte Pharmaceuticals Company Limited | Guangzhou | Guangzhou | Medicine wholesale | RMB 50,000,000.00 | 100.00% | — | Establishment |
| Jiangmen Guangyao Qiaokang Pharmaceutical Company Limited | Jiangmen | Jiangmen | Medicine wholesale | RMB 15,000,000.00 | 100.00% | — | Establishment |
| Guangzhou Qihua Medical Equipment Company Limited | Guangzhou | Guangzhou | Medical equipment wholesale and retail | RMB 11,880,000.00 | 100.00% | — | Establishment |

| Name of the Subsidiary | Principal place of business | Registration place | Business nature | Registered capital | Shareholding (%) Direct | Indirect | Acquisition method |
|---|---|---|---|---|---|---|---|
| Guangzhou Jianmin Pharmaceutical Company Limited | Guangzhou | Guangzhou | Medicine wholesale | RMB 8,000,000.00 | — | 100.00% | Establishment |
| Hubei Guangyao An Kang Pharmaceutical Company Limited | Wuhan | Wuhan | Medicine wholesale | RMB 6,000,000.00 | 51.00% | — | Establishment |
| Guangzhou Pharmaceuticals (Hong Kong) Limited | Hong Kong | Hong Kong | Medicine wholesale | RMB 500,000.00 | 100.00% | — | Establishment |
| Jianmin International Company Limited | Hong Kong | Hong Kong | Medicine retail | HKD 300,000.00 | — | 100.00% | Establishment |
| Shaanxi Guangyao Kangjian Pharmaceutical Company Limited | Xi'an | Xi'an | Medicine wholesale | RMB 87,500,000.00 | 60.00% | — | Business combinations involving entities under common control |
| Hainan Guangyao Chenfei Pharmaceuticals Company Limited | Haikou | Haikou | Medicine wholesale and retail | RMB 56,000,000.00 | 60.00% | — | Business combinations involving entities under common control |
| Hunan Guangyao Hengsheng Pharmaceutical Company Limited | Changsha | Changsha | Medicine wholesale | RMB 55,000,000.00 | 100.00% | — | Business combinations involving entities under common control |
| Guangxi Guangyao Xinshidai Pharmaceutical Company Limited | Nanning | Nanning | Medicine wholesale | RMB 50,000,000.00 | 70.00% | — | Business combinations involving entities under common control |
| Chengdu Guangyao Xinhuiyuan Pharmaceutical Company Limited | Chengdu | Chengdu | Medicine wholesale | RMB 50,000,000.00 | 51.00% | — | Business combinations involving entities under common control |
| Hubei Guangyao Jida Pharmaceutical Company Limited | Wuhan | Wuhan | Medicine wholesale | RMB 30,500,000.00 | 70.00% | — | Business combinations involving entities under common control |
| Fujian Guangyao Jieda Company Limited | Fuzhou | Fuzhou | Medicine wholesale | RMB 30,100,000.00 | 52.00% | — | Business combinations involving entities under common control |
| Guangdong Meixian Pharmaceutical Company Limited | Meizhou | Meizhou | Medicine wholesale | RMB 14,000,000.00 | 60.00% | — | Business combinations involving entities under common control |
| Foshan Guangyao Jianze Pharmaceutical Company Limited | Foshan | Foshan | Medicine wholesale and retail | RMB 13,500,000.00 | 60.00% | — | Business combinations involving entities under common control |
| Zhuhai Guangyao Kang Ming Pharmaceutical Company Limited | Zhuhai | Zhuhai | Medicine wholesale and retail | RMB 550,000.00 | 100.00% | — | Business combinations involving entities under common control |
| Shenzhen Guangyao Liankang Pharmaceutical Company Limited | Shenzhen | Shenzhen | Medicine wholesale | RMB 15,000,000.00 | 100.00% | — | Acquisition of asset |

31 December 2015

| Name of the Subsidiary | Principal place of business | Registration place | Business nature | Registered capital | Shareholding (%) Direct | Indirect | Acquisition method |
|---|---|---|---|---|---|---|---|
| Guangzhou Gou Ying Company Limited | Guangzhou | Guangzhou | Medicine wholesale | RMB 115,000,000.00 | 100.00% | — | Establishment |
| Guangzhou Pharmaceutical Corporation Limited of Jianmin Medicine Chain. | Guangzhou | Guangzhou | Medicine wholesale and retail | RMB 86,000,000.00 | 100.00% | — | Establishment |
| Guangzhou Xinte Pharmaceuticals Company Limited | Guangzhou | Guangzhou | Medicine wholesale | RMB 50,000,000.00 | 100.00% | — | Establishment |
| Jiangmen Guangyao Qiaokang Pharmaceutical Company Limited | Jiangmen | Jiangmen | Medicine wholesale | RMB 15,000,000.00 | 100.00% | — | Establishment |
| Guangzhou Qihua Medical Equipment Company Limited | Guangzhou | Guangzhou | Medical equipment wholesale | RMB 11,880,000.00 | 100.00% | — | Establishment |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Guangzhou Jianmin Pharmaceutical Company Limited | Guangzhou | Guangzhou | Medicine wholesale | RMB 8,000,000.00 | — | 100.00% | Establishment |
| Hubei Guangyao An Kang Pharmaceutical Company Limited | Wuhan | Wuhan | Medicine wholesale | RMB 6,000,000.00 | 51.00% | — | Establishment |
| Guangzhou Pharmaceuticals (Hong Kong) Limited | Hong Kong | Hong Kong | Medicine wholesale | RMB 500,000.00 | 100.00% | — | Establishment |
| Jianmin International Company Limited | Hong Kong | Hong Kong | Medicine retail | HKD 300,000.00 | — | 100.00% | Establishment |
| Shaanxi Guangyao Kangjian Pharmaceutical Company Limited (c) | Xi'an | Xi'an | Medicine wholesale | RMB 69,830,000.00 | 59.18% | — | Business combinations involving entities under common control |
| Hainan Guangyao Chenfei Pharmaceutical Company Limited | Haikou | Haikou | Medicine wholesale | RMB 56,000,000.00 | 60.00% | — | Business combinations involving entities under common control |
| Hunan Guangyao Hengsheng Pharmaceutical Company Limited (d) | Changsha | Changsha | Medicine wholesale | RMB 55,000,000.00 | 100.00% | — | Business combinations involving entities under common control |
| Guangxi Guangyao Xinshidai Pharmaceutical Company Limited | Nanning | Nanning | Medicine wholesale | RMB 50,000,000.00 | 70.00% | — | Business combinations involving entities under common control |
| Chengdu Guangyao Xinhuiyuan Pharmaceutical Company Limited | Chengdu | Chengdu | Medicine wholesale | RMB 50,000,000.00 | 51.00% | — | Business combinations involving entities under common control |
| Hubei Guangyao Jida Company Limited | Wuhan | Wuhan | Medicine wholesale | RMB 30,500,000.00 | 70.00% | — | Business combinations involving entities under common control |
| Fujian Guangyao Jieda Company Limited | Fuzhou | Fuzhou | Medicine wholesale | RMB 30,100,000.00 | 52.00% | — | Business combinations involving entities under common control |
| Guangdong Meixian Pharmaceutical Company Limited | Meizhou | Meizhou | Medicine wholesale | RMB 14,000,000.00 | 60.00% | — | Business combinations involving entities under common control |
| Foshan Guangyao Jianze Pharmaceutical Company Limited | Foshan | Foshan | Medicine wholesale | RMB 13,500,000.00 | 60.00% | — | Business combinations involving entities under common control |
| Zhuhai Guangyao Kang Ming Pharmaceutical Company Limited | Zhuhai | Zhuhai | Medicine wholesale | RMB 550,000.00 | 100.00% | — | Business combinations involving entities under common control |
| Shenzhen Guangyao Liankang Pharmaceutical Company Limited | Shenzhen | Shenzhen | Medicine wholesale | RMB 15,000,000.00 | 100.00% | — | Acquisition of asset |

31 December 2014

| Name of the Subsidiary | Principal place of business | Registration place | Business nature | Registered capital | Shareholding (%) | | Acquisition method |
|---|---|---|---|---|---|---|---|
| | | | | | Direct | Indirect | |
| Guangzhou Gou Ying Company Limited | Guangzhou | Guangzhou | Medicine wholesale | RMB 115,000,000.00 | 100.00% | — | Establishment |
| Guangzhou Pharmaceutical Corporation Limited of Jianmin Medicine Chain. | Guangzhou | Guangzhou | Medicine wholesale and retail | RMB 86,000,000.00 | 100.00% | — | Establishment |
| Guangzhou Xinte Pharmaceuticals Company Limited | Guangzhou | Guangzhou | Medicine wholesale | RMB 50,000,000.00 | 100.00% | — | Establishment |
| Jiangmen Guangyao Qiaokang Pharmaceutical Company Limited | Jiangmen | Jiangmen | Medicine wholesale | RMB 15,000,000.00 | 100.00% | — | Establishment |
| Guangzhou Qihua Medical Equipment Company Limited | Guangzhou | Guangzhou | Medical equipment wholesale | RMB 11,880,000.00 | 100.00% | — | Establishment |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Guangzhou Jianmin Pharmaceutical Company Limited | Guangzhou | Guangzhou | Medicine wholesale | RMB 8,000,000.00 | — | 100.00% | Establishment |
| Hubei Guangyao An Kang Pharmaceutical Company Limited | Wuhan | Wuhan | Medicine wholesale | RMB 6,000,000.00 | 51.00% | — | Establishment |
| Guangzhou Pharmaceuticals (Hong Kong) Limited | Hong Kong | Hong Kong | Medicine wholesale | RMB 500,000.00 | 100.00% | — | Establishment |
| Jianmin International Company Limited | Hong Kong | Hong Kong | Medicine retail | HKD 300,000.00 | — | 100.00% | Establishment |
| Shaanxi Guangyao Kangjian Pharmaceutical Company Limited | Xi'an | Xi'an | Medicine wholesale | RMB 57,210,000.00 | 58.33% | — | Business combinations involving entities under common control |
| Hainan Guangyao Chenfei Pharmaceutical Company Limited | Haikou | Haikou | Medicine wholesale | RMB 56,000,000.00 | 60.00% | — | Business combinations involving entities under common control |
| Hunan Guangyao Hengsheng Pharmaceutical Company Limited | Changsha | Changsha | Medicine wholesale | RMB 30,000,000.00 | 60.00% | — | Business combinations involving entities under common control |
| Guangxi Guangyao Xinshidai Pharmaceutical Company Limited | Nanning | Nanning | Medicine wholesale | RMB 50,000,000.00 | 70.00% | — | Business combinations involving entities under common control |
| Chengdu Guangyao Xinhuiyuan Pharmaceutical Company Limited | Chengdu | Chengdu | Medicine wholesale | RMB 50,000,000.00 | 51.00% | — | Business combinations involving entities under common control |
| Hubei Guangyao Jida Pharmaceutical Company Limited | Wuhan | Wuhan | Medicine wholesale | RMB 30,500,000.00 | 70.00% | — | Business combinations involving entities under common control |
| Fujian Guangyao Jieda Company Limited | Fuzhou | Fuzhou | Medicine wholesale | RMB 30,100,000.00 | 52.00% | — | Business combinations involving entities under common control |
| Guangdong Meixian Pharmaceutical Company Limited | Meizhou | Meizhou | Medicine wholesale | RMB 14,000,000.00 | 60.00% | — | Business combinations involving entities under common control |
| Foshan Guangyao Jianze Pharmaceutical Company Limited | Foshan | Foshan | Medicine wholesale | RMB 13,500,000.00 | 60.00% | — | Business combinations involving entities under common control |
| Shenzhen Guangyao Liankang Pharmaceutical Company Limited | Shenzhen | Shenzhen | Medicine wholesale | RMB 15,000,000.00 | 100.00% | — | Acquisition of asset |

(a) On 22 April 2016, the Target Company made capital injection of RMB 350,000,000.00 into Guangzhou Guo Ying Company Limited. After the capital injection, the paid-in capital of Guangzhou Guo Ying Company Limited was RMB 465,000,000.00.

(b) In 2017, the Target Group established Guangzhou Wankang Orthopedics Medical Instrument Company Limited and Foshan Guangyao Fengkang Pharmaceutical Company Limited As at 30 September 2017, these companies have not received any paid-in capital and have not commenced any business.

(c) Pursuant to the shareholder agreement signed by the Target Company and non-controlling shareholder of Shaanxi Guangyao Kangjian Pharmaceutical Company Limited. ("Guangyao Kangjian") and the serials of board minutes, the Target Company acquired 55.56% equity interest of Guangyao Kangjian on 3 November 2011 and would buy out 4.44% non-controlling interests of Guangyao Kangjian from 2014 to 2016 by steps to achieve 60% equity interest of Guangyao Kangjian.

On 3 November 2011 ("the acquisition date"), the Target Company forecasted that the accumulated net profit achieved by Guangyao Kangjian from 2011 to 2014 could reach the consideration base as agreed in the shareholder agreement, and hence considered that the consideration paid to buy out 4.44% non-controlling interests of Guangyao Kangjian to achieve 60% shareholding would be the minimum payment of RMB 5,000,000.00 plus an additional payment of RMB 37,500,000.00. As the Target Company's acquisition of 55.56% equity interest and 4.44% equity interest of Guangyao Kangjian are linked transactions, the Target Company divided the additional payment of RMB 37,500,000.00 proportionately to 55.56% and 4.44% equity interest respectively, among which RMB 34,722,200.00 represented the contingent consideration for acquiring 55.56% equity interest of Guangyao Kangjian and was recognised as part of the acquisition cost on the acquisition date.

On 3 March 2014, 16 February 2015 and 8 August 2016, the Target Company made capital injections of RMB 12,210,000.00, RMB 12,620,000.00 and RMB 17,670,000.00 respectively and the accumulated equity interest in Guangyao Kangjian increased to 58.33%, 59.18% and 60% respectively. After each capital injection, the paid-in capital of Guangyao Kangjian was RMB 57,210,000.00, RMB 69,830,000.00 and RMB 87,500,000.00.

(d) On 12 November 2015, the Target Company made capital injection of RMB 25,000,000.00 into Hunan Guangyao Hengsheng Pharmaceutical Company Limited. After the capital injection, the paid-in capital of Hunan Guangyao Hengsheng Pharmaceutical Company Limited. was RMB 55,000,000.00.

(2) ***Material non-wholly owned subsidiaries***

*Nine month ended 30 September 2017*

| **Name of the Subsidiary** | **Proportion of ownership interest held by non-controlling** | **Profit or loss allocated to non-controlling interests during the period** | **Dividend declared to non-controlling shareholders during the period** | **Balance of non-controlling interests at the end of the period** |
|---|---|---|---|---|
| Shaanxi Guangyao Kangjian Pharmaceutical Company Limited | 40.00% | 1,076,619.27 | — | 48,393,445.91 |
| Hainan Guangyao Chenfei Pharmaceutical Company Limited | 40.00% | 2,727,776.52 | — | 42,801,127.38 |
| Chengdu Guangyao Xinhuiyuan Pharmaceutical Company Limited | 49.00% | 3,774,328.08 | — | 54,153,910.86 |

*2016*

| Name of the Subsidiary | Proportion of ownership interest held by non-controlling | Profit or loss allocated to non-controlling interests during the year | Dividend declared to non-controlling shareholders during the year | Balance of non-controlling interests at the end of the year |
|---|---|---|---|---|
| Shaanxi Guangyao Kangjian Pharmaceutical Company Limited | 40.00% | 1,412,726.42 | — | 47,316,826.64 |
| Hainan Guangyao Chenfei Pharmaceutical Company Limited | 40.00% | 7,970,367.18 | — | 40,073,350.86 |
| Chengdu Guangyao Xinhuiyuan Pharmaceutical Company Limited | 49.00% | 7,069,106.40 | — | 50,379,582.78 |

*2015*

| Name of the Subsidiary | Proportion of ownership interest held by non-controlling | Profit or loss allocated to non-controlling interests during the year | Dividend declared to non-controlling shareholders during the year | Balance of non-controlling interests at the end of the year |
|---|---|---|---|---|
| Shaanxi Guangyao Kangjian Pharmaceutical Company Limited | 40.82% | (1,201,894.47) | — | 45,909,393.65 |
| Hainan Guangyao Chenfei Pharmaceutical Company Limited | 40.00% | 4,879,749.69 | 8,941,596.95 | 32,102,983.68 |
| Chengdu Guangyao Xinhuiyuan Pharmaceutical Company Limited | 49.00% | 6,414,054.32 | — | 43,310,476.38 |

*2014*

| Name of the Subsidiary | Proportion of ownership interest held by non-controlling | Profit or loss allocated to non-controlling interests during the year | Dividend declared to non-controlling shareholders during the year | Balance of non-controlling interests at the end of the year |
|---|---|---|---|---|
| Shaanxi Guangyao Kangjian Pharmaceutical Company Limited | 41.67% | 4,345,713.72 | — | 47,332,482.78 |
| Hainan Guangyao Chenfei Pharmaceutical Company Limited | 40.00% | 4,179,708.91 | — | 36,164,830.94 |
| Chengdu Guangyao Xinhuiyuan Pharmaceutical Company Limited | 49.00% | 5,502,387.76 | — | 36,896,422.06 |

(3) ***Key financial information about material non-wholly owned subsidiaries***

The following table sets out the key financial information of the above subsidiaries without offsetting internal transactions, but with adjustments made for the fair value adjustment at the acquisition date and any differences in accounting policies:

| | Shaanxi Guangyao Kangjian Pharmaceutical Company Limited | | | |
|---|---|---|---|---|
| | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
| Current assets | 578,199,236.10 | 599,009,195.25 | 502,097,331.27 | 536,680,110.38 |
| Non-current assets | 11,471,246.34 | 12,286,042.94 | 10,863,567.71 | 10,868,074.48 |
| Total assets | 589,670,482.44 | 611,295,238.19 | 512,960,898.98 | 547,548,184.86 |
| Current liabilities | 467,675,626.74 | 491,803,927.76 | 399,043,092.27 | 419,638,728.38 |
| Non-current liabilities | 1,011,240.91 | 1,199,243.82 | 1,449,914.37 | 14,320,584.92 |
| Total liabilities | 468,686,867.65 | 493,003,171.58 | 400,493,006.64 | 433,959,313.30 |
| | Nine month ended 30 September 2017 | 2016 | 2015 | 2014 |
| Operating income | 990,433,721.81 | 1,434,714,319.74 | 1,495,476,342.00 | 1,529,296,255.06 |
| Net profit | 2,691,548.17 | 3,589,719.97 | (2,969,319.34) | 10,428,878.62 |
| Total comprehensive income | 2,691,548.17 | 3,589,719.97 | (2,969,319.34) | 10,428,878.62 |
| Cash flows from operating activities | (106,123,750.19) | 121,498,376.78 | (17,987,857.80) | (20,039,943.45) |

| | Hainan Guangyao Chenfei Pharmaceutical Company Limited | | | |
|---|---|---|---|---|
| | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
| Current assets | 1,006,241,021.15 | 938,020,411.93 | 579,628,748.45 | 385,903,713.36 |
| Non-current assets | 13,465,257.21 | 6,763,840.56 | 5,936,027.16 | 5,833,099.90 |
| Total assets | 1,019,706,278.36 | 944,784,252.49 | 585,564,775.61 | 391,736,813.26 |
| Current liabilities | 912,242,927.41 | 844,040,687.85 | 504,614,255.58 | 300,498,801.74 |
| Non-current liabilities | 460,532.49 | 560,187.50 | 693,060.83 | 825,934.17 |
| Total liabilities | 912,703,459.90 | 844,600,875.35 | 505,307,316.41 | 301,324,735.91 |
| | Nine month ended 30 September 2017 | 2016 | 2015 | 2014 |
| Operating income | 1,035,881,644.85 | 1,130,509,217.99 | 748,409,277.82 | 502,000,152.16 |
| Net profit | 6,819,441.30 | 19,925,917.95 | 12,199,374.23 | 10,449,272.27 |
| Total comprehensive income | 6,819,441.30 | 19,925,917.95 | 12,199,374.23 | 10,449,272.27 |
| Cash flows from operating activities | (72,781,903.85) | 89,555,430.16 | (8,974,200.32) | (10,313,286.00) |

| | Chengdu Guangyao Xinhuiyuan Pharmaceutical Company Limited | | | |
|---|---|---|---|---|
| | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
| Current assets | 356,941,628.66 | 344,137,079.49 | 388,404,185.06 | 322,327,101.45 |
| Non-current assets | 6,038,791.27 | 5,872,996.83 | 5,739,787.41 | 5,672,022.90 |
| Total assets | 362,980,419.93 | 350,010,076.32 | 394,143,972.47 | 327,999,124.35 |
| Current liabilities | 251,490,221.00 | 246,831,185.45 | 305,327,167.61 | 252,207,564.52 |
| Non-current liabilities | 972,013.53 | 363,415.81 | 428,077.56 | 492,739.30 |
| Total liabilities | 252,462,234.53 | 247,194,601.26 | 305,755,245.17 | 252,700,303.82 |
| | Nine month ended 30 September 2017 | 2016 | 2015 | 2014 |
| Operating income | 691,735,760.32 | 1,093,120,363.22 | 1,042,555,993.04 | 926,581,921.97 |
| Net profit | 7,702,710.36 | 14,426,747.75 | 13,089,906.77 | 11,229,362.78 |
| Total comprehensive income | 7,702,710.36 | 14,426,747.75 | 13,089,906.77 | 11,229,362.78 |
| Cash flows from operating activities | (66,201,698.19) | 5,407,765.33 | 6,241,483.14 | 8,194,713.89 |

## VIII. Risk related to financial instruments

The Target Group has exposure to the following main risks from its use of financial instruments in the normal course of the Target Group's operations:

- Credit risk
- Liquidity risk
- Interest rate risk
- Foreign currency risk

The following mainly presents information about the Target Group's exposure to each of the above risks and their sources, their changes during the period/year, and the Target Group's objectives, policies and processes for measuring and managing risks, and their changes during the period/year.

The Target Group aims to seek appropriate balance between the risks and benefits from its use of financial instruments and to mitigate the adverse effects that the risks of financial instruments have on the Target Group's financial performance. Based on such objectives, the Target Group's risk management policies are established to identify and analyse the risks faced by the Target Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Target Group's activities.

### (1) *Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Target Group's credit risk is primarily attributable to cash at bank and receivables and etc. Exposure to these credit risks are monitored by management on an ongoing basis.

The cash at bank of the Target Group is mainly held with well-known financial institutions. Management does not foresee any significant credit risks from these deposits and does not expect that these financial institutions may default and cause losses to the Target Group.

In respect of receivables, the management has established a credit policy under which individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the financial position and external ratings of the customers and their bank credit records where available. Receivables are due within 180 days from the date of billing. Debtors with balances that are more than 6 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Target Group does not obtain collateral from customers.

In monitoring customer credit risk, customers are grouped according to certain factors, such as ageing.

The Target Group does not have any significant debtors that are past due but not impaired based on individual or collective assessment as at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014.

In addition, the debtors of the Target Group that are neither past due nor impaired mainly relate to a wide range of customers for whom there was no recent history of default.

The Target Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry, country or area in which the customers operate and therefore significant concentrations of credit risk arise primarily when the Target Group has significant exposure to individual customers. As at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014, 6.34%, 2.09%, 4.54% and 3.42% of the total accounts receivable and other receivables were due from the five largest customers of the Target Group respectively.

The Target Group's maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet. The Target Group does not provide any other guarantees which would expose the Target Group to credit risk.

(2) ***Liquidity risk***

Liquidity risk is the risk that an enterprise will encounter difficulty in meeting obligations that are settled by delivering cash or another financial asset. The Target Company and its individual subsidiaries are responsible for their own cash management, including short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Target Company's board when the borrowings exceed certain predetermined levels of authority. The Target Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the balance sheet date of the Target Group's financial assets and financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Target Group can be required to pay:

| Item | Contractual undiscounted cash flow on 30 September 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | More than 5 years | Total | Carrying amount on 30 September 2017 |
| Short-term loans | 6,259,770,604.78 | — | — | — | 6,259,770,604.78 | 6,148,403,737.53 |
| Accounts payable and other payables | 6,298,265,997.37 | — | — | — | 6,298,265,997.37 | 6,297,248,350.82 |
| Bills payable | 1,700,630,368.81 | — | — | — | 1,700,630,368.81 | 1,700,630,368.81 |
| Employee benefits payable | 33,531,326.51 | — | — | — | 33,531,326.51 | 33,531,326.51 |
| Taxes payable | 73,425,169.48 | — | — | — | 73,425,169.48 | 73,425,169.48 |
| Interests Payable | 15,836,529.60 | — | — | — | 15,836,529.60 | 15,836,529.60 |
| Long-term loans due within one year | 229,189,717.58 | — | — | — | 229,189,717.58 | 221,887,068.94 |
| Long-term payables due within one year | 47,654,374.75 | — | — | — | 47,654,374.75 | 41,339,844.40 |
| Long-term payables | — | 43,169,371.56 | 43,519,288.48 | — | 86,688,660.04 | 83,927,761.57 |
| Long-term loans | 27,471,872.28 | 163,350,117.66 | 497,975,312.50 | — | 688,797,302.44 | 631,378,960.43 |
| Total | 14,685,775,961.16 | 206,519,489.22 | 541,494,600.98 | — | 15,433,790,051.36 | 15,247,609,118.09 |

| Item | Contractual undiscounted cash flow on 31 December 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | More than 5 years | Total | Carrying amount on 31 December 2016 |
| Short-term loans | 5,150,570,216.01 | — | — | — | 5,150,570,216.01 | 5,083,062,472.52 |
| Accounts payable and other payables | 4,877,241,381.39 | — | — | — | 4,877,241,381.39 | 4,875,208,704.51 |
| Bills payable | 2,446,848,191.03 | — | — | — | 2,446,848,191.03 | 2,446,848,191.03 |
| Employee benefits payable | 37,613,133.31 | — | — | — | 37,613,133.31 | 37,613,133.31 |
| Taxes payable | 57,117,478.98 | — | — | — | 57,117,478.98 | 57,117,478.98 |
| Interests Payable | 28,316,853.67 | — | — | — | 28,316,853.67 | 28,316,853.67 |
| Long-term payables due within one year | 26,193,349.52 | — | — | — | 26,193,349.52 | 23,004,853.09 |
| Other current liabilities | 402,666,666.67 | — | — | — | 402,666,666.67 | 400,000,000.00 |
| Long-term payables | — | 21,533,591.80 | 36,234,523.97 | — | 57,768,115.77 | 54,195,979.34 |
| Long-term loans | 17,907,472.28 | 278,436,543.29 | 151,269,541.67 | — | 447,613,557.24 | 411,666,029.37 |
| Total | 13,044,474,742.86 | 299,970,135.09 | 187,504,065.64 | — | 13,531,948,943.59 | 13,417,033,695.82 |

| Item | Contractual undiscounted cash flow on 31 December 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | More than 5 years | Total | Carrying amount on 31 December 2015 |
| Short-term loans | 4,404,310,572.58 | — | — | — | 4,404,310,572.58 | 4,338,698,559.27 |
| Accounts payable and other payables | 4,681,590,723.68 | — | — | — | 4,681,590,723.68 | 4,681,590,723.68 |
| Bills payable | 2,948,520,948.97 | — | — | — | 2,948,520,948.97 | 2,948,520,948.97 |
| Employee benefits payable | 42,494,646.36 | — | — | — | 42,494,646.36 | 42,494,646.36 |
| Taxes payable | 44,236,223.31 | — | — | — | 44,236,223.31 | 44,236,223.31 |
| Interests Payable | 18,553,041.39 | — | — | — | 18,553,041.39 | 18,553,041.39 |
| Dividends payable | 2,500,000.00 | — | — | — | 2,500,000.00 | 2,500,000.00 |
| Long-term payables due within one year | 9,656,764.71 | — | — | — | 9,656,764.71 | 9,656,764.71 |
| Other current liabilities | 414,800,000.00 | — | — | — | 414,800,000.00 | 400,000,000.00 |
| Long-term payables | — | 6,463,163.74 | 20,513,365.54 | — | 26,976,529.28 | 26,976,529.28 |
| Total | 12,566,662,921.00 | 6,463,163.74 | 20,513,365.54 | — | 12,593,639,450.28 | 12,513,227,436.97 |

| Item | Contractual undiscounted cash flow on 31 December 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | More than 5 years | Total | Carrying amount on 31 December 2014 |
| Short-term loans | 3,817,147,418.41 | — | — | — | 3,817,147,418.41 | 3,749,812,835.35 |
| Accounts payable and other payables | 3,767,855,839.64 | — | — | — | 3,767,855,839.64 | 3,767,855,839.64 |
| Bills payable | 2,261,747,387.16 | — | — | — | 2,261,747,387.16 | 2,261,747,387.16 |
| Employee benefits payable | 40,967,154.17 | — | — | — | 40,967,154.17 | 40,967,154.17 |
| Taxes payable | 45,069,265.17 | — | — | — | 45,069,265.17 | 45,069,265.17 |
| Interests Payable | 20,519,256.59 | — | — | — | 20,519,256.59 | 20,519,256.59 |
| Long-term payables due within one year | 2,256,410.26 | — | — | — | 2,256,410.26 | 1,644,376.68 |
| Long-term payables | — | 3,384,615.38 | — | — | 3,384,615.38 | 3,033,578.18 |
| Total | 9,955,562,731.40 | 3,384,615.38 | — | — | 9,958,947,346.78 | 9,890,649,692.94 |

### (3) *Interest rate risk*

Interest-bearing financial instruments at variable rates and at fixed rates expose the Target Group to cash flow interest rate risk and fair value interest risk, respectively. The Target Group determines the appropriate weightings of the fixed and floating rate interest-bearing instruments based on the current market conditions and performs regular review and monitoring to achieve an appropriate mix of fixed and floating rate exposure.

The Target Group does not hold any fixed rates long-term financial assets or long-term financial liabilities, and the variable rate instruments which expose the Target Group to cash flow interest rate risk mainly include bank loans, cash at bank, other receivables and other payables.

(a) As at the balance sheet date, the Target Group held the following interest-bearing financial instruments:

| Item | 30 September 2017 | | 31 December 2016 | | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|---|---|---|---|
| | Effective interest rate | Amount | Effective interest rate | Amount | Effective interest rate | Amount | Effective interest rate | Amount |
| Fixed rate instruments | | | | | | | | |
| Financial assets | | | | | | | | |
| - Cash at bank | 1.75% - 3.00% | 1,713,723.87 | 2.25% - 3.00% | 1,331,005.27 | | — | | — |
| Financial liabilities | | | | | | | | |
| - Short-term loans | 4.35% - 6.50% | (5,318,527,951.63) | 3.91% - 6.50% | (4,255,650,830.88) | 3.80% - 6.96% | (4,154,078,559.27) | 3.35% - 7.80% | (2,088,742,878.23) |
| - Other Payables | 4.80% - 4.96% | (25,000,000.00) | 4.79% - 4.96% | (58,750,000.00) | 4.79% - 6.60% | (32,000,000.00) | | — |
| - Other current liabilities | | — | 3.00% | (400,000,000.00) | 3.70% | (400,000,000.00) | | — |
| Total | | (5,341,814,227.76) | | (4,713,069,825.61) | | (4,586,078,559.27) | | (2,088,742,878.23) |
| Variable rate instruments | | | | | | | | |
| Financial assets | | | | | | | | |
| - Cash at bank | 0.30% - 1.95% | 2,086,597,642.79 | 0.30% - 1.95% | 2,630,536,327.75 | 0.30% - 2.25% | 2,029,444,385.68 | 0.35% - 3.30% | 1,709,759,366.01 |
| Financial liabilities | | | | | | | | |
| - Short-term loans | 3.92% - 6.09% | (829,875,785.90) | 3.92% - 4.92% | (827,411,641.64) | 4.35% - 6.15% | (184,620,000.00) | 1.38% - 7.20% | (1,661,069,957.12) |
| - Long-term loans due within one year | 4.35% | (221,887,068.94) | | — | | — | | — |
| - Long-term loans | 4.35% - 4.75% | (631,378,960.43) | 4.35% | (411,666,029.37) | | — | | — |
| Total | | 403,455,827.52 | | 1,391,458,656.74 | | 1,844,824,385.68 | | 48,689,408.89 |

(b) *Sensitivity analysis*

As at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014, it is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, would increase the Target Group's equity and net profit by RMB 3,025,918.71, RMB 10,435,939.93, RMB 13,836,182.90 and RMB 365,170.57 respectively.

The sensitivity analysis above indicates the instantaneous change in the net profit and equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Target Group which expose the Target Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Target Group at the balance sheet date, the impact on the net profit and equity is estimated as an annualised impact on interest expense or income of such a change in interest rates.

(4) ***Foreign currency risk***

In respect of cash at bank and on hand, prepayments, accounts receivable and payable, short-term loans and other assets and liabilities denominated in foreign currencies other than the functional currency, the Target Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

(a) As at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014, the Target Group's exposure to currency risk arising from recognised assets or liabilities denominated in foreign currencies is presented in the following tables. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the balance sheet date.

| **Item** | **30 September 2017** | | **31 December 2016** | | **31 December 2015** | | **31 December 2014** | | |
|---|---|---|---|---|---|---|---|---|---|
| | *USD* | *HKD* | *USD* | *HKD* | *USD* | *HKD* | *USD* | *EUR* | *HKD* |
| Cash at bank and on hand | 10,132,671.84 | 1,274,444.83 | 17,249,318.40 | 587,301.45 | 4,303,413.27 | 734,277.01 | 134,365.71 | — | 384,030.67 |
| Short-term loans | — | — | — | — | — | — | (630,073,430.00) | — | — |
| Accounts payable | — | — | — | — | — | — | — | (6,803,026.24) | — |
| Gross balance sheet exposure | 10,132,671.84 | 1,274,444.83 | 17,249,318.40 | 587,301.45 | 4,303,413.27 | 734,277.01 | (629,939,064.29) | (6,803,026.24) | 384,030.67 |

(b) The following are the exchange rates for Renminbi against foreign currencies applied by the Target Group:

| Currency | Average rate | | | | Reporting date mid-spot rate | | | |
|---|---|---|---|---|---|---|---|---|
| | Nine months ended 30 September 2017 | 2016 | 2015 | 2014 | Nine months ended 30 September 2017 | 2016 | 2015 | 2014 |
| USD | 6.7983 | 6.6423 | 6.2755 | 6.1426 | 6.6369 | 6.9370 | 6.4936 | 6.1190 |
| HKD | 0.8729 | 0.8558 | 0.8096 | 0.7921 | 0.8497 | 0.8945 | 0.8378 | 0.7889 |
| EUR | 7.5651 | 7.2010 | 6.9141 | 8.1666 | 7.8233 | 7.3068 | 7.0952 | 7.4556 |

(c) *Sensitivity analysis*

Assuming all other risk variables remained constant, a 1% strengthening of the Renminbi against the US dollar, Euro and Hong Kong dollar as at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014 would have increased (decreased) the Target Group's equity and net profit by the amount shown below, whose effect is in Renminbi and translated using the spot rate at the respective balance sheet date:

| Currency | 30 September 2017 | | 31 December 2016 | | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|---|---|---|---|
| | Equity | Net profit | Equity | Net profit | Equity | Net profit | Equity | Net profit |
| USD | (84,324.67) | (84,324.67) | (143,775.53) | (143,775.53) | (32,275.60) | (32,275.60) | 4,724,542.98 | 4,724,542.98 |
| HKD | (10,641.62) | (10,641.62) | (4,903.97) | (4,903.97) | (5,507.08) | (5,507.08) | (2,880.23) | (2,880.23) |
| EUR | — | — | — | — | — | — | 51,022.70 | 51,022.70 |

## IX. Fair value disclosure

The following table presents the fair value information and the fair value hierarchy, at the end of each reporting period, of the Target Group's assets and liabilities which are measured at fair value at each balance sheet date on a recurring or non-recurring basis. The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement. The levels are defined as follows:

Level 1 inputs: unadjusted quoted prices in active markets that are observable at the measurement date for identical assets or liabilities;

Level 2 inputs: inputs other than Level 1 inputs that are either directly or indirectly observable for underlying assets or liabilities;

Level 3 inputs: inputs that are unobservable for underlying assets or liabilities.

1 ***Fair value of assets and liabilities measured at fair value at the end of the period/year***

| | | 30 September 2017 | | | |
|---|---|---|---|---|---|
| **Item** | *Note* | **Level 1 Fair value measurement** | **Level 2 Fair value measurement** | **Level 3 Fair value measurement** | **Total** |
| Recurring fair value measurements | | | | | |
| Available-for-sale financial assets | | | | | |
| Equity instruments | V.8 | 783,761.61 | — | — | 783,761.61 |
| Total assets measured at fair value on a recurring basis | | 783,761.61 | — | — | 783,761.61 |

| | | 31 December 2016 | | | |
|---|---|---|---|---|---|
| **Item** | *Note* | **Level 1 Fair value measurement** | **Level 2 Fair value measurement** | **Level 3 Fair value measurement** | **Total** |
| Recurring fair value measurements | | | | | |
| Available-for-sale financial assets | | | | | |
| Equity instruments | V.8 | 714,424.09 | — | — | 714,424.09 |
| Total assets measured at fair value on a recurring basis | | 714,424.09 | — | — | 714,424.09 |

| | | 31 December 2015 | | | |
|---|---|---|---|---|---|
| **Item** | *Note* | **Level 1 Fair value measurement** | **Level 2 Fair value measurement** | **Level 3 Fair value measurement** | **Total** |
| Recurring fair value measurements | | | | | |
| Available-for-sale financial assets | | | | | |
| Equity instruments | V.8 | 1,898,562.78 | — | — | 1,898,562.78 |
| Total assets measured at fair value on a recurring basis | | 1,898,562.78 | — | — | 1,898,562.78 |

| | | 31 December 2014 | | | |
|---|---|---|---|---|---|
| **Item** | *Note* | **Level 1 Fair value measurement** | **Level 2 Fair value measurement** | **Level 3 Fair value measurement** | **Total** |
| Recurring fair value measurements | | | | | |
| Available-for-sale financial assets | | | | | |
| Equity instruments | V.8 | 1,359,827.22 | — | — | 1,359,827.22 |
| Total assets measured at fair value on a recurring basis | | 1,359,827.22 | — | — | 1,359,827.22 |

During the year of 2014, 2015, 2016 and the period from 1 January 2017 to 30 September 2017, there were no transfers, between Level 1 and Level 2, of the Target Group's above assets and liabilities which are measured at fair value on a recurring basis.

2 ***Basis of determining the market price for recurring fair value measurements categorised within Level 1***

Equity instruments of available-for-sale financial assets are determined based on quoted market prices at the balance sheet date.

3 ***Fair values of financial assets and liabilities not measured at fair value***

All financial instruments of the Target Group are carried at amounts not materially different from their fair value at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014.

X. **Related parties and related party transactions**

1 ***Information about the joint control parties of the Target Company***

| Company name | Registered place | Business nature | Registered capital | Shareholding percentage (%) | Percentage of voting rights (%) |
|---|---|---|---|---|---|
| Baiyunshan | Guangzhou, China | Manufacturing and sales of medicine | RMB 1,625,790,949.00 | 50% | 50% |
| Alliance BMP | England | Research and development of medicine | GBP 50,000.00 | 50% | 50% |

2 ***Information about the subsidiaries of the Target Company***

For information about the subsidiaries of the Target Company, refer to Note VII.1.

3 ***Information on other related parties***

| Name of other related parties | Related party relationship |
|---|---|
| Guangzhou Pharmaceutical Holdings Limited | The ultimate joint controller of the Target Group and the Target Company |
| Guangzhou Baiyunshan Xing Qun Pharmaceutical Holdings Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |

| Name of other related parties | Related party relationship |
|---|---|
| Guangzhou Baiyunshan Han Fang Contemporary Pharmaceutical Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Pharmaceutical Import & Export Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Baiyunshan Bai Di Bio-Technology Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Baiyunshan Guang Hua Health Products Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Baiyunshan Pharmaceutical Technological Development Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |

| Name of other related parties | Related party relationship |
|---|---|
| Guangyao Baiyunshan Hong Kong Company | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Wang Lao Ji Great Health Industry Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Wang Lao Ji Industry Company | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Tibet Lin Zhi Guangyao Development Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Jingyu Guangyao Dong E Chinese Raw Medicine Development Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Guang Yao Yi Gan Biological Product Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Baiyunshan Wei Ling Pharmaceutical Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Zhejiang Guang Kang Pharmaceutical Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Wang Lao Ji Great Health Enterprise Development Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Baiyunshan Xing Zhu Pharmaceutical Co., Ltd. (Former name：Guangzhou Baiyunshan Xing Zhou Pharmaceutical Co., Ltd.) | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Baiyunshan Hospital Co., Ltd. | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Huacheng Pharmaceutical Factory | Controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Promise Biological Products Co., Ltd. | Jointly controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. | Jointly controlled by Guangzhou Pharmaceutical Holdings Limited |

| Name of other related parties | Related party relationship |
|---|---|
| Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited | Jointly controlled by Guangzhou Pharmaceutical Holdings Limited |
| Wenshan Baiyunshan Hutchison Whampoa Sanqi Chinese Medicine Co., Ltd. (Former name: Webshan Baiyunshan Hutchison Whampoa Qidan Sanqi Chinese Medicine Co., Ltd.) | Jointly controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. | Jointly controlled by Guangzhou Pharmaceutical Holdings Limited |
| Nanyang Baiyunshan Hutchison Whampoa Salvia Technology Development Co., Ltd. | Jointly controlled by Guangzhou Pharmaceutical Holdings Limited |
| Hutchison Whampoa Guangzhou Baiyunshan Pharmaceutical Co., Ltd. | Jointly controlled by Guangzhou Pharmaceutical Holdings Limited |
| Guangzhou WLJ Food Limited | Jointly controlled by Guangzhou Pharmaceutical Holdings Limited |
| Bozhou Baiyunshan Pharmaceutical Co., Ltd. | Jointly controlled by Guangzhou Pharmaceutical Holdings Limited |
| Hutchison Whampoa Guangzhou Baiyunshan Great Health Products Co., Ltd. | Jointly controlled by Guangzhou Pharmaceutical Holdings Limited |

4 ***Transactions with related parties***

*(1) Purchase of goods / receiving of services (excluding remuneration of key management personnel)*

| Name of related party | Nature of transaction | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 *(Unaudited)* | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. | Purchase of goods | 276,102,884.05 | 98,815,165.75 | 342,686,273.47 | 85,281,432.01 | 16,555,540.12 |
| Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited | Purchase of goods | 99,979,491.74 | 95,718,198.48 | 129,095,618.19 | 122,457,903.79 | 128,464,051.95 |
| Guangzhou Pharmaceutical Import & Export Co., Ltd. | Purchase of goods | 90,682,409.25 | 534,547,783.27 | 617,476,333.93 | 183,610,868.15 | 32,459,090.21 |
| Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. | Purchase of goods | 65,937,209.22 | 54,239,601.33 | 65,608,027.12 | 102,437,543.71 | 179,173,840.70 |

| Name of related party | Nature of transaction | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 *(Unaudited)* | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd. | Purchase of goods | 45,322,515.65 | 51,696,021.46 | 72,361,524.71 | 9,373,537.24 | — |
| Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. | Purchase of goods | 39,105,639.80 | 60,270,732.50 | 85,561,528.42 | 50,507,982.17 | 118,306,440.42 |
| Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. | Purchase of goods | 33,077,014.45 | 40,275,756.22 | 52,844,133.43 | 38,048,559.44 | 26,970,040.91 |
| Guangzhou Baiyunshan Xing Qun Pharmaceutical Holdings Co., Ltd. | Purchase of goods | 15,042,415.92 | 13,772,693.26 | 17,180,141.62 | 14,060,751.02 | 17,565,298.40 |
| Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. | Purchase of goods | 12,055,575.05 | 28,762,885.44 | 44,459,096.15 | 35,213,293.09 | 44,563,378.78 |
| Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. | Purchase of goods | 9,216,183.16 | 4,813,528.49 | 7,197,575.51 | 4,254,534.06 | 5,192,037.53 |
| Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. | Purchase of goods | 8,181,409.94 | 1,794,387.53 | 4,169,963.25 | — | 2,313,433.08 |
| Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd. | Purchase of goods | 3,180,124.86 | 3,332,849.25 | 4,950,960.50 | 3,689,909.47 | 11,017,734.21 |
| Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. | Purchase of goods | 3,005,893.21 | 2,884,238.28 | 3,983,299.97 | 4,573,615.53 | 11,163,306.45 |
| Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. | Purchase of goods | 1,928,207.61 | 1,194,657.57 | 2,518,399.44 | 1,826,441.92 | 2,040,725.39 |
| Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd. | Purchase of goods | 1,788,767.32 | 1,974,805.62 | 2,314,229.77 | 712,016.92 | 243,886.19 |
| Guangzhou Baiyunshan Pharmaceutical Technological Development Co., Ltd. | Purchase of goods | 1,547,274.97 | 118,846.65 | 569,055.18 | 36,502,193.88 | 34,403,661.19 |
| Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. | Purchase of goods | — | 1,622,454.27 | 2,048,914.42 | 18,103,623.46 | 25,228,808.82 |
| Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd. | Purchase of goods | — | — | 640,634.58 | 2,582,055.02 | 612,136.73 |
| Nanyang Baiyunshan Hutchison Whampoa Salvia Technology Development Co., Ltd. | Purchase of goods | — | 30,081.91 | 556,953.70 | 2,359,873.16 | 1,201,412.31 |
| Wang Lao Ji Great Health Industry Co., Ltd. | Purchase of goods | — | — | — | 5,194,521.20 | — |
| Others | Purchase of goods | 957,918.51 | 121,395.85 | 728,199.22 | 630,091.83 | 2,123,305.59 |

*(2) Sale of goods / rendering of services*

| **Name of related party** | **Nature of transaction** | **Nine months ended 30 September 2017** | **Nine months ended 30 September 2016** *(Unaudited)* | **2016** | **2015** | **2014** |
|---|---|---|---|---|---|---|
| Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. | Sales of goods | 165,834,367.95 | 173,190,504.98 | 290,005,439.65 | 130,045,509.47 | 89,535,261.22 |
| Guangzhou Baiyunshan Hospital Co., Ltd. | Sales of goods | 7,098,636.43 | 5,310,315.15 | 7,399,323.38 | — | — |
| Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited | Sales of goods | 4,657,698.93 | — | — | 8,720.51 | 1,861,691.22 |
| Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd. | Sales of goods | 2,231,645.93 | 3,411,492.64 | 4,500,297.56 | 361,760.65 | 603,160.45 |
| Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. | Sales of goods | 686,638.99 | 827,306.38 | 1,289,430.42 | — | 35,838.00 |
| Guangzhou Pharmaceutical Import & Export Co., Ltd. | Sales of goods | 358,077.70 | 408,640,725.90 | 405,392,083.17 | 130,827,451.32 | 30,894,266.00 |
| Nanyang Baiyunshan Hutchison Whampoa Salvia Technology Development Co., Ltd. | Sales of goods | 162,918.41 | 1,378,487.23 | 1,471,545.34 | 1,990,685.51 | 380,307.68 |
| Others | Sales of goods | 2,278,979.74 | 2,010,997.44 | 2,886,586.91 | 2,274,814.60 | 673,368.72 |

*(3) Leases*

| **Name of lessor** | **Type of assets leased** | **Nine months ended 30 September 2017** | **Nine months ended 30 September 2016** *(Unaudited)* | **2016** | **2015** | **2014** |
|---|---|---|---|---|---|---|
| Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd | Site | 1,298,688.11 | 2,114,827.83 | 2,733,628.54 | 1,283,719.80 | 2,214,238.56 |
| Guangzhou Pharmaceutical Holdings Limited | Site | 311,093.31 | 648,952.90 | 907,723.61 | 640,225.32 | 639,145.32 |

*(4) Remuneration of key management personnel*

| | **Nine months ended 30 September 2017** | **Nine months ended 30 September 2016** *(Unaudited)* | **2016** | **2015** | **2014** |
|---|---|---|---|---|---|
| Remuneration of key management personnel | 3,857,839.95 | 3,450,532.61 | 5,343,246.12 | 6,117,964.10 | 5,937,602.30 |

*(5) Directors' emoluments*

Nine months ended 30 September 2017

| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total |
|---|---|---|---|---|---|
| **Chairman** | | | | | |
| John Kallend | — | — | — | — | — |
| **Executive directors** | | | | | |
| Li Chuyuan | — | — | — | — | — |
| Cheng Ning | — | — | — | — | — |
| Chen Guangyan | — | 217,713.00 | 369,000.00 | 69,578.01 | 656,291.01 |
| Zheng Jianxiong | — | 217,713.00 | 369,000.00 | 72,020.88 | 658,733.88 |
| Marcello Manlio Mondini De Focatiis | — | — | — | — | — |
| Mattia D'Alessandro | — | — | — | — | — |
| Mark Luscombe (from January to August) | — | — | — | — | — |
| Wolfgang Maehr (September) | — | — | — | — | — |

Nine months ended 30 September 2016 (unaudited)

| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total |
|---|---|---|---|---|---|
| **Chairman** | | | | | |
| John Kallend | — | — | — | — | — |
| **Executive directors** | | | | | |
| Li Chuyuan | — | — | — | — | — |
| Yu Jinghui | — | — | — | — | — |
| Chen Guangyan | — | 229,296.00 | 369,000.00 | 62,827.75 | 661,123.75 |
| Zheng Jianxiong | — | 175,296.00 | 369,000.00 | 67,217.86 | 611,513.86 |
| Wilfred Wong | — | — | — | — | — |
| Richard John Mills | — | — | — | — | — |
| Zhong Li | — | — | — | — | — |

2016

| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total |
|---|---|---|---|---|---|
| **Chairman** | | | | | |
| John Kallend | — | — | — | — | — |
| **Executive directors** | | | | | |
| Li Chuyuan | — | — | — | — | — |
| Yu Jinghui (from January to September) | — | — | — | — | — |
| Chen Guangyan | — | 362,940.00 | 560,000.00 | 83,814.85 | 1,006,754.85 |
| Zheng Jianxiong | — | 296,940.00 | 466,000.00 | 89,668.33 | 852,608.33 |
| Wilfred Wong (from January to September) | — | — | — | — | — |
| Richard John Mills (from January to September) | — | — | — | — | — |
| Zhong Li (from January to September) | — | — | — | — | — |
| Marcello Manlio Mondini De Focatiis (from September to December) | — | — | — | — | — |
| Mattia D'Alessandro (from September to December) | — | — | — | — | — |
| Mark Luscombe (from September to December) | — | — | — | — | — |
| Cheng Ning (from September to December) | — | — | — | — | — |

2015

| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total |
|---|---|---|---|---|---|
| **Chairman** | | | | | |
| Li Binrong (from January to May) | — | — | — | — | — |
| John Kallend (from June to December) | — | — | — | — | — |
| **Executive directors** | | | | | |
| Li Chuyuan | — | — | — | — | — |
| Yu Jinghui | — | — | — | — | — |
| Chen Weiping | — | — | — | — | — |
| Su Guangfeng | — | 311,970.00 | 360,000.00 | 75,614.88 | 747,584.88 |
| John Kallend (from January to May) | — | — | — | — | — |
| Wilfred Wong (from June to December) | — | — | — | — | — |
| Richard John Mills | — | — | — | — | — |
| Zhong Li | — | — | — | — | — |

2014

| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total |
|---|---|---|---|---|---|
| **Chairman** | | | | | |
| Li Binrong | — | — | — | — | — |
| **Executive directors** | | | | | |
| Li Chuyuan | — | — | — | — | — |
| Yu Jinghui | — | — | — | — | — |
| Chen Weiping | — | — | — | — | — |
| Luo Huiyi (from January to May) | — | 97,802.50 | 113,333.33 | 44,432.40 | 255,568.23 |
| Su Guangfeng (from June to December) | — | 149,391.67 | 245,000.00 | 45,369.86 | 439,761.53 |
| John Kallend | — | — | — | — | — |
| Richard John Mills | — | — | — | — | — |
| Zhong Li | — | — | — | — | — |

*(6) Individuals with highest emoluments*

For each of the nine months ended 30 September 2017, 30 September 2016 and each of the years ended 31 December 2016, 31 December 2015, 31 December 2014, of the five individuals with the highest emoluments, 2, 1, 2, 1 and 1 are directors whose emoluments are disclosed in Note X 4 (5), respectively. The aggregate of the emoluments in respect of the other 3, 4, 3, 4 and 4 individuals are as follows:

| **Item** | **Nine months ended 30 September 2017** | **Nine months ended 30 September 2016** *(Unaudited)* | **2016** | **2015** | **2014** |
|---|---|---|---|---|---|
| Salaries and other emoluments | 626,013.32 | 1,324,154.50 | 1,473,611.27 | 1,571,374.89 | 1,665,302.32 |
| Discretionary bonuses | 1,476,376.00 | 1,266,821.01 | 1,049,701.95 | 1,436,530.63 | 1,180,927.48 |
| Retirement scheme contributions | 130,673.34 | 128,819.79 | 146,630.28 | 166,078.68 | 149,631.96 |
| Total | 2,233,062.66 | 2,719,795.30 | 2,669,943.50 | 3,173,984.20 | 2,995,861.76 |

The emoluments of the 3, 4, 3, 4 and 4 individuals with the highest emoluments are within the following bands:

| | **Nine months ended 30 September 2017** *Number of individuals* | **Nine months ended 30 September 2016** *Number of individuals* *(Unaudited)* | **2016** *Number of individuals* | **2015** *Number of individuals* | **2014** *Number of individuals* |
|---|---|---|---|---|---|
| Nil - RMB1,000,000 | 3 | 4 | 3 | 4 | 4 |

*(7) Guarantee*

The Target Company provided guarantees for short-term loans of its subsidiaries. As at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014, the Target Company provided short-term loan guarantees for its subsidiaries with the balance of RMB 766,283,799.64, RMB 716,898,013.74, RMB 619,500,000.00 and RMB 477,500,000.00 respectively.

### 5 *Receivables from and payables to related parties*

*Receivables from related parties*

| Item | Related party | 30 September 2017 | | 31 December 2016 | | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|---|---|---|---|---|
| | | Book value | Provision for bad and doubtful debts | Book value | Provision for bad and doubtful debts | Book value | Provision for bad and doubtful debts | Book value | Provision for bad and doubtful debts |
| Accounts receivable | | | | | | | | | |
| | Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. | 39,732,692.60 | 198,663.46 | 19,543,553.23 | 97,717.77 | 13,356,626.63 | 66,783.13 | 12,130,877.29 | 60,654.39 |
| | Guangzhou Baiyunshan Hospital Co., Ltd. | 3,678,684.32 | 18,393.42 | 1,531,090.41 | 7,655.45 | — | — | — | — |
| | Guangzhou Pharmaceutical Import & Export Co., Ltd. | 140,400.00 | 702.00 | 20,377,545.56 | 101,887.73 | — | — | 31,200.00 | 156.00 |
| | Others | 942,973.76 | 4,714.87 | 1,422,473.75 | 7,112.37 | 1,321,275.72 | 6,606.39 | 418,395.08 | 2,091.99 |
| Prepayments | | | | | | | | | |
| | Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. | 112,130,938.35 | — | 103,110,227.13 | — | 124,490.24 | — | — | — |
| | Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited | 30,528,305.17 | — | — | — | 4,499,543.23 | — | 9,286,948.03 | — |
| | Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. | 9,617,330.14 | — | 318,613.24 | — | 2,841,208.44 | — | 20,320,798.02 | — |
| | Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. | 1,379,844.28 | — | 1,072,941.40 | — | 9,949,643.16 | — | 4,883,826.08 | — |
| | Guangzhou Pharmaceutical Import & Export Co., Ltd. | 874,688.36 | — | 19,877,824.25 | — | 2,155.08 | — | — | — |
| | Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd. | 745,634.78 | — | — | — | 8,092,279.94 | — | — | — |
| | Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. | 733,580.76 | — | 1,753,722.95 | — | — | — | — | — |

| Item | Related party | 30 September 2017 Book value | 30 September 2017 Provision for bad and doubtful debts | 31 December 2016 Book value | 31 December 2016 Provision for bad and doubtful debts | 31 December 2015 Book value | 31 December 2015 Provision for bad and doubtful debts | 31 December 2014 Book value | 31 December 2014 Provision for bad and doubtful debts |
|---|---|---|---|---|---|---|---|---|---|
| | Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. | 185,063.66 | — | 170,348.17 | — | 1,376,864.83 | — | 149,875.65 | — |
| | Guangzhou Baiyunshan Pharmaceutical Technological Development Co., Ltd. | 13,687.68 | — | — | — | 2,204,863.75 | — | 2,606,874.38 | — |
| | Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. | 4,847.40 | — | 5,619,840.79 | — | — | — | — | — |
| | Zhejiang Guang Kang Pharmaceutical Co., Ltd. | — | — | 2,122,786.75 | — | — | — | — | — |
| | Others | 2,080,108.64 | — | 1,589,305.33 | — | 999,977.10 | — | 603,813.08 | — |
| Other receivables | | | | | | | | | |
| | Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. | 185,819.38 | — | 919,769.98 | — | — | — | 76,556.70 | 382.78 |
| | Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. | — | — | 883,471.98 | — | — | — | — | — |
| | Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. | — | — | — | — | — | — | 22,989,126.92 | 114,945.63 |
| | Others | 104,359.20 | — | 127,183.48 | — | 115,000.00 | — | 61,488.96 | 307.44 |
| Bills receivable | | | | | | | | | |
| | Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. | 10,243,113.56 | — | — | — | 10,300.00 | — | 4,225,848.44 | — |
| | Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. | 169,151.80 | — | — | — | — | — | — | — |
| | Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd. | 98,648.00 | — | — | — | — | — | — | — |

Payables to related parties

| Item | Related party | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|---|
| Accounts payable | | | | | |
| | Guangzhou Pharmaceutical Import & Export Co., Ltd. | 33,254,332.54 | 3,109,342.86 | 2,360,663.76 | 949,514.12 |
| | Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. | 10,839,168.94 | 715,677.61 | 1,196,725.06 | 3,326,212.94 |
| | Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. | 3,737,089.43 | 3,320,238.15 | 9,908,875.64 | 4,449,872.06 |
| | Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. | 2,987,210.03 | 17,253.05 | — | 9,353.03 |
| | Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd. | 694,396.28 | 2,458,156.84 | — | — |
| | Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. | 478,917.68 | 130,200.42 | 1,111,745.72 | 1,258.89 |
| | Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. | 120,974.36 | 3,429,045.82 | — | 296,425.46 |
| | Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited | 74,963.07 | 3,258,683.65 | 491,244.46 | 533,598.28 |
| | Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. | — | 1,557,647.97 | — | — |
| | Others | 4,214,277.84 | 2,131,338.73 | 1,892,949.51 | 2,833,639.17 |
| Advances from customers | | | | | |
| | Guangzhou Pharmaceutical Import & Export Co., Ltd. | 28,473.10 | — | 270,257.00 | 20,257.00 |
| | Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. | 4,104.00 | 224,928.00 | — | — |
| | Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. | — | 98,701.29 | 297,553.42 | 76,556.70 |
| | Others | 58,990.77 | 5,154.69 | 25,817.38 | 14,388.30 |
| Other payables | | | | | |
| | Guangzhou Pharmaceutical Holdings Limited | 3,512,836.53 | 3,137,202.28 | 919,316.54 | 3,130,551.60 |
| | Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. | 940,059.78 | — | — | — |
| | Guangzhou Pharmaceutical Import & Export Co., Ltd. | 23,560.00 | — | — | 23,560.00 |
| | Guangzhou Baiyunshan Bai Di Bio-Technology Co., Ltd. | — | 415,087.92 | — | — |
| | Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. | — | 20,433.96 | — | — |

| Item | Related party | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|---|
| Bills payable | | | | | |
| | Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. | 181,132,129.60 | 140,336,992.26 | — | 604,940.00 |
| | Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited | 45,965,400.00 | 3,791,700.00 | — | 10,000,000.00 |
| | Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. | 30,332,105.80 | 20,000,000.00 | — | 99,290,281.20 |
| | Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd. | 6,644,106.50 | — | 8,877,600.00 | — |
| | Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. | 3,755,793.39 | 22,879,240.26 | — | 28,991,686.96 |
| | Guangzhou Pharmaceutical Import & Export Co., Ltd. | 2,644,576.00 | 42,770,400.00 | 33,219,000.00 | — |
| | Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. | 1,454,476.78 | — | — | — |
| | Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. | 1,195,840.61 | 68,600,000.00 | — | 114,920.90 |
| | Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. | 111,480.00 | — | — | — |
| | Zhejiang Guang Kang Pharmaceutical Co., Ltd. | — | 11,716,650.00 | — | — |
| | Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. | — | 5,055,600.00 | — | — |
| | Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. | — | — | 21,102,381.90 | 11,750,997.30 |
| | Guangzhou Baiyunshan Pharmaceutical Technological Development Co., Ltd. | — | — | 1,299,440.00 | 1,332,481.60 |
| | Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. | — | — | 65,452.50 | 74,145.00 |
| | Others | — | — | — | 121,709.71 |

## XI. **Capital management**

The Target Group's primary objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Target Group defines "capital" as including all components of equity plus any loans from related parties with no fixed terms of repayment, less unaccrued proposed dividends. The balances of related party transactions are not regarded by the Target Group as capital.

The Target Group's capital structure is regularly reviewed and managed to achieve an optimal structure and return for shareholders. Factors for the Target Group's consideration include: its future funding requirements, capital efficiency, actual and expected profitability, expected cash flows, and expected capital expenditure. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Target Group.

The Target Group's capital structure is monitored on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes short-term loans, debentures payable, and obligations under finance leases) plus unaccrued proposed dividends, less related-party loans with no fixed repayment terms and cash and cash equivalents.

The Target Group's strategy, which was unchanged from each reporting period, was to maintain the adjusted net debt-to-capital ratio at a level considered reasonable by the management from time to time with reference to the prevailing market conditions. In order to maintain or adjust the ratio, the Target Group may adjust the amount of dividends paid to shareholders, request new loans, or sell assets to reduce debt.

The adjusted net debt-to-capital ratio is as follows:

| | The Target Group | | | | The Target Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **30 September 2017** | **31 December 2016** | **31 December 2015** | **31 December 2014** | **30 September 2017** | **31 December 2016** | **31 December 2015** | **31 December 2014** |
| *Current liabilities* | | | | | | | | |
| Short-term loans | 6,148,403,737.53 | 5,083,062,472.52 | 4,338,698,559.27 | 3,749,812,835.35 | 4,802,121,816.18 | 4,011,250,607.50 | 3,417,712,451.19 | 3,020,337,488.09 |
| Short-term debenture payable | — | 400,000,000.00 | 400,000,000.00 | — | — | 400,000,000.00 | 400,000,000.00 | — |
| Long-term loans due within one year | 221,887,068.94 | — | — | — | 221,887,068.94 | — | — | — |
| Obligations under finance leases within one year | 41,339,844.40 | 23,004,853.09 | 9,656,764.71 | 1,644,376.68 | 41,339,844.40 | 23,004,853.09 | 9,656,764.71 | 1,644,376.68 |
| Non-current liabilities | | | | | | | | |
| Long-term loans | 631,378,960.43 | 411,666,029.37 | — | — | 631,378,960.43 | 411,666,029.37 | — | — |
| Long-term payables-Obligations under finance leases | 83,927,761.57 | 54,195,979.34 | 26,976,529.28 | 3,033,578.18 | 83,270,667.55 | 54,195,979.34 | 26,976,529.28 | 3,033,578.18 |
| Total debt | 7,126,937,372.87 | 5,971,929,334.32 | 4,775,331,853.26 | 3,754,490,790.21 | 5,779,998,357.50 | 4,900,117,469.30 | 3,854,345,745.18 | 3,025,015,442.95 |
| Less: Cash and cash equivalents | 2,088,618,245.42 | 2,632,143,041.95 | 2,030,364,819.98 | 1,710,454,122.20 | 1,381,146,358.25 | 1,803,243,367.79 | 1,497,600,904.24 | 1,239,025,000.04 |
| Adjusted net debt | 5,038,319,127.45 | 3,339,786,292.37 | 2,744,967,033.28 | 2,044,036,668.01 | 4,398,851,999.25 | 3,096,874,101.51 | 2,356,744,840.94 | 1,785,990,442.91 |
| Owners' equity | 2,982,977,267.46 | 2,788,391,722.42 | 2,539,178,555.83 | 2,315,193,014.83 | 2,443,635,251.85 | 2,141,373,178.51 | 2,024,857,762.61 | 1,866,652,811.54 |
| Less: Proposed dividends | 910,000,000.00 | — | — | — | — | — | — | — |
| Adjusted capital | 2,072,977,267.46 | 2,788,391,722.42 | 2,539,178,555.83 | 2,315,193,014.83 | 2,443,635,251.85 | 2,141,373,178.51 | 2,024,857,762.61 | 1,866,652,811.54 |
| Adjusted net debt-to-capital ratio | 243% | 120% | 108% | 88% | 180% | 145% | 116% | 96% |

Neither the Target Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## XII. Commitments

### 1 *Significant commitments*

*(1) Capital commitments*

| Item | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| Construction authorised but not contracted for | 508,299,675.89 | 380,884,920.00 | — | — |
| Construction contracts entered into but not performed or not fully performed | 113,579,583.33 | 36,314,394.68 | 31,015,834.47 | 35,940,010.89 |
| Total | 621,879,259.22 | 417,199,314.68 | 31,015,834.47 | 35,940,010.89 |

*(2) Operating lease commitments*

As at the end of each reporting period, the total future minimum lease payments under non-cancellable operating leases of properties, fixed assets and so on were payable as follows:

| Item | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| Within 1 year (inclusive) | 61,957,964.44 | 46,953,394.67 | 41,046,548.88 | 31,503,447.76 |
| After 1 year but within 2 years (inclusive) | 44,664,153.74 | 30,506,791.18 | 37,110,267.34 | 27,506,776.00 |
| After 2 years but within 3 years (inclusive) | 33,161,772.55 | 23,338,468.55 | 29,859,732.52 | 24,410,233.71 |
| After 3 years | 36,356,406.81 | 24,641,183.03 | 20,823,442.63 | 33,290,149.10 |
| Total | 176,140,297.54 | 125,439,837.43 | 128,839,991.37 | 116,710,606.57 |

## XIII. Subsequent events

### 1 *Profit appropriations after the balance sheet date*

| Item | Amount |
|---|---|
| Profit distributions or dividends approved and declared | 910,000,000.00 |

Distribution of dividends approved after the balance sheet date

The Board of Directors approved on 25 October 2017 the appropriation of a cash dividend of RMB 910,000,000.00. Such cash dividends are not recognised as a liability at the balance sheet date.

XIV. **Other significant items**

***Segment reporting***

The Target Group operates as a whole with a unified internal organization, management evaluation system and internal reporting system. The Target Group does not have a separately managed operating segment during the reporting period and therefore the Target Group has only one operating segment.

The geographical information of the Target Group's operating income from external customers is based on the location of customers receiving services or goods. The Target Group's operating income from external customers is derived from mainland China.

Operating income from each individual customer of the Target Group is below 10% of the Target Group's total operating income in each of the reporting period.

XV. **Notes to the Target Company's Historical Financial Information**

1 ***Accounts receivable***

*(1) Accounts receivable by customer type:*

| **Type** | **30 September 2017** | **31 December 2016** | **31 December 2015** | **31 December 2014** |
|---|---|---|---|---|
| Amounts due from subsidiaries | 1,416,610,219.83 | 1,146,915,678.03 | 854,446,732.44 | 491,830,566.90 |
| Amounts due from other related parties | 18,248,349.19 | 21,146,993.80 | 12,153,904.80 | 8,962,617.45 |
| Amounts due from third parties | 4,861,121,631.19 | 2,822,074,066.87 | 3,335,252,989.76 | 2,724,341,373.59 |
| Subtotal | 6,295,980,200.21 | 3,990,136,738.70 | 4,201,853,627.00 | 3,225,134,557.94 |
| Less: Provision for bad and doubtful debts | 77,950,193.57 | 61,712,452.62 | 41,708,394.53 | 23,819,388.96 |
| Total | 6,218,030,006.64 | 3,928,424,286.08 | 4,160,145,232.47 | 3,201,315,168.98 |

As at 30 September 2017 and 31 December 2014, the accounts receivable pledged as the securities for bank loans by the Target Company are RMB 671,497,372.38 and RMB 192,982,736.99 respectively.

As at 31 December 2016 and 31 December 2015, there are no accounts receivable used as the security of bank loans by the Target Company.

*(2) The ageing analysis of accounts receivable is as follows:*

| Aging | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| Within 1 year (inclusive) | 6,043,322,865.29 | 3,833,497,442.31 | 4,142,584,239.22 | 3,199,267,604.05 |
| Over 1 year but within 2 years (inclusive) | 193,713,120.57 | 99,692,486.08 | 24,471,331.97 | 23,748,211.76 |
| Over 2 years but within 3 years(inclusive) | 19,058,948.17 | 22,656,074.90 | 33,228,274.41 | 826,056.44 |
| Over 3 years | 39,885,266.18 | 34,290,735.41 | 1,569,781.40 | 1,292,685.69 |
| Subtotal | 6,295,980,200.21 | 3,990,136,738.70 | 4,201,853,627.00 | 3,225,134,557.94 |
| Less: Provision for bad and doubtful debts | 77,950,193.57 | 61,712,452.62 | 41,708,394.53 | 23,819,388.96 |
| Total | 6,218,030,006.64 | 3,928,424,286.08 | 4,160,145,232.47 | 3,201,315,168.98 |

The ageing is counted starting from the date when accounts receivable are recognised.

As at 31 December 2015, the accounts receivable transferred from commercial acceptance bills due to non-performance of the issuers of the Target Company were RMB 121,573,496.10, the ageing of which was counted starting from the date when the accounts receivable are initially recognised.

*(3) Accounts receivable by category:*

| | | 30 September 2017 | | | | |
|---|---|---|---|---|---|---|
| | | Book value | | Provision for bad and doubtful debts | | Carrying |
| **Category** | *Note* | *Amount* | *Percentage* | *Amount* | *Percentage* | **amount** |
| Individually significant and assessed for impairment individually | | — | 0.0% | — | 0.0% | — |
| Individually insignificant but assessed for impairment individually | | — | 0.0% | — | 0.0% | — |
| Collectively assessed for impairment based on credit risk characteristics* | | | | | | |
| Group 1 | (a) | 6,295,980,200.21 | 100.0% | 77,950,193.57 | 100.0% | 6,218,030,006.64 |
| Total | | 6,295,980,200.21 | 100.0% | 77,950,193.57 | 100.0% | 6,218,030,006.64 |

| | | 31 December 2016 | | | | |
|---|---|---|---|---|---|---|
| | | Book value | | Provision for bad and doubtful debts | | Carrying amount |
| **Category** | *Note* | *Amount* | *Percentage* | *Amount* | *Percentage* | |
| Individually significant and assessed for impairment individually | | — | 0.0% | — | 0.0% | — |
| Individually insignificant but assessed for impairment individually | | — | 0.0% | — | 0.0% | — |
| Collectively assessed for impairment based on credit risk characteristics* | | | | | | |
| Group 1 | (a) | 3,990,136,738.70 | 100.0% | 61,712,452.62 | 100.0% | 3,928,424,286.08 |
| Total | | 3,990,136,738.70 | 100.0% | 61,712,452.62 | 100.0% | 3,928,424,286.08 |

| | | 31 December 2015 | | | | |
|---|---|---|---|---|---|---|
| | | Book value | | Provision for bad and doubtful debts | | Carrying amount |
| **Category** | *Note* | *Amount* | *Percentage* | *Amount* | *Percentage* | |
| Individually significant and assessed for impairment individually | | — | 0.0% | — | 0.0% | — |
| Individually insignificant but assessed for impairment individually | | — | 0.0% | — | 0.0% | — |
| Collectively assessed for impairment based on credit risk characteristics* | | | | | | |
| Group 1 | (a) | 4,201,853,627.00 | 100.0% | 41,708,394.53 | 100.0% | 4,160,145,232.47 |
| Total | | 4,201,853,627.00 | 100.0% | 41,708,394.53 | 100.0% | 4,160,145,232.47 |

| | | 31 December 2014 | | | | |
|---|---|---|---|---|---|---|
| | | Book value | | Provision for bad and doubtful debts | | Carrying amount |
| **Category** | *Note* | *Amount* | *Percentage* | *Amount* | *Percentage* | |
| Individually significant and assessed for impairment individually | | — | 0.0% | — | 0.0% | — |
| Individually insignificant but assessed for impairment individually | | — | 0.0% | — | 0.0% | — |
| Collectively assessed for impairment based on credit risk characteristics* | | | | | | |
| Group 1 | (a) | 3,225,134,557.94 | 100.0% | 23,819,388.96 | 100.0% | 3,201,315,168.98 |
| Total | | 3,225,134,557.94 | 100.0% | 23,819,388.96 | 100.0% | 3,201,315,168.98 |

*Note*: This category includes accounts receivable having been individually assessed but not impaired.*

(a) Accounts receivable which are collectively assessed for impairment at the end of the period/year using the ageing analysis method:

30 September 2017

| **Aging** | **Book value** | **Provision for bad and doubtful debts** | **Percentage of provision** |
|---|---|---|---|
| Amounts due from subsidiaries | 1,416,610,219.83 | 7,083,051.10 | 0.5% |
| Amounts due from other customers | | | |
| Within 1 year (inclusive) | 4,819,284,743.37 | 24,437,371.01 | 0.5% |
| Over 1 year but within 2 years (inclusive) | 17,777,400.66 | 5,333,220.20 | 30.0% |
| Over 2 years but within 3 years (inclusive) | 2,422,570.17 | 1,211,285.08 | 50.0% |
| Over 3 years | 39,885,266.18 | 39,885,266.18 | 100.0% |
| Total | 6,295,980,200.21 | 77,950,193.57 | 1.2% |

31 December 2016

| **Aging** | **Book value** | **Provision for bad and doubtful debts** | **Percentage of provision** |
|---|---|---|---|
| Amounts due from subsidiaries | 1,146,915,678.03 | 5,734,578.39 | 0.5% |
| Amounts due from other customers | | | |
| Within 1 year (inclusive) | 2,787,953,086.00 | 13,991,602.86 | 0.5% |
| Over 1 year but within 2 years (inclusive) | 13,965,418.36 | 4,189,625.51 | 30.0% |
| Over 2 years but within 3 years (inclusive) | 7,011,820.90 | 3,505,910.45 | 50.0% |
| Over 3 years | 34,290,735.41 | 34,290,735.41 | 100.0% |
| Total | 3,990,136,738.70 | 61,712,452.62 | 1.5% |

31 December 2015

| **Aging** | **Book value** | **Provision for bad and doubtful debts** | **Percentage of provision** |
|---|---|---|---|
| Amounts due from subsidiaries | 854,446,732.44 | 4,272,233.66 | 0.5% |
| Amounts due from other customers | | | |
| Within 1 year (inclusive) | 3,288,137,506.78 | 11,910,842.67 | 0.5% |
| Over 1 year but within 2 years (inclusive) | 24,471,331.97 | 7,341,399.59 | 30.0% |
| Over 2 years but within 3 years (inclusive) | 33,228,274.41 | 16,614,137.21 | 50.0% |
| Over 3 years | 1,569,781.40 | 1,569,781.40 | 100.0% |
| Total | 4,201,853,627.00 | 41,708,394.53 | 1.0% |

31 December 2014

| Aging | Book value | Provision for bad and doubtful debts | Percentage of provision |
|---|---|---|---|
| Amounts due from subsidiaries | 491,830,566.90 | 2,459,152.84 | 0.5% |
| Amounts due from other customers | | | |
| Within 1 year (inclusive) | 2,707,518,981.43 | 12,591,775.76 | 0.5% |
| Over 1 year but within 2 years (inclusive) | 23,719,315.76 | 7,115,794.73 | 30.0% |
| Over 2 years but within 3 years (inclusive) | 826,056.44 | 413,028.22 | 50.0% |
| Over 3 years | 1,239,637.41 | 1,239,637.41 | 100.0% |
| Total | 3,225,134,557.94 | 23,819,388.96 | 0.7% |

For accounts receivable due from subsidiaries of the Target Company, the provision for bad and doubtful debts is calculated basing on the percentage of balance method, with a percentage of 0.5%.

(4) ***Additions, recoveries or reversals of provision for bad and doubtful debts***

| | Nine months ended 30 September 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Balance at the beginning of the year/period | 61,712,452.62 | 41,708,394.53 | 23,819,388.96 | 27,967,048.82 |
| Additions during the year/period | 16,386,205.88 | 20,004,058.09 | 17,964,765.20 | — |
| Reversals during the year/period | — | — | — | (4,147,659.86) |
| Written-off during the year/period | (148,464.93) | — | (75,759.63) | — |
| Balance at the end of the year/period | 77,950,193.57 | 61,712,452.62 | 41,708,394.53 | 23,819,388.96 |

(5) ***Five largest accounts receivable by debtor at the end of the period/year:***

As at 30 September 2017, the subtotal of five largest accounts receivable of the Target Company is RMB 1,224,311,371.55, representing 19.4% of the total accounts receivable, and the provisions of bad and doubtful debts is RMB 6,021,014.38.

As at 31 December 2016, the subtotal of five largest accounts receivable of the Target Company is RMB 880,061,496.68, representing 22.1% of the total accounts receivable, and the provisions of bad and doubtful debts is RMB 4,400,307.48.

As at 31 December 2015, the subtotal of five largest accounts receivable of the Target Company is RMB 612,979,237.62, representing 14.6% of the total accounts receivable, and the provisions of bad and doubtful debts is RMB 3,064,896.19.

As at 31 December 2014, the subtotal of five largest accounts receivable of the Target Company is RMB 421,814,390.08, representing 13.1% of the total accounts receivable, and the provisions of bad and doubtful debts is RMB 2,117,596.27.

(6) ***Derecognition of accounts receivable due to transfer of financial assets***

As at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014, the unsettled balances of accounts receivable derecognised by the Target Company due to the transfer of financial assets are RMB 228,558,329.94, RMB 341,516,945.98, RMB 399,999,998.81 and RMB 96,166,042.43 respectively.

*2 Other receivables*

(1) Other receivables by customer type:

| **Type** | **30 September 2017** | **31 December 2016** | **31 December 2015** | **31 December 2014** |
|---|---|---|---|---|
| Amounts due from related parties | 409,166,072.31 | 242,302,178.25 | 643,587,903.44 | 631,047,666.78 |
| Amounts due from other customers | 460,063,472.46 | 506,960,531.57 | 341,944,115.43 | 146,845,376.56 |
| Subtotal | 869,229,544.77 | 749,262,709.82 | 985,532,018.87 | 777,893,043.34 |
| Less: Provision for bad and doubtful debts | 2,491,691.47 | 2,405,916.79 | 2,182,340.67 | 628,748.65 |
| Total | 866,737,853.30 | 746,856,793.03 | 983,349,678.20 | 777,264,294.69 |

(2) The ageing analysis of other receivables is as follows:

| **Aging** | **30 September 2017** | **31 December 2016** | **31 December 2015** | **31 December 2014** |
|---|---|---|---|---|
| Within 1 year (inclusive) | 814,793,783.11 | 723,306,820.87 | 896,355,231.65 | 744,085,937.88 |
| Over 1 year but within 2 years (inclusive) | 39,615,899.12 | 13,321,234.80 | 75,975,449.88 | 31,466,936.56 |
| Over 2 years but within 3 years (inclusive) | 6,621,619.65 | 5,423,522.91 | 11,025,909.02 | 2,304,385.90 |
| Over 3 years | 8,198,242.89 | 7,211,131.24 | 2,175,428.32 | 35,783.00 |
| Subtotal | 869,229,544.77 | 749,262,709.82 | 985,532,018.87 | 777,893,043.34 |
| Less: Provision for bad and doubtful debts | 2,491,691.47 | 2,405,916.79 | 2,182,340.67 | 628,748.65 |
| Total | 866,737,853.30 | 746,856,793.03 | 983,349,678.20 | 777,264,294.69 |

The ageing is counted starting from the date when other receivables are recognised.

(3) Other receivables by category:

| | | 30 September 2017 | | | | |
|---|---|---|---|---|---|---|
| | | **Book value** | | **Provision for bad and doubtful debts** | | **Carrying amount** |
| **Category** | *Note* | *Amount* | *Percentage* | *Amount* | *Percentage* | |
| Individually significant and assessed for impairment individually | | — | 0.0% | — | 0.0% | — |
| Individually insignificant but assessed for impairment individually | | — | 0.0% | — | 0.0% | — |
| Collectively assessed for impairment based on credit risk characteristics* | | | | | | |
| Group 1 | (a) | 415,009,393.98 | 47.8% | 2,491,691.47 | 100.0% | 412,517,702.51 |
| Group 2 | | 21,068,520.21 | 2.4% | — | 0.0% | 21,068,520.21 |
| Group 3 | | 433,151,630.58 | 49.8% | — | 0.0% | 433,151,630.58 |
| Total | | 869,229,544.77 | 100.0% | 2,491,691.47 | 100.0% | 866,737,853.30 |

| | | 31 December 2016 | | | | |
|---|---|---|---|---|---|---|
| | | **Book value** | | **Provision for bad and doubtful debts** | | **Carrying amount** |
| **Category** | *Note* | *Amount* | *Percentage* | *Amount* | *Percentage* | |
| Individually significant and assessed for impairment individually | | — | 0.0% | — | 0.0% | — |
| Individually insignificant but assessed for impairment individually | | — | 0.0% | — | 0.0% | — |
| Collectively assessed for impairment based on credit risk characteristics* | | | | | | |
| Group 1 | (a) | 371,914,094.98 | 49.6% | 2,405,916.79 | 100.0% | 369,508,178.19 |
| Group 2 | | 120,652,412.56 | 16.1% | — | 0.0% | 120,652,412.56 |
| Group 3 | | 256,696,202.28 | 34.3% | — | 0.0% | 256,696,202.28 |
| Total | | 749,262,709.82 | 100.0% | 2,405,916.79 | 100.0% | 746,856,793.03 |

| | | 31 December 2015 | | | | |
|---|---|---|---|---|---|---|
| | | Book value | | Provision for bad and doubtful debts | | Carrying amount |
| **Category** | *Note* | *Amount* | *Percentage* | *Amount* | *Percentage* | |
| Individually significant and assessed for impairment individually | | — | 0.0% | — | 0.0% | — |
| Individually insignificant but assessed for impairment individually | | — | 0.0% | — | 0.0% | — |
| Collectively assessed for impairment based on credit risk characteristics* | | | | | | |
| Group 1 | (a) | 279,210,835.56 | 28.3% | 2,182,340.67 | 100.0% | 277,028,494.89 |
| Group 2 | | 48,126,161.72 | 4.9% | — | 0.0% | 48,126,161.72 |
| Group 3 | | 658,195,021.59 | 66.8% | — | 0.0% | 658,195,021.59 |
| Total | | 985,532,018.87 | 100.0% | 2,182,340.67 | 100.0% | 983,349,678.20 |

| | | 31 December 2014 | | | | |
|---|---|---|---|---|---|---|
| | | Book value | | Provision for bad and doubtful debts | | Carrying amount |
| **Category** | *Note* | *Amount* | *Percentage* | *Amount* | *Percentage* | |
| Individually significant and assessed for impairment individually | | — | 0.0% | — | 0.0% | — |
| Individually insignificant but assessed for impairment individually | | — | 0.0% | — | 0.0% | — |
| Collectively assessed for impairment based on credit risk characteristics* | | | | | | |
| Group 1 | (a) | 119,308,706.07 | 15.3% | 628,748.65 | 100.0% | 118,679,957.42 |
| Group 2 | | 32,719,028.63 | 4.2% | — | 0.0% | 32,719,028.63 |
| Group 3 | | 625,865,308.64 | 80.5% | — | 0.0% | 625,865,308.64 |
| Total | | 777,893,043.34 | 100.0% | 628,748.65 | 100.0% | 777,264,294.69 |

*Note*:* This category includes other receivables having been individually assessed but not impaired.

(a) Other receivables which are collectively assessed at the end of the period/year for impairment using the ageing analysis method in the group:

30 September 2017

| Aging | Book value | Provision for bad and doubtful debts | Percentage of provision |
|---|---|---|---|
| Within 1 year (inclusive) | 414,174,073.28 | 1,813,130.76 | 0.5% |
| Over 1 year but within 2 years (inclusive) | 77,128.02 | 23,138.41 | 30.0% |
| Over 2 years but within 3 years(inclusive) | 205,540.77 | 102,770.39 | 50.0% |
| Over 3 years | 552,651.91 | 552,651.91 | 100.0% |
| Total | 415,009,393.98 | 2,491,691.47 | 0.6% |

31 December 2016

| Aging | Book value | Provision for bad and doubtful debts | Percentage of provision |
|---|---|---|---|
| Within 1 year (inclusive) | 370,529,197.05 | 1,758,774.93 | 0.5% |
| Over 1 year but within 2 years (inclusive) | 233,354.76 | 69,993.44 | 30.0% |
| Over 2 years but within 3 years(inclusive) | 1,148,789.51 | 574,394.76 | 50.0% |
| Over 3 years | 2,753.66 | 2,753.66 | 100.0% |
| Total | 371,914,094.98 | 2,405,916.79 | 0.6% |

31 December 2015

| Aging | Book value | Provision for bad and doubtful debts | Percentage of provision |
|---|---|---|---|
| Within 1 year (inclusive) | 276,569,828.99 | 1,256,233.68 | 0.5% |
| Over 1 year but within 2 years (inclusive) | 2,172,628.07 | 652,826.24 | 30.0% |
| Over 2 years but within 3 years(inclusive) | 390,195.50 | 195,097.75 | 50.0% |
| Over 3 years | 78,183.00 | 78,183.00 | 100.0% |
| Total | 279,210,835.56 | 2,182,340.67 | 0.8% |

31 December 2014

| Aging | Book value | Provision for bad and doubtful debts | Percentage of provision |
|---|---|---|---|
| Within 1 year (inclusive) | 118,840,327.57 | 433,507.00 | 0.4% |
| Over 1 year but within 2 years (inclusive) | 390,195.50 | 117,058.65 | 30.0% |
| Over 2 years but within 3 years(inclusive) | — | — | 0.0% |
| Over 3 years | 78,183.00 | 78,183.00 | 100.0% |
| Total | 119,308,706.07 | 628,748.65 | 0.5% |

(4) Additions, recoveries or reversals of provision for bad and doubtful debts

| | Nine months ended 30 September 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Balance at the beginning of the year/period | 2,405,916.79 | 2,182,340.67 | 628,748.65 | 361,598.26 |
| Additions during the year/period | 93,110.84 | 223,576.12 | 1,553,592.02 | 267,150.39 |
| Written-off during the year/period | (7,336.16) | — | — | — |
| Balance at the end of the year/period | 2,491,691.47 | 2,405,916.79 | 2,182,340.67 | 628,748.65 |

(5) Other receivables by nature

| Nature of receivables | 30 September 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| Amounts due from subsidiaries | 408,970,893.73 | 240,486,752.81 | 643,587,903.44 | 607,981,494.20 |
| Vendor rebate | 415,009,393.98 | 371,914,094.98 | 279,210,835.56 | 119,308,706.07 |
| Deposits | 21,068,520.21 | 120,652,412.56 | 48,126,161.72 | 32,719,028.63 |
| Others | 24,180,736.85 | 16,209,449.47 | 14,607,118.15 | 17,883,814.44 |
| Subtotal | 869,229,544.77 | 749,262,709.82 | 985,532,018.87 | 777,893,043.34 |
| Less: Provision for bad and doubtful debts | 2,491,691.47 | 2,405,916.79 | 2,182,340.67 | 628,748.65 |
| Total | 866,737,853.30 | 746,856,793.03 | 983,349,678.20 | 777,264,294.69 |

(6) Five largest other receivables by debtor at the end of the period/year:

30 September 2017

| Debtor | Relation with the Target Company | Balance at the end of the period | Aging | Percentage of ending balance to other receivables | Provision for bad and doubtful debts at the end of the period |
|---|---|---|---|---|---|
| Debtor 1 | Wholly-owned subsidiary | 108,173,439.56 | Within 1 year | 12.44% | — |
| Debtor 2 | Wholly-owned subsidiary | 74,998,233.20 | Within 1 year | 8.63% | — |
| Debtor 3 | Holding subsidiary | 48,194,957.31 | Within 3 years | 5.54% | — |
| Debtor 4 | Wholly-owned subsidiary | 34,781,376.69 | Within 5 years | 4.00% | — |
| Debtor 5 | Wholly-owned subsidiary | 27,917,395.82 | Within 1 year | 3.21% | — |
| Total | | 294,065,402.58 | | 33.82% | — |

31 December 2016

| Debtor | Relation with the Target Company | Balance at the end of the year | Aging | Percentage of ending balance to other receivables | Provision for bad and doubtful debts at the end of the year |
|---|---|---|---|---|---|
| Debtor 1 | Wholly-owned subsidiary | 83,029,120.66 | Within 3 years | 11.08% | — |
| Debtor 2 | Third party | 80,000,000.00 | Within 1 year | 10.68% | — |
| Debtor 3 | Wholly-owned subsidiary | 32,876,050.11 | Within 1 year | 4.39% | — |
| Debtor 4 | Third party | 30,676,933.20 | Within 1 year | 4.09% | 149,463.17 |
| Debtor 5 | Third party | 29,880,000.00 | Within 1 year | 3.99% | — |
| Total | | 256,462,103.97 | | 34.23% | 149,463.17 |

31 December 2015

| Debtor | Relation with the Target Company | Balance at the end of the year | Aging | Percentage of ending balance to other receivables | Provision for bad and doubtful debts at the end of the year |
|---|---|---|---|---|---|
| Debtor 1 | Wholly-owned subsidiary | 392,683,933.46 | Within 1 year | 39.84% | — |
| Debtor 2 | Wholly-owned subsidiary | 83,697,600.00 | Within 2 years | 8.49% | — |
| Debtor 3 | Holding subsidiary | 54,664,217.51 | Within 3 years | 5.55% | — |
| Debtor 4 | Third party | 40,000,000.00 | Within 1 year | 4.06% | — |
| Debtor 5 | Third party | 30,632,878.62 | Within 1 year | 3.11% | 153,164.39 |
| Total | | 601,678,629.59 | | 61.05% | 153,164.39 |

31 December 2014

| Debtor | Relation with the Target Company | Balance at the end of the year | Aging | Percentage of ending balance to other receivables | Provision for bad and doubtful debts at the end of the year |
|---|---|---|---|---|---|
| Debtor 1 | Wholly-owned subsidiary | 354,315,900.76 | Within 1 year | 45.55% | — |
| Debtor 2 | Wholly-owned subsidiary | 98,000,000.00 | Within 1 year | 12.60% | — |
| Debtor 3 | Holding subsidiary | 66,853,068.05 | Within 2 years | 8.59% | — |
| Debtor 4 | Third party | 36,190,016.88 | Within 1 year | 4.65% | 180,950.08 |
| Debtor 5 | Wholly-owned subsidiaries | 28,664,878.22 | Within 3 years | 3.68% | — |
| Total | | 584,023,863.91 | | 75.08% | 180,950.08 |

*3 Long-term equity investments*

(1) Long-term equity investments by category:

| Item | 30 September 2017 and 31 December 2016 | | |
|---|---|---|---|
| | Book value | Provision for impairment | Carrying amount |
| Investments in subsidiaries | 993,775,671.92 | 3,060,000.00 | 990,715,671.92 |

| Item | 31 December 2015 | | |
|---|---|---|---|
| | Book value | Provision for impairment | Carrying amount |
| Investments in subsidiaries | 641,541,217.60 | 3,060,000.00 | 638,481,217.60 |

| Item | 31 December 2014 | | |
|---|---|---|---|
| | Book value | Provision for impairment | Carrying amount |
| Investments in subsidiaries | 611,427,776.35 | 3,060,000.00 | 608,367,776.35 |

(2) Investments in subsidiaries:

Nine months ended 30 September 2017

| Subsidiary | Balance at the beginning of the period | Increase during the period | Decrease during the period | Balance at the end of the period | Impairment at the end of the period |
|---|---|---|---|---|---|
| Guangzhou Pharmaceutical Corporation Limited of Jianmin Medicine Chain. | 86,000,000.00 | — | — | 86,000,000.00 | — |
| Guangzhou Guo Ying Company Limited | 465,000,000.00 | — | — | 465,000,000.00 | — |
| Guangzhou Xinte Pharmaceuticals Company Limited | 50,000,000.00 | — | — | 50,000,000.00 | — |
| Guangzhou Qihua Medical Equipment Company Limited | 20,408,795.74 | — | — | 20,408,795.74 | — |
| Hubei Guangyao An Kang Pharmaceutical Company Limited | 3,060,000.00 | — | — | 3,060,000.00 | 3,060,000.00 |
| Fujian Guangyao Jieda Company Limited | 16,641,775.05 | — | — | 16,641,775.05 | — |
| Foshan Guangyao Jianze Pharmaceutical Company Limited | 19,500,000.00 | — | — | 19,500,000.00 | — |
| Shenzhen Guangyao Liankang Pharmaceutical Company Limited | 16,200,000.00 | — | — | 16,200,000.00 | — |
| Hunan Guangyao Hengsheng Pharmaceutical Company Limited | 68,000,000.00 | — | — | 68,000,000.00 | — |
| Hainan Guangyao Chenfei Pharmaceutical Company Limited | 43,800,000.00 | — | — | 43,800,000.00 | — |
| Shaanxi Guangyao Kangjian Pharmaceutical Company Limited | 67,500,000.00 | — | — | 67,500,000.00 | — |
| Guangdong Meixian Pharmaceutical Company Limited | 18,500,000.00 | — | — | 18,500,000.00 | — |
| Chengdu Guangyao Xinhuiyuan Pharmaceutical Company Limited | 38,000,000.00 | — | — | 38,000,000.00 | — |
| Guangxi Guangyao Xinshidai Pharmaceutical Company Limited | 40,000,000.00 | — | — | 40,000,000.00 | — |
| Jiangmen Guangyao Qiaokang Pharmaceutical Company Limited | 15,000,000.00 | — | — | 15,000,000.00 | — |
| Hubei Guangyao Jida Pharmaceutical Company Limited | 22,400,000.00 | — | — | 22,400,000.00 | — |
| Guangzhou Pharmaceuticals (Hong Kong) Limited | 500,000.00 | — | — | 500,000.00 | — |
| Zhuhai Guangyao Kang Ming Pharmaceutical Company Limited | 3,265,101.13 | — | — | 3,265,101.13 | — |
| Total | 993,775,671.92 | — | — | 993,775,671.92 | 3,060,000.00 |

2016

| Subsidiary | Balance at the beginning of the year | Increase during the year | Decrease during the year | Balance at the end of the year | Impairment at the end of the year |
|---|---|---|---|---|---|
| Guangzhou Pharmaceutical Corporation Limited of Jianmin Medicine Chain | 86,000,000.00 | — | — | 86,000,000.00 | — |
| Guangzhou Guo Ying Company Limited | 115,000,000.00 | 350,000,000.00 | — | 465,000,000.00 | — |
| Guangzhou Xinte Pharmaceuticals Company Limited | 50,000,000.00 | — | — | 50,000,000.00 | — |
| Guangzhou Qihua Medical Equipment Company Limited | 20,408,795.74 | — | — | 20,408,795.74 | — |
| Hubei Guangyao An Kang Pharmaceutical Company Limited | 3,060,000.00 | — | — | 3,060,000.00 | 3,060,000.00 |
| Fujian Guangyao Jieda Company Limited | 16,641,775.05 | — | — | 16,641,775.05 | — |
| Foshan Guangyao Jianze Pharmaceutical Company Limited | 19,500,000.00 | — | — | 19,500,000.00 | — |
| Shenzhen Guangyao Liankang Pharmaceutical Company Limited | 16,200,000.00 | — | — | 16,200,000.00 | — |
| Hunan Guangyao Hengsheng Pharmaceutical Company Limited | 68,000,000.00 | — | — | 68,000,000.00 | — |
| Hainan Guangyao Chenfei Pharmaceutical Company Limited | 43,800,000.00 | — | — | 43,800,000.00 | — |
| Shaanxi Guangyao Kangjian Pharmaceutical Company Limited | 65,265,545.68 | 2,234,454.32 | — | 67,500,000.00 | — |
| Guangdong Meixian Pharmaceutical Company Limited | 18,500,000.00 | — | — | 18,500,000.00 | — |
| Chengdu Guangyao Xinhuiyuan Pharmaceutical Company Limited | 38,000,000.00 | — | — | 38,000,000.00 | — |
| Guangxi Guangyao Xinshidai Pharmaceutical Company Limited | 40,000,000.00 | — | — | 40,000,000.00 | — |
| Jiangmen Guangyao Qiaokang Pharmaceutical Company Limited | 15,000,000.00 | — | — | 15,000,000.00 | — |
| Hubei Guangyao Jida Pharmaceutical Company Limited | 22,400,000.00 | — | — | 22,400,000.00 | — |
| Guangzhou Pharmaceuticals (Hong Kong) Limited | 500,000.00 | — | — | 500,000.00 | — |
| Zhuhai Guangyao Kang Ming Pharmaceutical Company Limited | 3,265,101.13 | — | — | 3,265,101.13 | — |
| Total | 641,541,217.60 | 352,234,454.32 | — | 993,775,671.92 | 3,060,000.00 |

2015

| Subsidiary | Balance at the beginning of the year | Increase during the year | Decrease during the year | Balance at the end of the year | Impairment at the end of the year |
|---|---|---|---|---|---|
| Guangzhou Pharmaceutical Corporation Limited of Jianmin Medicine Chain | 86,000,000.00 | — | — | 86,000,000.00 | — |
| Guangzhou Guo Ying Company Limited | 115,000,000.00 | — | — | 115,000,000.00 | — |
| Guangzhou Xinte Pharmaceuticals Company Limited | 50,000,000.00 | — | — | 50,000,000.00 | — |
| Guangzhou Qihua Medical Equipment Company Limited | 20,408,795.74 | — | — | 20,408,795.74 | — |
| Hubei Guangyao An Kang Pharmaceutical Company Limited | 3,060,000.00 | — | — | 3,060,000.00 | 3,060,000.00 |
| Fujian Guangyao Jieda Company Limited | 16,641,775.05 | — | — | 16,641,775.05 | — |
| Foshan Guangyao Jianze Pharmaceutical Company Limited | 19,500,000.00 | — | — | 19,500,000.00 | — |
| Shenzhen Guangyao Liankang Pharmaceutical Company Limited | 16,200,000.00 | — | — | 16,200,000.00 | — |
| Hunan Guangyao Hengsheng Pharmaceutical Company Limited | 43,000,000.00 | 25,000,000.00 | — | 68,000,000.00 | — |
| Hainan Guangyao Chenfei Pharmaceutical Company Limited | 43,800,000.00 | — | — | 43,800,000.00 | — |
| Shaanxi Guangyao Kangjian Pharmaceutical Company Limited | 63,417,205.56 | 1,848,340.12 | — | 65,265,545.68 | — |
| Guangdong Meixian Pharmaceutical Company Limited | 18,500,000.00 | — | — | 18,500,000.00 | — |
| Chengdu Guangyao Xinhuiyuan Pharmaceutical Company Limited | 38,000,000.00 | — | — | 38,000,000.00 | — |
| Guangxi Guangyao Xinshidai Pharmaceutical Company Limited | 40,000,000.00 | — | — | 40,000,000.00 | — |
| Jiangmen Guangyao Qiaokang Pharmaceutical Company Limited | 15,000,000.00 | — | — | 15,000,000.00 | — |
| Hubei Guangyao Jida Pharmaceutical Company Limited | 22,400,000.00 | — | — | 22,400,000.00 | — |
| Guangzhou Pharmaceuticals (Hong Kong) Limited | 500,000.00 | — | — | 500,000.00 | — |
| Zhuhai Guangyao Kang Ming Pharmaceutical Company Limited | — | 3,265,101.13 | — | 3,265,101.13 | — |
| Total | 611,427,776.35 | 30,113,441.25 | — | 641,541,217.60 | 3,060,000.00 |

2014

| Subsidiary | Balance at the beginning of the year | Increase during the year | Decrease during the year | Balance at the end of the year | Impairment at the end of the year |
|---|---|---|---|---|---|
| Guangzhou Pharmaceutical Corporation Limited of Jianmin Medicine Chain | 86,000,000.00 | — | — | 86,000,000.00 | — |
| Guangzhou Guo Ying Company Limited | 115,000,000.00 | — | — | 115,000,000.00 | — |
| Guangzhou Xinte Pharmaceuticals Company Limited | 50,000,000.00 | — | — | 50,000,000.00 | — |
| Guangzhou Qihua Medical Equipment Company Limited | 20,408,795.74 | — | — | 20,408,795.74 | — |
| Hubei Guangyao An Kang Pharmaceutical Company Limited | 3,060,000.00 | — | — | 3,060,000.00 | 3,060,000.00 |
| Fujian Guangyao Jieda Company Limited | 16,641,775.05 | — | — | 16,641,775.05 | — |
| Foshan Guangyao Jianze Pharmaceutical Company Limited | 19,500,000.00 | — | — | 19,500,000.00 | — |
| Shenzhen Guangyao Liankang Pharmaceutical Company Limited | 16,200,000.00 | — | — | 16,200,000.00 | — |
| Hunan Guangyao Hengsheng Pharmaceutical Company Limited | 26,000,000.00 | 17,000,000.00 | — | 43,000,000.00 | — |
| Hainan Guangyao Chenfei Pharmaceutical Company Limited | 43,800,000.00 | — | — | 43,800,000.00 | — |
| Shaanxi Guangyao Kangjian Pharmaceutical Company Limited | 59,722,200.00 | 3,695,005.56 | — | 63,417,205.56 | — |
| Guangdong Meixian Pharmaceutical Company Limited | 18,500,000.00 | — | 18,500,000.00 | — | |
| Chengdu Guangyao Xinhuiyuan Pharmaceutical Company Limited | 38,000,000.00 | — | — | 38,000,000.00 | — |
| Guangxi Guangyao Xinshidai Pharmaceutical Company Limited | 40,000,000.00 | — | — | 40,000,000.00 | — |
| Jiangmen Guangyao Qiaokang Pharmaceutical Company Limited | 15,000,000.00 | — | — | 15,000,000.00 | — |
| Hubei Guangyao Jida Pharmaceuticals Company Limited | — | 22,400,000.00 | — | 22,400,000.00 | — |
| Guangzhou Pharmaceuticals (Hong Kong) Limited | — | 500,000.00 | — | 500,000.00 | — |
| Total | 567,832,770.79 | 43,595,005.56 | — | 611,427,776.35 | 3,060,000.00 |

For information about the subsidiaries of the Target Company, refer to Note VII.

As at 30 September 2017, 31 December 2016, 31 December 2015 and 31 December 2014, the Target Company made full provision for impairment for its investment in Hubei Guangyao An Kang Pharmaceutical Company Limited. with an amount of RMB 3,060,000.00.

### 4 *Operating income and operating costs*

#### (1) Operating income and operating costs

| Item | Nine months ended 30 September 2017 | | Nine months ended 30 September 2016 | | 2016 | | 2015 | | 2014 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Operating income | Operating costs | Operating income | Operating costs | Operating income | Operating costs | Operating income | Operating costs | Operating income | Operating costs |
| | | | *(Unaudited)* | *(Unaudited)* | | | | | | |
| Principal activities | 17,415,917,012.30 | 16,576,547,408.72 | 16,630,885,336.92 | 15,918,942,970.52 | 21,209,951,006.91 | 20,276,746,825.77 | 19,125,211,388.55 | 18,247,996,939.53 | 17,194,946,660.99 | 16,438,755,518.61 |
| Other operating activities | 21,148,513.84 | 5,470,020.46 | 10,173,980.72 | 4,004,336.55 | 13,847,028.20 | 6,653,119.10 | 13,287,296.93 | 7,037,141.85 | 7,558,659.51 | 6,994,867.98 |
| Total | 17,437,065,526.14 | 16,582,017,429.18 | 16,641,059,317.64 | 15,922,947,307.07 | 21,223,798,035.11 | 20,283,399,944.87 | 19,138,498,685.48 | 18,255,034,081.38 | 17,202,505,320.50 | 16,445,750,386.59 |

Breakdown of operating income:

| | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 *(Unaudited)* | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Operating income from principal activities | 17,415,917,012.30 | 16,630,885,336.92 | 21,209,951,006.91 | 19,125,211,388.55 | 17,194,946,660.99 |
| -Wholesale | 17,229,800,627.80 | 16,506,234,749.35 | 21,038,554,613.02 | 18,995,951,716.50 | 17,092,327,394.35 |
| -Retail | 35,764,055.66 | 28,198,234.78 | 37,827,393.40 | 33,219,388.93 | 29,828,247.19 |
| -Online sales | 21,550,237.56 | 29,786,619.80 | 40,668,720.17 | 32,012,602.76 | 23,137,095.89 |
| -Warehousing and logistics services | 128,802,091.28 | 66,665,732.99 | 92,900,280.32 | 64,027,680.36 | 49,653,923.56 |
| Other operating income | 21,148,513.84 | 10,173,980.72 | 13,847,028.20 | 13,287,296.93 | 7,558,659.51 |
| -Rental income | 2,411,397.66 | 876,433.77 | 1,168,438.91 | 1,038,728.72 | 351,181.28 |
| -Others | 18,737,116.18 | 9,297,546.95 | 12,678,589.29 | 12,248,568.21 | 7,207,478.23 |
| Total | 17,437,065,526.14 | 16,641,059,317.64 | 21,223,798,035.11 | 19,138,498,685.48 | 17,202,505,320.50 |

### 5 *Investment income*

| **Item** | **Nine months ended 30 September 2017** | **Nine months ended 30 September 2016** *(Unaudited)* | **2016** | **2015** | **2014** |
|---|---|---|---|---|---|
| Income from long-term equity investments accounted for using cost method | 198,000,000.00 | — | 5,730,857.87 | 23,423,426.30 | 15,317,347.39 |
| Investment income from holding available-for-sale financial assets | 33,616.32 | 33,430.59 | 33,430.59 | 33,430.59 | 32,192.42 |
| Total | 198,033,616.32 | 33,430.59 | 5,764,288.46 | 23,456,856.89 | 15,349,539.81 |

XVI. **Extraordinary gains and losses**

| Item | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 (Unaudited) | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Disposal of non-current assets | (169,432.07) | (682,683.01) | (1,033,188.86) | 175,017.22 | (222,006.41) |
| Government grants recognised through profit or loss (excluding those having close relationships with the Target Group's operation and enjoyed in fixed amount or quantity according to uniform national standard) | 2,327,023.15 | 5,201,026.98 | 8,394,600.04 | 3,204,812.57 | 3,417,215.06 |
| Changes in fair value of financial assets and liabilities held for trading, and disposal of financial assets and liabilities held for trading and available-for-sale financial assets, other than those held for effective hedging related to normal operations | 33,616.32 | 34,254.82 | 654,629.79 | 44,589.49 | 40,307.94 |
| Other non-operating income and expenses besides items above | 555,686.67 | (215,369.31) | 2,117,796.27 | 3,433,247.00 | 52,095.52 |
| Subtotal | 2,746,894.07 | 4,337,229.48 | 10,133,837.24 | 6,857,666.28 | 3,287,612.11 |
| Less: Tax effect | 801,221.62 | 1,123,745.38 | 2,589,457.89 | 1,811,839.13 | 863,562.40 |
| Less: Effect on non-controlling interests after taxation | 7,588.59 | (411,486.20) | 114,465.24 | 146,327.66 | 83,338.56 |
| Total | 1,938,083.86 | 3,624,970.30 | 7,429,914.11 | 4,899,499.49 | 2,340,711.15 |

*Note:* Extraordinary gain and loss items listed above are presented in the amount before taxation.

## SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company and its subsidiaries (comprising the Target Group) in respect of any period subsequent to 30 September 2017.

## MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Set out below is the management discussion and analysis relating to the Target Group based on the Historical Financial Information as extracted from the accountants' report of the Target Group for each of the financial years ended 31 December 2014, 2015 and 2016 respectively and the nine months ended 30 September 2017, the contents of which are set out in Appendix II to this circular.

### (i) Audited financial information for the year ended 31 December 2014 and for the year ended 31 December 2015

***Business review and financial performance***

The Target Group is principally engaged in the wholesale, retail, import and export of medicine, biological products, healthcare food and medical apparatus. The Target Group distributes pharmaceutical products of manufacturers to other wholesalers, retailers and end users (including but not limited to hospitals), which are mainly located in southern PRC. The operating income from the principal operations of the Target Group for the year ended 31 December 2015 in Guangdong, southern PRC (excluding Guangdong), other regions and online retail amounted to approximately RMB23,808,548,000, RMB2,575,075,000, RMB2,866,022,000, and RMB110,491,000 respectively, which were accounted for approximately 81.09%, 8.77%, 9.76%, and 0.38% of the operating income from the principal operations of the Target Company.

During the year ended 31 December 2015, the Target Group's operating income amounted to approximately RMB29,393,175,000, representing an increase of approximately 12.02% as compared with the operating income of RMB26,238,573,000 for the year ended 31 December 2014. Such increase in operating income was mainly driven by a 11.88% year-on-year growth in the wholesale operation of the Target Group, which represents a substantial portion of the business of the Target Group, and sales generated from the wholesale operation accounted for approximately 98% of the consolidated operating income of the Target Group in each of the two years ended 31 December 2014 and 2015. The operating income for each of the years ended 31 December 2014 and 2015 was mainly generated from sales to hospitals and sales to other wholesalers of pharmaceutical products, which each was accounted for approximately 43.5% and 49.7% of the operating income respectively for the year ended 31 December 2014, and approximately 39.6% and 47.4% of the operating income respectively for the year ended 31 December 2015. With regard to the wholesale operation of the Target Group, it introduced a new segment, namely "HIHPA sales to hospitals" or "pharmacy hosting" in 2015, which refers to wholesale and, relying on informatisation, delivery of pharmaceutical products to various operations, such as pharmacy and wards, of the hospitals directly. Sales generated from HIHPA sales to hospitals only accounted for a small portion of the total revenue of the Target Group in 2015, but it was considered that the HIHPA sales to hospitals would be complementary to the traditional sales to the hospitals (without the pharmacy hosting service) and would be of great potential for further development in future.

For the year ended 31 December 2015, the profit before income tax of the Target Group amounted to approximately RMB311,877,000 (year ended 31 December 2014: RMB289,521,000), up by approximately 7.72% year-on-year; and the net profit attributable to the owners of the Target Company was approximately RMB215,800,000 (year ended 31 December 2014: RMB191,488,000), up by approximately 12.70% year-on-year.

***Analysis on financial conditions***

*Liquidity*

As at 31 December 2015, the current ratio and the quick ratio of the Target Group was approximately 1.17 and 0.89 respectively (as at 31 December 2014: 1.20 and 0.92 respectively). During the year ended 31 December 2015, the accounts receivable turnover rate was approximately 5.83 times, and inventory turnover rate was 8.64 times.

*Financial resources*

As at 31 December 2015, cash at bank and on hand of the Target Group amounted to approximately RMB2,030,365,000 (as at 31 December 2014: RMB1,710,454,000), of which approximately 99.8% and 0.2% were denominated in Renminbi and foreign currencies respectively (as at 31 December 2014: 99.97% and 0.03% respectively). As at 31 December 2015, the Target Group had short-term loans of approximately RMB4,338,699,000 (as at 31 December 2014: RMB3,749,813,000)and no long-term loans (as at 31 December 2014: nil).

*Capital structure*

As at 31 December 2015, the Target Group's total current liabilities amounted to approximately RMB12,664,344,000, representing an increase of 27.69% as compared with RMB9,918,328,000 as at 31 December 2014, and its total non-current liabilities was approximately RMB39,466,000, representing an increase of 128.05% as compared with RMB17,306,000 as at 31 December 2014. The total equity attributable to the owners of the Target Company amounted to approximately RMB2,327,331,000 as at 31 December 2015, with an increase of 10.23% as compared with RMB2,111,317,000 as at 31 December 2014.

*Exposure to fluctuations in exchange rates*

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

*Main cash resources and applications*

As at 31 December 2015, cash and cash equivalents of the Target Group amounted to approximately RMB1,093,906,000, with an increase of RMB12,455,000 as compared with the beginning of 2015. During the year ended 31 December 2015, the net cash inflow derived from operating activities amounted to approximately RMB132,405,000 (year ended 31 December 2014: RMB86,858,000), with an increase of approximately RMB45,547,000 as compared with 2014. The increase was mainly due to increase in sales during the year ended 31 December 2015.

*Contingent liabilities*

As at 31 December 2015, the Target Group had no material contingent liabilities (31 December 2014: Nil).

*Charge on the Target Group's assets*

As at 31 December 2015, short-term loans in the amount of RMB185,786,000 (31 December 2014: RMB317,362,000) were secured by the accounts receivable of the Target Group, and the guaranteed short-term loans amounted to RMB830,900,000 (31 December 2014: RMB1,104,407,000).

*Borrowings*

As at 31 December 2015, the short-term loans of the Target Group amounted to approximately RMB4,338,699,000 (as at 31 December 2014: RMB3,749,813,000), with an increase of RMB588,886,000 as compared with the beginning of 2015. Such short-terms loans comprise of unsecured loans in the amount of RMB3,322,012,000 (as at 31 December 2014: RMB2,328,044,000), pledged loans in the amount of RMB185,786,000 (as at 31 December 2014: RMB317,362,000) and guaranteed loans in the amount of RMB830,900,000 (as at 31 December 2014: RMB1,104,407,000).

As at 31 December 2015, the Target Group had no long-term loans (as at 31 December 2014: Nil).

*Gearing ratio*

As at 31 December 2015, the Target Group's gearing ratio (total liabilities/total assets × 100%) was 83.34% (31 December 2014: 81.10%).

(ii) **Audited financial information for the year ended 31 December 2016**

***Business review and financial performance***

The Target Group continued to be principally engaged in the wholesale, retail, import and export of medicine, biological products, healthcare food and medical apparatus during the year ended 31 December 2016. The Target Group distributes pharmaceuticals products of manufacturers to other wholesalers, retailers and end users (including but not limited to hospitals), which are mainly located in southern PRC. The operating income from the principal operations of the Target Group for the year ended 31 December 2016 in Guangdong, southern PRC (excluding Guangdong), other regions and online retail amounted to approximately RMB27,081,117,000, RMB3,046,264,000, RMB2,652,671,000, and RMB178,510,000 respectively, which were accounted for approximately 82.17%, 9.24%, 8.05%, and 0.54% of the operating income from the principal operations of the Target Company.

During the year ended 31 December 2016, the Target Group's operating income amounted to approximately RMB33,004,805,000, up by approximately 12.29% year-on-year, which was mainly driven by a 11.90% year-on-year growth in the wholesale operation of the Target Group; the profit before income tax amounted to approximately RMB343,210,000, up by approximately 10.05% year-on-year; and the net profit attributable to the owners of the Target Company was approximately RMB225,906,000, up by approximately 4.68% year-on-year. The wholesale operation continued to be the major business of the Target Group, and sales generated from the wholesale operation accounted for approximately 98% of the consolidated operating income of the Target Group for the year ended 31 December 2016.

***Analysis on financial conditions***

*Liquidity*

As at 31 December 2016, the current ratio and the quick ratio of the Target Group was approximately 1.21 and 0.94 respectively. In 2016, the accounts receivable turnover rate was approximately 6.01 times, representing an increase of 3.09% as compared with 2015, and inventory turnover rate was 8.58 times, representing an decrease of 0.69% as compared with the corresponding period of 2015.

*Financial resources*

As at 31 December 2016, cash at bank and on hand of the Target Group amounted to approximately RMB2,632,143,000, of which approximately 99.3% and 0.7% were denominated in Renminbi and foreign currencies, respectively. As at 31 December 2016, the Target Group had short-term loans of approximately RMB5,083,062,000 and long-term loans of approximately RMB411,666,000.

*Capital Structure*

As at 31 December 2016, the Target Group's total current liabilities amounted to approximately RMB13,061,355,000, representing an increase of 3.13% as compared with its total current liabilities as at 31 December 2015, and its total non-current liabilities was approximately RMB475,211,000, representing an increase of approximately 11 times as compared with 31 December 2015. Such increase in total non-current liabilities was mainly due to the long-term loans obtained by the Target Group in 2016 to facilitate the Target Group's capital structure requirement, while there was no long-term loans as at the end of 2015. The total equity attributable to the owners of the Target Company amounted to approximately RMB2,552,996,000 as at 31 December 2016, with an increase of 9.70% as compared with 31 December 2015.

*Exposure to fluctuations in exchange rates*

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

*Main cash resources and applications*

As at 31 December 2016, cash and cash equivalents of the Target Group were amounted to approximately RMB1,802,487,000, with an increase of approximately RMB708,581,000 as compared with the beginning of 2016. The net cash inflow derived from operating activities amounted to approximately RMB354,214,000, with an increase of RMB221,809,000 as compared with 31 December 2015.

*Contingent liabilities*

As at 31 December 2016, the Target Group had no material contingent liabilities.

*Charge on the Target Group's assets*

As at 31 December 2016, short-term loans in the amount of approximately RMB128,519,000 and RMB23,500,000 were secured by the accounts receivable and bank deposits of the Target Group respectively, and the guaranteed short-term loans amounted to RMB60,000,000.

*Borrowings*

As at 31 December 2016, the short-term loans of the Target Group amounted to approximately RMB5,083,062,000, with an increase of approximately RMB744,364,000 as compared with the beginning of 2016. Such short-term loans were comprised of unsecured loans in the amount of RMB4,696,053,000 (as at 31 December 2015: RMB3,322,012,000), pledged loans in the amount of RMB152,019,000 (as at 31 December 2015: RMB185,786,000), guaranteed loans in the amount of RMB60,000,000 (as at 31 December 2015: RMB830,900,000) and discounted bills but not matured in the amount of RMB174,991,000 (as at 31 December 2015: nil).

As at 31 December 2016, the long-term loans, which were all comprised of unsecured loans, of the Target Group amounted to approximately RMB411,666,000, with an increase of approximately RMB411,666,000 as compared with the beginning of 2016.

*Gearing ratio*

As at 31 December 2016, the Target Group's gearing ratio (total liabilities/total assets × 100%) was 82.92% (31 December 2015: 83.34%).

(iii) **Audited financial information for the nine months ended 30 September 2017**

***Business review and financial performance***

The Target Group continued to be principally engaged in the wholesale, retail, import and export of medicine, biological products, healthcare food and medical apparatus during the nine months ended 30 September 2017. The Target Group distributes pharmaceuticals products of manufacturers to other wholesalers, retailers and end users (including but not limited to hospitals), which are mainly located in southern PRC. The revenue from the principal operations of the Target Group for the nine months ended 30 September 2017 in Guangdong, southern PRC (excluding Guangdong), other regions and online retail amounted to approximately RMB22,770,480,000, RMB2,526,781,000, RMB1,747,709,000, and RMB166,019,000 respectively, which were accounted for approximately 83.68%, 9.29%, 6.42%, and 0.61% of the operating income from the principal operations of the Target Company.

During the nine months ended 30 September 2017, the Target Group's operating income amounted to approximately RMB27,270,919,000, up by approximately 5.66% as compared with the corresponding period in 2016; the operating income generated from sales to other wholesalers had decreased by approximately 15.07% as compared with the corresponding period in 2016, this is a result of the implementation of the new policies in the pharmaceutical sector in the PRC, such as the two-invoice system. In order to meet such implementations, the Target Company had enhanced its business operations, resulting in an increase of operating income generated from sales to hospitals and the overall wholesale operation as compared with the corresponding period in 2016, amounting to an increase of approximately 22.55% and 5.28% respectively. The profit before income tax to approximately RMB262,794,000, down by approximately 3.37% as compared with the corresponding period in 2016; and the net profit attributable to the owners of the Target Company was approximately RMB183,989,000, up by approximately 2.25% as compared with the nine months ended 30 September 2016.

***Analysis on financial conditions***

*Liquidity*

As at 30 September 2017, the current ratio and the quick ratio of the Target Group was approximately 1.22 and 0.97 respectively; the accounts receivable turnover rate was approximately 3.85 times; and the inventory turnover rate was 6.99 times. The accounts receivable balance of the Target Group amounted to approximately RMB6,383,523,000, RMB8,249,648,000, RMB6,244,617,000, and RMB10,030,167,000 as at 31 December 2015, 30 September 2016, 31 December 2016 and 30 September 2017 respectively. As at 30 September 2017, the balance of accounts receivable of the Target Group amounted to approximately RMB10,030,167,000, representing an increase of approximately 21.58% as compared with 30 September 2016, which was mainly due to the increase in the sales to hospitals of the Target Group.

*Financial Resources*

As at 30 September 2017, cash at bank and on hand of the Target Group amounted to approximately RMB2,088,618,000, of which approximately 99.5% and 0.5% were denominated in Renminbi and foreign currencies, respectively. As at 30 September 2017, the Target Group had short-term loans of approximately RMB6,148,404,000 and long-term loans of approximately RMB631,379,000.

*Capital Structure*

As at 30 September 2017, the Target Group's total current liabilities amounted to approximately RMB14,581,712,000, and its total non-current liabilities was approximately RMB721,828,000. The total equity attributable to the owners of the Target Company amounted to approximately RMB2,737,037,000 as at 30 September 2017.

*Exposure to fluctuations in exchange rates*

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

*Main cash resources and applications*

As at 30 September 2017, cash and cash equivalents of the Target Group were amounted to approximately RMB1,481,643,000, with a decrease of RMB 320,844,000 as compared with 31 December 2016. During each of the nine-month period ended 30 September 2016 and 2017, the net cash outflow derived from operating activities amounted to approximately RMB1,177,271,000 and RMB1,786,559,000. According to the Target Group, it recorded a net cash outflow derived from operating activities in each of the nine-month period ended 30 September 2016 and 2017 as (i) medical institution clients are the major end users in the pharmaceutical distribution industry in the PRC and in general longer credit terms, would be granted to medical institution clients; (ii) rate of collection of payments from clients is usually higher in the fourth quarter of a calendar year.

*Contingent liabilities*

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

*Charge on the Target Group's assets*

As at 30 September 2017, short-term loans in the amount of RMB720,163,000 and RMB60,000,000 were secured by the accounts receivable and bank deposits of the Target Group respectively, and the guaranteed short-term loans amounted to RMB60,000,000.

*Borrowings*

As at 30 September 2017, the short-term loans of the Target Group amounted to approximately RMB6,148,404,000, with an increase of approximately RMB1,065,341,000 as compared with 31 December 2016. Such short-terms loans comprise of unsecured loans in the amount of RMB5,299,267,000 (as at 31 December 2016: RMB4,696,053,000), pledged loans in the amount of RMB780,163,000 (as at 31 December 2016: RMB152,019,000), guaranteed loans in the amount of RMB60,000,000 (as at 31 December 2016: RMB60,000,000) and discounted bills but not matured in the amount of RMB8,974,000 (as at 31 December 2016: RMB174,991,000).

As at 30 September 2017, the long-term loans, which were all comprised of unsecured loans, of the Target Group amounted to approximately RMB631,379,000, with an increase of approximately RMB219,713,000 as compared with the beginning of 2017.

*Gearing ratio*

As at 30 September 2017, the Target Group's gearing ratio (total liabilities/total assets × 100%) was 83.69%.

## A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

### 1. Introduction

The following are the unaudited pro forma consolidated balance sheet, unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement of the Enlarged Group (collectively referred to as the "Unaudited Pro Forma Financial Information"), which have been prepared by the directors in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the basis set out in the notes below for the purpose of illustrating the facts that (1) the Company and its subsidiaries (the "Group") proposed to acquire 30% of the equity interest in Guangzhou Pharmaceuticals Corporation ("Guangzhou Pharmaceuticals") held by Alliance BMP Limited ("Alliance BMP") by way of cash (the proposed asset acquisition is hereinafter referred to as "Material Asset Acquisition" ); and (2) assuming that one of the put options granted by the Company to Alliance BMP is exercised, Alliance BMP may elect to dispose the remaining 20% equity interest (the "Exercise of Put Option" ) in Guangzhou Pharmaceuticals that it held to the Company during the exercise period, exerting the effects on the financial position of the enlarged group (being Guangzhou Pharmaceuticals together with the Group referred to as the "Enlarged Group").

The unaudited pro forma consolidated balance sheet was prepared based on (i) the unaudited consolidated balance sheet of the Group as at 30 September 2017, (ii) the audited consolidated balance sheet of Guangzhou Pharmaceuticals as at 30 September 2017, and (iii) after making pro forma adjustments relating to the Material Asset Acquisition and assumed the Exercise of Put Option, as if the Material Asset Acquisition and assumed the Exercise of Put Option (the "Transaction") had been completed on 30 September 2017.

The unaudited pro forma consolidated income statement was prepared based on (i) the audited consolidated income statement of the Group for the year ended 31 December 2016, (ii) the audited consolidated income statement of Guangzhou Pharmaceuticals for the year ended 31 December 2016, and (iii) after making pro forma adjustments relating to the Material Asset Acquisition and assumed the Exercise of Put Option, as if the Transaction had been completed on 1 January 2016.

The unaudited pro forma consolidated cash flow statement was prepared based on (i) the audited consolidated cash flow statement of the Group for the year ended 31 December 2016, (ii) the audited consolidated cash flow statement of Guangzhou Pharmaceuticals for the year ended 31 December 2016, and (iii) after the pro forma adjustments relating to the Material Asset Acquisition and assumed Exercise of the Put Option, as if the Transaction had been completed on 1 January 2016.

The Unaudited Pro Forma Financial Information had been prepared for illustrative purposes only and because of its hypothetical nature, the directors of the Company are aware that it may not reflect the true picture of the financial position, financial results and cash flow of the Enlarged Group had the Material Asset Acquisition and assumed the Exercise of Put Option took place as at 30 September 2017, 1 January 2016 or any future dates, where appropriate.

You should read the Unaudited Pro Forma Financial Information together with the previous financial information as set out in the annual report for the year ended 31 December 2016 and the third quarterly report for the nine months ended 30 September 2017 of the Group as well as other financial information set out in other parts of this circular.

(i) The audited consolidated financial report of the Group for the year ended 31 December 2016 and the unaudited consolidated financial report of the Group for the nine months ended 30 September 2017;

(i) The accountants' report on Guangzhou Pharmaceuticals for the years ended 31 December 2014, 2015, 2016 and for the nine months ended 30 September 2017;

are prepared pursuant to the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC in 2006.

## 2. Unaudited Pro Forma Consolidated Balance Sheet of the Enlarged Group

Currency unit: RMB Yuan

| Assets | The Group | Guangzhou Pharmaceuticals | Pro forma adjustments | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Pro forma elimination (Note 5) | | | | | | |
| | Unaudited consolidated balance sheet of the Group as at 30 September 2017 (Note 2) | Audited consolidated balance sheet of Guangzhou Pharmaceuticals as at 30 September 2017 | Pro forma elimination on inter-group transactions between the Group and Guangzhou Pharmaceuticals and unrealized profit thereof (Note 5a-1) | Pro forma reversal of the downstream and upstream transactions between the Group and Guangzhou Pharmaceuticals originally recognized in the Group (Note 5a-2) | Pro Forma distribution of dividends of Guangzhou Pharmaceuticals and dividends received by the Company (Note 5a-3) | Pro forma acquisition price paid by the Company and exercise of Put Option (Note 5a-4) | Pro forma adjustment on the original carrying amount of long-term equity investment at the fair value on the acquisition date by the Company (Note 5a-5) | Pro forma elimination on the equity by Guangzhou Pharmaceuticals with the subsidiaries of the Company (Note 5a-6) | Unaudited pro forma consolidated balance sheet of the Enlarged Group as at 30 September 2017 |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) = (1) + (2) + (3) + (4) + (5) + (6) + (7) + (8) |
| Current assets: | | | | | | | | | |
| Cash at bank and on hand | 12,603,511,283.48 | 2,088,618,245.42 | 0.00 | 0.00 | -455,000,000.00 | -1,832,300,000.00 | 0.00 | 0.00 | 12,404,829,528.90 |
| Financial assets at fair value through profit or loss | 4,712,033.53 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 4,712,033.53 |
| Notes receivable | 1,548,434,433.40 | 761,447,991.88 | -87,316,483.07 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 2,222,565,942.21 |
| Accounts receivable | 1,118,055,018.77 | 10,030,166,621.84 | -109,144,776.71 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 11,039,076,863.90 |
| Advances to suppliers | 273,600,752.90 | 459,411,138.65 | -106,852,993.74 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 626,158,897.81 |
| Interest receivable | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Dividends receivable | 49,741,933.45 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 49,741,933.45 |
| Other receivables | 251,741,201.16 | 626,015,367.58 | -102,600.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 877,653,968.74 |
| Inventories | 2,686,155,636.86 | 3,641,616,430.04 | 39,784,739.96 | 25,957.81 | 0.00 | 0.00 | 0.00 | 0.00 | 6,367,582,764.67 |
| Current portion of non-current assets | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other current assets | 1,927,682,572.37 | 135,270,394.95 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 2,062,952,967.32 |
| Total current assets | 20,463,634,865.92 | 17,742,546,190.36 | -263,632,113.56 | 25,957.81 | -455,000,000.00 | -1,832,300,000.00 | 0.00 | 0.00 | 35,655,274,900.53 |
| Non-current assets: | | | | | | | | | |
| Available-for-sale financial assets | 328,946,393.21 | 783,761.61 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 329,730,154.82 |
| Held-to-maturity investments | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Long-term receivables | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Long-term equity investments | 2,465,079,611.97 | 0.00 | 0.00 | 5,227,283.60 | -455,000,000.00 | 1,823,500,000.00 | 909,981,397.19 | -3,647,000,000.00 | 1,101,788,292.76 |

| Assets | The Group | Guangzhou Pharmaceuticals | Pro forma adjustments | | | | | | Unaudited pro forma consolidated balance sheet of the Enlarged Group as at 30 September 2017 |
|---|---|---|---|---|---|---|---|---|---|
| | | | Pro forma elimination (Note 5) | | | | | | |
| | Unaudited consolidated balance sheet of the Group as at 30 September 2017 (Note 2) | Audited consolidated balance sheet of Guangzhou Pharmaceuticals as at 30 September 2017 | Pro forma elimination on inter-group transactions between the Group and Guangzhou Pharmaceuticals and unrealized profit thereof (Note 5a-1) | Pro forma reversal of the downstream and upstream transactions between the Group and Guangzhou Pharmaceuticals originally recognized in the Group (Note 5a-2) | Pro Forma distribution of dividends of Guangzhou Pharmaceuticals and dividends received by the Company (Note 5a-3) | Pro forma acquisition price paid by the Company and exercise of Put Option (Note 5a-4) | Pro forma adjustment on the original carrying amount of long-term equity investment at the fair value on the acquisition date by the Company (Note 5a-5) | Pro forma elimination on the equity by Guangzhou Pharmaceuticals with the subsidiaries of the Company (Note 5a-6) | |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) = (1) + (2) + (3) + (4) + (5) + (6) + (7) + (8) |
| Investment properties | 220,377,373.08 | 133,138.29 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 220,510,511.37 |
| Fixed assets | 2,032,330,142.12 | 267,163,421.93 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 2,299,493,564.05 |
| Construction in progress | 292,477,019.23 | 48,413,926.59 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 340,890,945.82 |
| Construction materials | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Fixed assets pending for disposal | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Productive biological assets | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Oil and gas assets | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Intangible assets | 721,637,296.93 | 86,383,055.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 808,020,351.94 |
| Development costs | 1,700,000.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,700,000.00 |
| Goodwill | 11,499,562.74 | 50,941,295.57 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,819,962,972.17 | 1,882,403,830.48 |
| Long-term prepaid expenses | 45,230,291.62 | 26,523,418.26 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 71,753,709.88 |
| Deferred tax assets | 442,192,923.94 | 63,628,549.89 | 1,958,684.37 | -898,686.62 | 0.00 | 0.00 | 0.00 | 0.00 | 506,881,471.58 |
| Other non-current assets | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total non-current assets | 6,561,470,614.84 | 543,970,567.15 | 1,958,684.37 | 4,328,596.98 | -455,000,000.00 | 1,823,500,000.00 | 909,981,397.19 | -1,827,037,027.83 | 7,563,172,832.70 |
| TOTAL ASSETS | 27,025,105,480.76 | 18,286,516,757.51 | -261,673,429.19 | 4,354,554.79 | -910,000,000.00 | -8,800,000.00 | 909,981,397.19 | -1,827,037,027.83 | 43,218,447,733.23 |

## 2. Unaudited Pro Forma Consolidated Balance Sheet of the Enlarged Group (Continued)

Currency unit: RMB Yuan

| Liabilities and shareholders' equity | The Group | Guangzhou Pharmaceuticals | Pro forma adjustments | | | | | | Unaudited pro forma consolidated balance sheet of the Enlarged Group as at 30 September 2017 |
|---|---|---|---|---|---|---|---|---|---|
| | | | Pro forma elimination (Note 5) | | | | | | |
| | Unaudited consolidated balance sheet of the Group as at 30 September 2017 (Note 2) | Audited consolidated balance sheet of Guangzhou Pharmaceuticals as at 30 September 2017 | Pro forma elimination on inter-group transactions between the Group and Guangzhou Pharmaceuticals and unrealized profit thereof (Note 5a-1) | Pro forma reversal of the downstream and upstream transactions between the Group and Guangzhou Pharmaceuticals originally recognized in the Group (Note 5a-2) | Pro Forma distribution of dividends of Guangzhou Pharmaceuticals and dividends received by the Company (Note 5a-3) | Pro forma acquisition price paid by the Company and exercise of Put Option (Note 5a-4) | Pro forma adjustment on the original carrying amount of long-term equity investment at the fair value on the acquisition date by the Company (Note 5a-5) | Pro forma elimination on the equity by Guangzhou Pharmaceuticals with the subsidiaries of the Company (Note 5a-6) | |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) = (1) + (2) + (3) + (4) + (5) + (6) + (7) + (8) |
| Current liabilities: | | | | | | | | | |
| Short-term borrowings | 11,550,000.00 | 6,148,403,737.53 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 6,159,953,737.53 |
| Financial liabilities at fair value through profit or loss | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Notes payable | 394,694,743.14 | 1,700,630,368.81 | -78,516,483.07 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 2,016,808,628.88 |
| Accounts payable | 2,342,861,529.64 | 5,797,748,224.71 | -100,813,654.87 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 8,039,796,099.48 |
| Advances from customers | 957,163,033.30 | 49,409,464.69 | -57,069,140.03 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 949,503,357.96 |
| Employee benefits payable | 470,055,493.38 | 33,531,326.51 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 503,586,819.89 |
| Taxes payable | 214,836,990.41 | 73,425,169.48 | -14,968,371.02 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 273,293,788.87 |
| Interest payable | 256,555.65 | 15,836,529.60 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 16,093,085.25 |
| Dividends payable | 46,155,579.75 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 46,155,579.75 |
| Other payables | 3,006,778,752.66 | 499,500,126.11 | -2,625,122.18 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 3,503,653,756.59 |
| Current portion of non-current liabilities | 31,822,315.98 | 263,226,913.34 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 295,049,229.32 |
| Other current liabilities | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total current liabilities | 7,476,174,993.91 | 14,581,711,860.78 | -253,992,771.17 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 21,803,894,083.52 |
| Non- current liabilities: | | | | | | | | | |
| Long-term borrowings | 0.00 | 631,378,960.43 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 631,378,960.43 |
| Debentures payable | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

| Liabilities and shareholders' equity | The Group | Guangzhou Pharmaceuticals | Pro forma adjustments | | | | | | Unaudited pro forma consolidated balance sheet of the Enlarged Group as at 30 September 2017 |
|---|---|---|---|---|---|---|---|---|---|
| | | | Pro forma elimination (Note 5) | | | | | | |
| | Unaudited consolidated balance sheet of the Group as at 30 September 2017 (Note 2) | Audited consolidated balance sheet of Guangzhou Pharmaceuticals as at 30 September 2017 | Pro forma elimination on inter-group transactions between the Group and Guangzhou Pharmaceuticals and unrealized profit thereof (Note 5a-1) | Pro forma reversal of the downstream and upstream transactions between the Group and Guangzhou Pharmaceuticals originally recognized in the Group (Note 5a-2) | Pro Forma distribution of dividends of Guangzhou Pharmaceuticals and dividends received by the Company (Note 5a-3) | Pro forma acquisition price paid by the Company and exercise of Put Option (Note 5a-4) | Pro forma adjustment on the original carrying amount of long-term equity investment at the fair value on the acquisition date by the Company (Note 5a-5) | Pro forma elimination on the equity by Guangzhou Pharmaceuticals with the subsidiaries of the Company (Note 5a-6) | |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) = (1) + (2) + (3) + (4) + (5) + (6) + (7) + (8) |
| Long-term payables | 20,252,449.73 | 83,927,761.57 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 104,180,211.30 |
| Payables for specific projects | 16,669,375.74 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 16,669,375.74 |
| Deferred income | 571,102,223.60 | 3,420,043.35 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 574,522,266.95 |
| Provisions | 56,286,792.36 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 56,286,792.36 |
| Deferred tax liabilities | 94,766,176.07 | 3,100,863.92 | 148,332.20 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 98,015,372.19 |
| Other current liabilities | 50,556,903.20 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 50,556,903.20 |
| Total non-current liabilities | 809,633,920.70 | 721,827,629.27 | 148,332.20 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,531,609,882.17 |
| Total liabilities | 8,285,808,914.61 | 15,303,539,490.05 | -253,844,438.97 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 23,335,503,965.69 |
| Shareholders' equity: | | | | | | | | | |
| Share capital | 1,625,790,949.00 | 700,000,000.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -700,000,000.00 | 1,625,790,949.00 |
| Capital surplus | 9,875,198,586.25 | 377,072,540.51 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -377,072,540.51 | 9,875,198,586.25 |
| Less: Treasury share | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other comprehensive income | 7,732,416.89 | 444,996.61 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -444,996.61 | 7,732,416.89 |
| Surplus reserves | 1,052,034,418.97 | 397,340,048.64 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -397,340,048.64 | 1,052,034,418.97 |
| Undistributed profits | 5,812,723,603.86 | 1,262,179,442.07 | -7,681,809.52 | 4,354,554.79 | -910,000,000.00 | -8,800,000.00 | 909,981,397.19 | -352,179,442.07 | 6,710,577,746.32 |
| Equity attributable to shareholders of parent company | 18,373,479,974.97 | 2,737,037,027.83 | -7,681,809.52 | 4,354,554.79 | -910,000,000.00 | -8,800,000.00 | 909,981,397.19 | -1,827,037,027.83 | 19,271,334,117.43 |
| Minority interest | 365,816,591.18 | 245,940,239.63 | -147,180.70 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 611,609,650.11 |
| Total shareholders' equity | 18,739,296,566.15 | 2,982,977,267.46 | -7,828,990.22 | 4,354,554.79 | -910,000,000.00 | -8,800,000.00 | 909,981,397.19 | -1,827,037,027.83 | 19,882,943,767.54 |
| TOTAL LIABILITIES & SHAREHOLDERS' EQUITY | 27,025,105,480.76 | 18,286,516,757.51 | -261,673,429.19 | 4,354,554.79 | -910,000,000.00 | -8,800,000.00 | 909,981,397.19 | -1,827,037,027.83 | 43,218,447,733.23 |

## 3. Unaudited Pro Forma Consolidated Income Statement of the Enlarged Group

Currency unit: RMB Yuan

| Items | The Group | Guangzhou Pharmaceuticals | Pro forma adjustments | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Pro forma elimination (Note 5) | | | | | Unaudited pro forma consolidated income statement on the Enlarged Group for the year ended 31 December 2016 |
| | Audited consolidated income statement of the Group for the year ended 31 December 2016 (Note 2) | Audited consolidated income statement of Guangzhou Pharmaceuticals for the year ended 31 December 2016 (Note 3) | Pro forma elimination on inter-group transactions between the Group and Guangzhou Pharmaceuticals and unrealized profit thereof (Note 5b-1) | Pro forma reversal of the downstream and upstream transactions between the Group and Guangzhou Pharmaceuticals originally recognized in the Group (Note 5b-2) | Pro forma adjustment on the original carrying amount of long-term equity investment and investment income at the fair value on the acquisition date by the Company (Note 5b-3) | Pro forma reversion of the Company's investment income which Guangzhou Pharmaceuticals have originally been accounted and recognized as a joint venture by equity method and the elimination on the equity by Guangzhou Pharmaceuticals with the subsidiaries of the Company (Note 5b-4) | Pro forma confirmation on other expenses of the Transaction (Note 5b-5) | |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) = (1) + (2) + (3) + (4) + (5) + (6) + (7) |
| 1. Revenue | 20,035,681,499.37 | 33,004,805,415.66 | -1,932,933,810.19 | 11,423,796.16 | 0.00 | 0.00 | 0.00 | 51,118,976,901.00 |
| Less: Cost of sales | 13,412,062,896.03 | 31,220,143,726.47 | -1,922,484,539.17 | 8,805,129.21 | 0.00 | 0.00 | 0.00 | 42,718,527,212.54 |
| Taxes and surcharges | 189,309,156.99 | 36,053,809.24 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 225,362,966.23 |
| Selling and distribution expenses | 3,823,589,490.19 | 836,637,455.68 | -1,878,716.24 | 0.00 | 0.00 | 0.00 | 0.00 | 4,658,348,229.63 |
| General and administrative expenses | 1,439,734,312.47 | 268,112,658.12 | -3,361,573.48 | 0.00 | 0.00 | 0.00 | 8,800,000.00 | 1,713,285,397.11 |
| Financial expenses | -96,520,258.97 | 279,307,046.35 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 182,786,787.38 |
| Asset impairment losses | 6,728,893.84 | 31,474,732.86 | -402,330.30 | 0.00 | 0.00 | 0.00 | 0.00 | 37,801,296.40 |
| Add: Profit arising from the changes in fair value (loss marked with "-") | -473,665.66 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -473,665.66 |
| Investment income (loss marked with "- ") | 206,321,948.46 | 654,629.79 | 0.00 | -14,176.32 | 1,114,829,436.78 | -112,963,789.97 | 0.00 | 1,208,828,048.74 |
| Including: Share of profits from associates and jointly controlled entities | 194,459,911.23 | 0.00 | 0.00 | -14,176.32 | 1,114,829,436.78 | -112,963,789.97 | 0.00 | 1,196,311,381.72 |
| 2. Operating profit (loss marked with "-") | 1,466,625,291.62 | 333,730,616.73 | -4,806,651.00 | 2,604,490.63 | 1,114,829,436.78 | -112,963,789.97 | -8,800,000.00 | 2,791,219,394.79 |
| Add: Non-operating income | 554,792,542.30 | 11,371,249.31 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 566,163,791.61 |
| Including: Gains on disposal of non-current assets | 17,866,008.79 | 13,706.04 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 17,879,714.83 |

| Items | The Group | Guangzhou Pharmaceuticals | Pro forma adjustments | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Pro forma elimination (Note 5) | | | | | Unaudited pro forma consolidated income statement on the Enlarged Group for the year ended 31 December 2016 |
| | Audited consolidated income statement of the Group for the year ended 31 December 2016 (Note 2) | Audited consolidated income statement of Guangzhou Pharmaceuticals for the year ended 31 December 2016 (Note 3) | Pro forma elimination on inter-group transactions between the Group and Guangzhou Pharmaceuticals and unrealized profit thereof (Note 5b-1) | Pro forma reversal of the downstream and upstream transactions between the Group and Guangzhou Pharmaceuticals originally recognized in the Group (Note 5b-2) | Pro forma adjustment on the original carrying amount of long-term equity investment and investment income at the fair value on the acquisition date by the Company (Note 5b-3) | Pro forma reversion of the Company's investment income which Guangzhou Pharmaceuticals have originally been accounted and recognized as a joint venture by equity method and the elimination on the equity by Guangzhou Pharmaceuticals with the subsidiaries of the Company (Note 5b-4) | Pro forma confirmation on other expenses of the Transaction (Note 5b-5) | |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) = (1) + (2) + (3) + (4) + (5) + (6) + (7) |
| Less: Non-operating expenses | 76,364,435.58 | 1,892,041.86 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 78,256,477.44 |
| Including: Loss on disposal of non-current assets | 2,622,479.73 | 1,046,894.90 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 3,669,374.63 |
| 3. Total profit (total loss marked with "-") | 1,945,053,398.34 | 343,209,824.18 | -4,806,651.00 | 2,604,490.63 | 1,114,829,436.78 | -112,963,789.97 | -8,800,000.00 | 3,279,126,708.96 |
| Less: Income tax expenses | 386,379,403.17 | 93,131,053.60 | -841,963.24 | 424,528.73 | 0.00 | 0.00 | 0.00 | 479,093,022.26 |
| 4. Net profit (net loss marked with "-") | 1,558,673,995.17 | 250,078,770.58 | -3,964,687.76 | 2,179,961.90 | 1,114,829,436.78 | -112,963,789.97 | -8,800,000.00 | 2,800,033,686.70 |
| Net profit attributable to the shareholders of the parent company | 1,508,032,671.07 | 225,905,550.66 | -3,871,766.17 | 2,179,961.90 | 1,114,829,436.78 | -112,963,789.97 | -8,800,000.00 | 2,725,312,064.27 |
| Minority interest | 50,641,324.10 | 24,173,219.92 | -92,921.59 | 0.00 | 0.00 | 0.00 | 0.00 | 74,721,622.43 |
| 5. Other comprehensive income | 10,516,712.10 | -865,603.99 | 0.00 | 0.00 | 0.00 | 123,024.34 | 0.00 | 9,774,132.45 |
| 6. Total comprehensive income | 1,569,190,707.27 | 249,213,166.59 | -3,964,687.76 | 2,179,961.90 | 1,114,829,436.78 | -112,840,765.63 | -8,800,000.00 | 2,809,807,819.15 |
| Comprehensive income attributable to the shareholders of the parent company | 1,518,553,416.23 | 225,659,501.99 | -3,871,766.17 | 2,179,961.90 | 1,114,829,436.78 | -112,791,555.90 | -8,800,000.00 | 2,735,758,994.83 |
| Comprehensive income attributable to the shareholders of minority interest | 50,637,291.04 | 23,553,664.60 | -92,921.59 | 0.00 | 0.00 | -49,209.73 | 0.00 | 74,048,824.32 |

## 4. Unaudited Pro Forma Consolidated Cash Flow Statement of the Enlarged Group

Currency unit: RMB Yuan

| Items | The Group | Guangzhou Pharmaceuticals | Pro forma adjustments | | | |
|---|---|---|---|---|---|---|
| | | | Pro forma elimination (Note 5) | | | |
| | Audited consolidated cash flow statement of the Group for the year ended 31 December 2016 (Note 2) | Audited consolidated cash flow statement of Guangzhou Pharmaceuticals for the year ended 31 December 2016 (Note 3) | Pro forma elimination on transaction between the Group and Guangzhou Pharmaceuticals (Note 5c-1) | Pro Forma distribution of dividends of Guangzhou Pharmaceuticals and dividends received and acquisition price paid by the Company (Note 5c-2) | Pro forma confirmation of other expenses of the Transaction (Note 5c-3) | Unaudited pro forma consolidated cash flow statement of the Enlarged Group for the year ended 31 December 2016 |
| | (1) | (2) | (3) | (4) | (5) | (6) = (1) + (2) + (3) + (4) + (5) |
| **1. Cash flows from operating activities:** | | | | | | |
| Cash received from sales of goods or rendering of services | 17,268,366,583.98 | 38,338,386,054.76 | -2,273,915,469.02 | | | 53,332,837,169.72 |
| Refund of taxes and surcharges | 8,491,189.51 | 0.00 | 0.00 | | | 8,491,189.51 |
| Cash received relating to other operating activities | 1,231,074,991.51 | 27,534,881.09 | -2,634,175.95 | | | 1,255,975,696.65 |
| **Sub-total of cash inflows from operating activities** | 18,507,932,765.00 | 38,365,920,935.85 | -2,276,549,644.97 | 0.00 | 0.00 | 54,597,304,055.88 |
| Cash paid for goods and services | 8,705,625,607.36 | 36,574,336,798.74 | -2,273,915,469.02 | | | 43,006,046,937.08 |
| Cash paid to and on behalf of employees | 3,049,506,228.39 | 545,761,323.38 | 0.00 | | | 3,595,267,551.77 |
| Payments of taxes and surcharges | 1,659,063,123.63 | 367,611,252.00 | 0.00 | | | 2,026,674,375.63 |
| Cash paid relating to other operating activities | 2,539,066,177.55 | 523,998,018.66 | 6,165,824.05 | | 8,800,000.00 | 3,078,030,020.26 |
| **Sub-total of cash outflows from operating activities** | 15,953,261,136.93 | 38,011,707,392.78 | -2,267,749,644.97 | 0.00 | 8,800,000.00 | 51,706,018,884.74 |
| **Net cash flows from operating activities** | 2,554,671,628.07 | 354,213,543.07 | -8,800,000.00 | 0.00 | -8,800,000.00 | 2,891,285,171.14 |
| **2. Cash flows from investing activities:** | | | | | | |
| Cash received from disposal of investments | 408,409,818.38 | 30,000.00 | 0.00 | 0.00 | 0.00 | 408,439,818.38 |
| Net cash received from disposal of subsidiaries | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Cash received from returns on investments | 22,474,950.73 | 654,629.79 | 0.00 | 0.00 | 0.00 | 23,129,580.52 |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | 18,059,677.86 | 541,406.87 | 0.00 | 0.00 | 0.00 | 18,601,084.73 |
| Cash received relating to other investing activities | 7,915,085.64 | 0.00 | 0.00 | 0.00 | 0.00 | 7,915,085.64 |
| **Sub-total of cash inflows from investing activities** | 456,859,532.61 | 1,226,036.66 | 0.00 | 0.00 | 0.00 | 458,085,569.27 |
| Cash paid to acquire fixed assets, intangible assets and other long-term assets | 228,026,926.70 | 47,620,123.22 | 0.00 | 0.00 | 0.00 | 275,647,049.92 |
| Cash paid to acquire investments | 726,000,000.00 | 0.00 | 0.00 | 1,823,500,000.00 | 0.00 | 2,549,500,000.00 |

| Items | The Group | Guangzhou Pharmaceuticals | Pro forma adjustments | | | |
|---|---|---|---|---|---|---|
| | | | Pro forma elimination (Note 5) | | | |
| | Audited consolidated cash flow statement of the Group for the year ended 31 December 2016 (Note 2) | Audited consolidated cash flow statement of Guangzhou Pharmaceuticals for the year ended 31 December 2016 (Note 3) | Pro forma elimination on transaction between the Group and Guangzhou Pharmaceuticals (Note 5c-1) | Pro Forma distribution of dividends of Guangzhou Pharmaceuticals and dividends received and acquisition price paid by the Company (Note 5c-2) | Pro forma confirmation of other expenses of the Transaction (Note 5c-3) | Unaudited pro forma consolidated cash flow statement of the Enlarged Group for the year ended 31 December 2016 |
| | (1) | (2) | (3) | (4) | (5) | (6) = (1) + (2) + (3) + (4) + (5) |
| Net cash paid to acquire subsidiaries | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Cash paid relating to other investing activities | 1,990,385.70 | 0.00 | 0.00 | 0.00 | 0.00 | 1,990,385.70 |
| **Sub-total of cash outflows from investing activities** | 956,017,312.40 | 47,620,123.22 | 0.00 | 1,823,500,000.00 | 0.00 | 2,827,137,435.62 |
| **Net cash flows from investing activities** | -499,157,779.79 | -46,394,086.56 | 0.00 | -1,823,500,000.00 | 0.00 | -2,369,051,866.35 |
| **3. Cash flows from financing activities:** | | | | | | |
| Cash received from capital contributions | 7,869,146,528.33 | 0.00 | 0.00 | 0.00 | 0.00 | 7,869,146,528.33 |
| Including: Cash received from capital contributions by minority shareholders to subsidiaries | 5,700,000.00 | 0.00 | 0.00 | 0.00 | 0.00 | 5,700,000.00 |
| Cash received from borrowings | 288,033,608.85 | 5,361,960,136.82 | 0.00 | 0.00 | 0.00 | 5,649,993,745.67 |
| Cash received relating to other financing activities | 0.00 | 3,430,787,680.93 | 0.00 | 0.00 | 0.00 | 3,430,787,680.93 |
| **Sub-total of cash inflows from financing activities** | 8,157,180,137.18 | 8,792,747,817.75 | 0.00 | 0.00 | 0.00 | 16,949,927,954.93 |
| Cash repayments of borrowings | 908,920,164.85 | 4,363,861,168.35 | 0.00 | 0.00 | 0.00 | 5,272,781,333.20 |
| Cash payments for interest expenses and distribution of dividends or profits | 523,231,009.84 | 275,775,527.33 | 0.00 | 455,000,000.00 | 0.00 | 1,254,006,537.17 |
| Including: Cash payments for dividends or profit to minority shareholders of subsidiaries | 10,763,819.03 | 2,500,000.00 | 0.00 | 0.00 | 0.00 | 13,263,819.03 |
| Cash payments relating to other financing activities | 307,223.86 | 3,752,349,888.18 | 0.00 | 0.00 | 0.00 | 3,752,657,112.04 |
| **Sub-total of cash outflows from financing activities** | 1,432,458,398.55 | 8,391,986,583.86 | 0.00 | 455,000,000.00 | 0.00 | 10,279,444,982.41 |
| **Net cash flows from financing activities** | 6,724,721,738.63 | 400,761,233.89 | 0.00 | -455,000,000.00 | 0.00 | 6,670,482,972.52 |
| **4. Effect of foreign exchange rate changes on cash and cash equivalents** | -1,369,354.38 | 0.00 | 0.00 | 0.00 | 0.00 | -1,369,354.38 |
| **5. Net increase in cash and cash equivalents** | 8,778,866,232.53 | 708,580,690.40 | 0.00 | -2,278,500,000.00 | -8,800,000.00 | 7,191,346,922.93 |
| Add: Cash and cash equivalents at beginning of period | 3,807,603,553.98 | 1,093,906,437.69 | 0.00 | 0.00 | 0.00 | 4,901,509,991.67 |
| **6. Cash and cash equivalent at end of period** | 12,586,469,786.51 | 1,802,487,128.09 | 0.00 | -2,278,500,000.00 | -8,800,000.00 | 12,092,856,914.60 |

5. **Notes to Unaudited Pro Forma Financial Information**

1. ***Basic information on the Transaction***

The Company proposes to acquire 30% of the equity interest in Guangzhou Pharmaceuticals in cash. By reference to the Asset Valuation Report on the Market Value of All the Equity Interest of the Shareholders in Guangzhou Pharmaceuticals Corporation in Relation to the Proposed Equity Interest Acquisition by Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (Guo Zhong Lian Ping Bao Zi (2017) No. 3- 0085) (國衆聯評報字(2017)第 3-0085 號《廣州白雲山醫藥集團股份有限公司擬實施股權收購涉及廣州醫藥有限公司股東全部權益市場價值資產評估報告》) issued by Guo Zhong Lian Assets Evaluation, Land & Real Estate Appraisal Company Limited* (國眾聯資產評估土地房地產估價有限公司), which is included in Appendix V(A) to this circular, the valuation of the above 100% of the equity interest in Guangzhou Pharmaceuticals as at 30 September 2017 amounted to RMB4,557 million, and after deducting the cash dividends of RMB910 million since the valuation date, the basic transaction price of the 100% of the equity interest in Guangzhou Pharmaceuticals amounted to RMB3,647 million, and the proposed acquisition price of 30% of the equity interest in Guangzhou Pharmaceuticals, the target of the Transaction, is RMB1,094.1 million.

The exercise period of the Put Option granted by the Company to Alliance BMP commences from six months after the Completion Date of the Transaction up to thirty-six months after the Completion Date. The agreement on the transaction price of the equity interest is as follows: if the counterparty exercises the Put Option, the transaction price should be based on the appraised value determined by an independent third-party qualified valuation institution, and the transaction price should be within the scope permissible under the PRC laws relating to the administration of the state-owned assets and under the applicable laws, regulations, normative documents and regulatory policies of the China Securities Regulatory Commission, the Shanghai Stock Exchange and / or The Stock Exchange of Hong Kong Limited, and should not be lower than the consideration of 30% of the equity interest in the Target Company after adjusting proportionally. If Guangzhou Pharmaceuticals will increase its capital or its board of directors will make a resolution to pay dividends to its shareholders after the signature date and prior to the Exercise of the Put Option by Alliance BMP, the Company and Alliance BMP should also make synchronized and proportional adjustments on the transaction price, taking into consideration the impact of such capital increase or dividends payment. In respect of preparation of the Unaudited Pro Forma Financial Information, the directors have assumed that the Put Option is exercised at the price after the proportional adjustments of RMB729,400,000.00 with reference to the Consideration for the Material Asset Acquisition. Pursuant to Rule 14.74(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the grant of the Put Option to Alliance BMP is presented for the Pro Forma Financial Information as if the Put Option had been exercised.

After completion of the transactions on the acquisition of 30% of the equity interest in Guangzhou Pharmaceuticals in cash by the Company and the Exercise of Put Option, the Company will hold 100% of the equity interest in Guangzhou Pharmaceuticals, resulting in a business combination not under common control.

There are connected transactions and business relationships between the Group and Guangzhou Pharmaceuticals during the pro forma period, and the major connected transactions included: the sale and purchase of the raw materials, the sale and purchase of the products and the corresponding unrealized profits, the properties leased and leased out as well as the trademark license fee.

2. The unaudited consolidated balance sheet of the Group as at 30 September 2017 was extracted without adjustment from the unaudited third quarterly financial statements of the Group as at 30 September 2017.

3. The audited consolidated income statement and audited consolidated cash flow statement of the Group for the year ended 31 December 2016 were extracted without adjustment from the audited annual financial statements of the Group as at 31 December 2016.

4. The audited balance sheet of Guangzhou Pharmaceuticals as at 30 September 2017 was extracted without adjustment from the accountants' report on Guangzhou Pharmaceuticals as incorporated in Appendix II to this circular for reference.

The audited income statement and audited cash flow statement of Guangzhou Pharmaceuticals for the year ended 31 December 2016 were extracted without adjustment from the accountants' report of Guangzhou Pharmaceuticals as incorporated in Appendix II to this circular for reference.

5a. The pro forma elimination on the unaudited pro forma consolidated balance sheet of the Enlarged Group as at 30 September 2017:

5a-1. The pro forma elimination on the inter-group transactions arising from the sale and purchase of the goods between the Group and Guangzhou Pharmaceuticals and the unrealized profits thereof.

5a-2. The pro forma reversal of the downstream and upstream transactions between the Group and Guangzhou Pharmaceuticals as originally recognized in the Group.

5a-3. The pro forma assumption that Guangzhou Pharmaceuticals distributed dividends and the Group received dividends, according to Section 5.1 of this report, the consideration of 30% of the equity interest in Guangzhou Pharmaceuticals, being the target of the Transaction, is amounted to RMB1,094.1 million which was calculated after the subtraction of the cash dividends of RMB910 million to be distributed after the valuation date. Therefore the pro forma assumed that Guangzhou Pharmaceuticals had made cash dividends on 30 September 2017 and the Company had received 50% cash dividends based on its original shareholdings, consisted of a decrease of cash at bank and on hand amounted to RMB455,000,000.00, the decrease of the long-term equity investments amounted to RMB455,000,000.00 and the decrease of the undistributed profit amounted to RMB910,000,000.00.

5a-4. The pro forma assumption that the Company paid a consideration of RMB1,094,100,000.00 for the Asset Acquisition and a transaction price of RMB729,400,000.00 for the Exercise of Put Option to Alliance BMP on 30 September 2017, obtaining a total of 50% shares of Guangzhou Pharmaceuticals, this consisted of a decrease of cash at bank and on hand amounted to

RMB1,823,500,000.00 and the increase of long- term equity investments amounted to RMB1,823,500,000.00. In addition, it is assumed that other expenses of the Transaction, including payments to financial consultants, legal counsels, reporting accountants and appraisers and printing expenses, are estimated to be approximately RMB8,800,000.00, which have been paid on 30 September 2017, this consisted of a decrease of cash at bank and on hand amounted to RMB8,800,000.00 and the decrease of undistributed profits amounted to RMB8,800,000.00.

5a-5. The pro forma assumed that the Company takes 30 September 2017 as the acquisition date, on which the Company adjusted the carrying value of the long-term equity investments in Guangzhou Pharmaceuticals at a fair value. The carrying value of 50% equity interest in Guangzhou Pharmaceuticals held by the Company prior to the acquisition date of RMB913,518,602.81 (assuming that the Company has received a dividend of RMB455,000,000.00 from Guangzhou Pharmaceuticals), shall be re-measured at its fair value on the acquisition date. The difference between the fair value and its carrying value is included in the current investment income. Based on the value of 100% equity interest in Guangzhou Pharmaceuticals of RMB3,647,000,000, the fair value of 50% equity interest originally held by the Company was RMB1,823,500,000, with a difference between the fair value and the carrying value of RMB909,981,397.19, this consisted of an increase of long- term equity investments and undistributed profit amounted to RMB909,981,397.19. Since the investment revenue arising from the above transactions has not been realized in a separate statement, and pursuant to the requirements of the Income Tax Standards, for a taxable temporary difference relating to investments of subsidiaries, associated companies and joint ventures, given the following two conditions satisfied: firstly, the investment enterprise can control the timing of the reversal of the temporary difference; and secondly, it is unlikely that the temporary difference will be reversed in the foreseeable future, such enterprise is not required to recognize the corresponding deferred income tax liability. Since the Company falls under the above conditions it is not required to recognize the deferred income tax liability.

5a-6. The pro forma assumption that the Company takes 30 September 2017 as the acquisition date, and upon completion of the payment of cash by the Company in respect of the acquisition of 30% of the equity interest in Guangzhou Pharmaceuticals and the Exercise of Put Option by Alliance BMP (for the purpose of presenting the pro forma financial information and under Rule 14.74 (1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the grant of the put options to Alliance BMP will be made on the assumption that the relevant options have been exercised), the Company would hold 100% of the equity interest in Guangzhou Pharmaceuticals. The excess of the cost of combination of the Company over the percentage share of the fair value of the net identifiable assets of Guangzhou Pharmaceuticals at the acquisition date is recognized as goodwill. The Company intends to evaluate and determine the fair value of the net identifiable assets of Guangzhou Pharmaceuticals only at the actual acquisition date, goodwill is therefore calculated and determined in this pro forma on the basis of treating the carrying value of the net assets of Guangzhou Pharmaceuticals at the acquisition date as the fair value of the net identifiable assets, this consists of a decrease in long-term equity investment and increase in goodwill of RMB1,819,962,972.17.

The cost of combination and goodwill is calculated as follows:

| | RMB |
|---|---|
| Original carrying value of the long-term equity investment of the Company | 913,518,602.81 |
| Adding: adjustment to the long-term equity investment at the fair value as at the acquisition date | 909,981,397.19 |
| Adding: consideration for the acquisition of 30% of equity interest | 1,094,100,000.00 |
| Adding: consideration for the Exercise of Put Option | 729,400,000.00 |
| Resulting: cost of combination of the Company | 3,647,000,000.00 |
| Less: fair value of the net identifiable assets of Guangzhou | 1,827,037,027.83 |
| Pharmaceuticals Resulting: goodwill | 1,819,962,972.17 |

For the purpose of the unaudited pro forma financial information, the Directors have assessed whether there is any impairment indicator in respect of the goodwill expected to arise from the proposed acquisition following the principles set out in Accounting Standards for Business Enterprises No 8-Impairment of Assets. Based on the Directors' assessment, the Directors consider that no impairment of goodwill is considered necessary, as the estimated recoverable amounts of the cash-generating units containing goodwill based on the present value of the future cash flows calculation exceeds its carrying amounts. The Company will adopt consistent accounting policies, principal assumptions and valuation method to assess the impairment of the Enlarged Group's goodwill in the future. The Company also confirmed with its auditor that they will audit the annual consolidated financial statements of the Group (including goodwill impairment) in accordance with the China Standards on Auditing issued by the Chinese Institute of Certified Public Accountants.

Upon completion of the Transaction, Guangzhou Pharmaceuticals, as a wholly-owned subsidiary of the Company, will be consolidated into the Group provided the long-term equity investment and gains therefrom between the Company and Guangzhou Pharmaceuticals shall be eliminated. This involves in a decrease in long-term equity investment of RMB1,827,037,027.83. Meanwhile, a share capital of RMB700,000,000.00, capital reserve of RMB377,072,540.51, other comprehensive income of RMB444,996.61, surplus reserve of RMB397,340,048.64 and unallocated profit of RMB 352,179,442.07 of Guangzhou Pharmaceuticals shall be eliminated. However, as the fair value of the net identifiable assets of Guangzhou Pharmaceuticals may change after the actual completion date of the proposed acquisition, the actual amount of assets, liabilities and goodwill included in the consolidated financial statements of the Enlarged Group upon completion of the proposed acquisition will differ from the estimated value from above to a certain extent.

5b. The pro forma adjusted the unaudited pro forma consolidated income statement of the Enlarged Group for the year ended 31 December 2016:

5b-1. The pro forma elimination on inter-group transactions arising from the purchase and sale of goods between the Group and Guangzhou Pharmaceuticals and unrealised profit thereof.

5b-2. The pro forma reversal of the downstream and upstream transactions between the Group and Guangzhou Pharmaceuticals as originally recognised in the Group.

5b-3. The pro forma assumption that the Company takes 1 January 2016 as the acquisition date, a carrying value of 50% equity interest in Guangzhou Pharmaceuticals held by the Company prior to the acquisition date of RMB708,670,563.22, shall be re-measured at its fair value on the acquisition date.

The carrying value of 50% equity interest in Guangzhou Pharmaceuticals held by the Company prior to the acquisition date is calculated as follows:

| | *RMB (Yuan)* |
|---|---|
| The carrying value of 50% equity interest in Guangzhou Pharmaceuticals held by the Group in 1 January 2016 | 1,159,509,073.90 |
| Less: The downstream transactions between the Group and Guangzhou Pharmaceuticals | -4,161,489.32 |
| Less: The Group received dividends distributed by Guangzhou Pharmaceuticals | 455,000,000.00 |
| Resulting: The carrying value of 50% equity interest in Guangzhou Pharmaceuticals held by the Company in 1 January 2016 | 708,670,563.22 |

The difference between the fair value and its carrying value is included in the current investment income. Based on the value of 100% equity interest in Guangzhou Pharmaceuticals of RMB3,647,000,000.00, the fair value of 50% equity interest originally held by the Company was RMB1,823,500,000.00, with a difference of RMB1,114,829,436.78 between the fair value and the carrying value, consisted of an increase of investment income amounted to RMB1,114,829,436.78. Since the investment income arising from the above transaction had not been realised in a separate statement, and pursuant to the requirements of the Income Tax Standards, for a taxable temporary difference relating to investments of subsidiaries, associated companies and joint ventures, given the following two conditions are satisfied: firstly, the investment enterprise can control the timing of the reversal of the temporary difference; and secondly, it is unlikely that the temporary difference will be reversed in the foreseeable future, such enterprise is not required to recognize the corresponding deferred income tax liability. Since the Company falls under the above conditions, it is not required to recognize the deferred income tax liability.

5b-4. The pro forma assumption that the Company takes 1 January 2016 as the acquisition date, it reversed the Company's investment income and other comprehensive income which Guangzhou Pharmaceuticals have originally been accounted and recognized as a joint venture by equity method, this results in a decrease of investment income amounting to RMB112,963,789.97 and the increase of other comprehensive income amounting to RMB123,024.34.

5b-5. The pro forma assumption that the Company takes 1 January 2016 as the acquisition date, on which date other expenses of the Transaction has been paid, including payments to financial consultants, legal counsels, reporting accountants and appraisers and printing expenses which were estimated to be approximately RMB8,800,000.00, this results in an increase of management fees amounting to RMB8,800,000.00.

The pro forma adjustment on the unaudited pro forma consolidated statement of cash flow of the Enlarged Group:

5c. The pro forma elimination on the unaudited pro forma consolidated statement of cash flow of the Enlarged Group for the year ended 31 December 2016:

5c-1. The pro forma elimination on the sale and purchase of the products between the Group and Guangzhou Pharmaceuticals.

5c-2. The pro forma assumption that the Company takes 1 January 2016 as the acquisition date, Guangzhou Pharmaceuticals distributed dividends amounted to RMB910,000,000.00 and the Company received dividends amounted to RMB455,000,000.00 and paid acquisition price and the transaction price on the Exercise of Put Option amounted to RMB1,823,500,000.00 to Alliance BMP, this results in an increase of cash paid for investment amounting to RMB1,823,500,000.00 and an increase of cash paid for distribution of dividends, profits or interests amounting to RMB455,000,000.00.

5c-3. The pro forma assumption that the Company takes 1 January 2016 as the acquisition date, on which other expenses of the Transaction have been paid, including payments to financial consultants, legal counsels, reporting accountants and appraisers and printing expenses which were estimated to be approximately RMB8,800,000.00, this results in a decrease of cash at bank and on hand amounting to RMB8,800,000.00.

立信会计师事务所(特殊普通合伙)
BDO CHINA SHU LUN PAN CERTIFIED PUBLIC ACCOUNTANTS LLP

Our ref.: XinKuaiShiBaoZi[2018] No.ZC12021

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

To the Directors of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 September 2017, the unaudited pro forma consolidated statement of comprehensive income for the year ended 31 December 2016, the unaudited pro forma consolidated statement of cash flow for the year ended 31 December 2016, and related notes as set out on pages IV-1 — IV-16 of this circular issued by the Company dated 12 February 2018. The applicable criteria on the basis of which the directors have compiled the unaudited pro forma financial information are described on pages IV-1 — IV-2.

The unaudited pro forma financial information has been compiled by the directors to illustrate the impact of the (1) proposed acquisition of 30% of the equity interest in Guangzhou Pharmaceuticals Corporation ("Guangzhou Pharmaceuticals") held by Alliance BMP Limited ("Alliance BMP") by way of cash; and (2) the assumption of the exercise of the put options granted by the Company to Alliance BMP in relation to the selling of its remaining 20% equity interest in Guangzhou Pharmaceuticals on the Group's financial position as at 30 September 2017 and the Group's financial performance and cash flows for the year ended 31 December 2016 as if the transaction had taken place on 30 September 2017 and 1 January 2016 respectively. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial statements as at 30 September 2017, on which no audit or review report has been published. Information on the financial performance and cash flows has been extracted by the directors from the Group's financial statements for the year ended 31 December 2016, on which an audit report has been published.

**Directors' Responsibility for the Unaudited Pro Forma Financial Information**

The directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Review of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountant's Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 September 2017 or 1 January 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related unaudited pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

BDO CHINA SHU LUN PAN CPAs LLP

Certified Public Accountant of China: Zhang ning

Certified Public Accountant of China: Zhang xi

Shanghai, the PRC
12 February 2018

*The following is an English translation of the main text of the Valuation Report, which has been prepared for the purpose of incorporation in this circular. The Valuation Report is prepared in Chinese and translated into English. In case of inconsistency, the Chinese version shall prevail.*

**Asset Valuation Report on the Market Value of the Entire Shareholders' Interests of Guangzhou Pharmaceuticals Corporation Involved in the Proposed Equity Acquisition by Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited**

Guo Zhong Lian Ping Bao Zi (2017) No. 3-0085

Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited:

As appointed by your company, Guo Zhong Lian Assets Evaluation, Land & Real Estate Appraisal Company Limited* (國眾聯資產評估土地房地產估價有限公司) has implemented various necessary valuation procedures, such as thorough checking; verification; market survey and confirmation; appraisal and estimation through preparing corresponding valuation scheme and working plan in accordance with the relevant laws and regulations of the PRC; assets appraisal standards; technical specification; guiding opinion and related documents, and followed the independent, objective and equity principles. It conducted valuation on the market value of the entire shareholders' interests of Guangzhou Pharmaceuticals Corporation involved in the proposed equity acquisition by Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited as at 30 September 2017 using the market approach and income approach respectively, based on the particular valuation assumptions and limitations. The asset valuation is hereby reported as follows.

## I. Commissioning Party, Appraised Entity Profile and Other Users of the Valuation Report

### (I) *Commissioning Party*

Name: Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited
Legal representative: Li Chuyuan
Registered capital: RMB1,625,790,949
Type: Company limited by shares (listed and state-controlled)
Address: No. 45 Sha Mian North Street, Liwan District, Guangzhou City
Term of operation: 1 September 1997 to long term
Unified Social Credit Code: 9144010163320680X7

Scope of business: Pharmaceutical manufacturing business (for enquiries related to the specific licensed items, please logon to the Guangzhou Business Registration Information Public Platform* (廣州市商事主體信息公示平臺.) Items requiring statutory approval may only commence business activity upon receiving approval from the related authorities)

(II) ***Appraised Entity***

*1. Profile*

Name: Guangzhou Pharmaceuticals Corporation
Legal representative: John Kallend
Registered capital: RMB700,000,000
Type: Limited liability company (Sino-foreign joint venture)
Address: No. 97-103 Datong Road, Liwan District, Guangzhou City
Term of operation: from 1 January 1951 to 28 December 2037
Unified Social Credit Code: 9144010173296653XY

Scope of business: Wholesale business (for enquiries related to the specific licensed items, please logon to the Guangzhou Business Registration Information Public Platform. For the wholly foreign owned enterprises involved in the state regulated special access management measures, the scope of business approved by approval authority shall prevail; for the wholly foreign owned enterprises not involved in the state regulated special access management measures, the scope of business partial filed by business supervisor shall prevail. Items requiring statutory approval may only commence business activity upon receiving approval from the related authorities.)

*2. Company Profile and History:*

Guangzhou Pharmaceuticals Corporation (hereinafter referred to as the "Company" or "Guangzhou Pharmaceuticals") is a pharmaceutical logistics company specialising in pharmaceutical supply chain services. The Company was established on 1 January 1951, with a registered capital of RMB700,000,000, it was converted into a limited liability company on 21 December 2001 and subsequently changed to a Sino-foreign joint venture company with limited liability by its shareholders on 28 December 2007, with its headquarters in Guangzhou. Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (formerly known as Guangzhou Pharmaceutical Company Limited) is the Chinese shareholder of the Company, while ALLIANCE BMP LIMITED under Walgreens Boots Alliance is the foreign shareholder, and each of them holds 50% of shares of Guangzhou Pharmaceuticals. The general history is as follows:

(1) Predecessor of Guangzhou Pharmaceuticals (prior to restructuring)

A. Establishment of the Guangzhou Municipal Pharmaceuticals Corporation

Guangzhou Pharmaceuticals (previously known as Guangzhou Municipal Pharmaceuticals Corporation) was established in 1951 and the former subsidiary of Guangzhou Pharmaceutical Holdings Limited.

B. Changes in the Ownership of Guangzhou Municipal Pharmaceuticals Corporation

On 20 August 1997, the State-owned Assets Administration Bureau issued the Guo Zi Qi Fa [1997] No. 227 "Reply to the Issue Regarding the Management of the State-Owned Equity by Guangzhou Pharmaceutical Company Limited (Preparing)", such reply approved the plan of

Guangzhou Pharmaceutical Holdings Limited* (廣州醫藥集團有限公司) on incorporating the interests held by its 11 subsidiaries (including Guangzhou Pharmaceuticals) into the scope of converting it into a joint-stock limited company, and establishing Guangzhou Pharmaceutical Company Limited. The enterprises included into the scope of converting into a joint-stock limited company issued shares for 65.01% of the amount of net assets confirmed by State-owned Assets Administration Bureau on 31 December 1996, with the remaining amount to be included in the capital reserve, i.e. upon assets restructuring. The entire equity of Guangzhou Municipal Pharmaceuticals Corporation will belong to Guangzhou Pharmaceutical Company Limited and the enterprise nature of Guangzhou Municipal Pharmaceuticals Corporation will be changed to the wholly-owned subsidiary of a joint-stock limited company.

C. Illustration of the Registered Capital and Paid-up Capital of Guangzhou Municipal Pharmaceuticals Corporation

On 12 December 2001, Guangzhou Pharmaceutical Holdings Limited had submitted the Sui Yao Ji Han [2001] No. 26 "Letter Regarding the Confirmation of the Capital Investment Relating to Guangzhou Pharmaceuticals Corporation" to Bureau of Finance of Guangzhou Municipality, which stated that, the original registered capital of Guangzhou Municipal Pharmaceuticals Corporation was RMB8,354,000; the original paid-up capital was RMB42,382,400; the original paid-up capital over the years was construed as follows: (1) at the initial establishment of Guangzhou Municipal Pharmaceuticals Corporation, a capital amount of RMB369,400 was transferred from the current fund at the time of a public-private partnership; (2) the capital amount of RMB3,923,100 was transferred from the updated transformation fund (the accounting system was reformed in July 1993); (3) an amount of RMB3,426,200 was transferred from the balance of the current fund (the accounting system reformed in July 1993); (4) an amount of RMB2,270,800 was transferred from the balance of the fixed capital (the accounting system reformed in July 1993); (5) in July 1998, according to the notice Guang Yao Sui Yao Gu Zi [98] No. 5 "Notice on Straightening out the Investment Relationship of Legal Persons", Guangzhou Pharmaceutical Company Limited had allocated its subsidiaries, namely Guangzhou Municipal Pharmaceuticals Corporation Chun Hing Company; Guangzhou Municipal Pharmaceuticals Corporation Jianmin Medicine Chain Stores; Guangzhou Municipal Pharmaceuticals Corporation Medical Equipment Wholesale Company; Guangzhou Municipal Pharmaceuticals Corporation Experimental Equipment Store; Guangzhou Municipal Pharmaceuticals Corporation Chemical Testing Equipment Wholesale Company; Guangzhou Municipal Pharmaceuticals Corporation New and Special Medicine Wholesale Company, to Guangzhou Municipal Pharmaceuticals Corporation, and increased an amount of RMB14,393,800 of paid-up capital of Guangzhou Municipal Pharmaceuticals Corporation. The aforesaid investments formed a paid-up capital of RMB42,382,400.

On 14 December 2001, the Bureau of Finance of Guangzhou Municipality issued the Sui Cai Qi Yi [2001] No. 1328 "Reply on Capital Investment Issue Regarding Organization of Guangzhou Pharmaceuticals Corporation", which confirmed the paid-up capital formation of Guangzhou Pharmaceuticals and the contribution issue on the organization of Guangzhou Pharmaceuticals.

According to the letter Guo Zi Qi Fa [1997] No. 227 "Reply to the Issue Regarding Management of State-Owned Equity by Guangzhou Pharmaceutical Company Limited (Preparing)" issued by the State-owned Assets Administration Bureau, Guangzhou Municipal Pharmaceuticals Corporation issued shares for 65.01% of the net assets amounting to RMB133,149,900 confirmed upon valuation on 31 December 1996, its paid-up capital had increased from RMB42,382,400 to RMB86,560,800. From November 1998 to June 2000, Guangzhou Pharmaceutical Company Limited increased its investment in Guangzhou Pharmaceuticals by raising funds of a total of RMB21,100,000 from issuing H shares, resulting to an increased paid-up capital of RMB107,660,800. In June 2001, Guangzhou Pharmaceutical Company Limited increased its investment in Guangzhou Pharmaceuticals by raising funds of a total of RMB92,339,200 from issuing A shares, resulting to a paid-up capital of RMB200,000,000. On 27 September 2001, Guangzhou Yangcheng Certified Public Accountants Co., Ltd.* (廣州羊城會計師事務所有限公司) issued the (2001) Yang Yan Zi No. 4383 "Capital Verification Report" in respect of the aforesaid share issue and capital increase. Such Capital Verification Report stated that, the registered capital and capital invested in Guangzhou Municipal Pharmaceuticals Corporation prior to this change (share issue and capital increased) were RMB8,354,000 and RMB42,382,400 respectively. As at 26 June 2001, Guangzhou Municipal Pharmaceuticals Corporation had an increased capital of RMB157,617,600, resulting in a total capital of RMB200,000,000.

Prior to restructuring, the shareholding structure of Guangzhou Municipal Pharmaceuticals Corporation was as follows:

| **Name of Shareholder** | **Amount of Capital Contribution (RMB0'000)** | **Percentage of Capital Contribution** |
|---|---|---|
| Guangzhou Pharmaceutical Company Limited | 20,000 | 100% |
| **Total** | **20,000** | **100%** |

(2) Restructuring and Capital Increasing in 2001

On 9 November 2001, Guangzhou Pharmaceutical Company Limited issued the Sui Yao Gu Zi (2001) No. 53 "Reply on the Restructuring Proposal of Guangzhou Municipal Pharmaceuticals Corporation", which approved the restructuring of Guangzhou Municipal Pharmaceuticals Corporation as "Guangzhou Pharmaceuticals Corporation", the nature of which is limited in liability, and approved the capital increase from 33 natural persons including the senior management personnel; middle management personnel and technical experts of Guangzhou Municipal Pharmaceuticals Corporation; Guangzhou Jing Xiu Tang Pharmaceutical Company Limited, as well as Guangzhou Pan Gao Shou Pharmaceutical Company Limited.

On 16 November 2001, Guangzhou Pharmaceutical Holdings Limited (the controlling shareholder of Guangzhou Pharmaceutical Company Limited) issued the Sui Yao Ji Zi [2001] No. 217 "Reply on the Restructuring of Guangzhou Municipal Pharmaceuticals Corporation", which approved Guangzhou Municipal Pharmaceuticals Corporation's restructuring as a limited liability company.

On 14 December 2001, Bureau of Finance of Guangzhou Municipality issued the Sui Cai Qi Yi [2001] No. 1328 "Reply on Capital Investment Issue Regarding Organization of Guangzhou Pharmaceuticals Corporation", which confirmed the paid-up capital formation of Guangzhou Pharmaceuticals and the contribution issues on organization of Guangzhou Pharmaceuticals, which also stated that, "The absorption by Guangzhou Pharmaceutical Company Limited of its subsidiaries including Guangzhou Jing Xiu Tang Pharmaceutical Company Limited, Guangzhou Pan Gao Shou Pharmaceutical Company Limited and the 33 natural persons including Feng Zansheng (all of them were senior or middle management personnel of Guangzhou Pharmaceuticals) against the capital increase of Guangzhou Pharmaceuticals Corporation by Guangzhou Pharmaceuticals shall be regarded as investment behaviors of Guangzhou Pharmaceutical Company Limited. The ratios of capital contribution and the amount of capital increase of each contribution shall be considered and approved by the board of directors of Guangzhou Pharmaceutical Company Limited, and publicly disclosed according to the established procedures."

On 6 December 2001, Guangzhou Yangcheng Certified Public Accountants Company limited issued the (2001) Yang Yan Zi No. 4407 "Capital Verification Report". Such Capital Verification Report stated that, the registered capital and invested capital of Guangzhou Pharmaceuticals prior to this change were RMB8,354,000 and RMB200,000,000 respectively, and as at 26 June 2001, Guangzhou Pharmaceuticals had an increased capital of RMB22,000,000, resulting in a total capital of RMB222,000,000.

As for this change, each party who contributed to the capital of Guangzhou Pharmaceuticals had held a general meeting, which approved the amended Articles of Association of Guangzhou Pharmaceuticals, and dealt with the related filing procedures in the Guangzhou Administration for Industry and Commence.

Upon this change, the shareholding structure of Guangzhou Pharmaceuticals was as follows:

| **No.** | **Name of Shareholder** | **Amount of Capital Contribution (RMB0'000)** | **Percentage of Capital Contribution** |
|---|---|---|---|
| 1 | Guangzhou Pharmaceutical Company Limited | 20,000.00 | 90.090% |
| 2 | Guangzhou Jing Xiu Tang Pharmaceutical Company Limited | 870.05 | 3.919% |
| 3 | Guangzhou Pan Gao Shou Pharmaceutical Company Limited | 870.05 | 3.919% |
| 4 | Feng Zansheng | 70.00 | 0.315% |
| 5 | Yao Yongfang | 49.00 | 0.221% |
| 6 | Yu Jinghui | 49.00 | 0.221% |
| 7 | Zhong Xinru | 49.00 | 0.221% |
| 8 | Liu Yunjian | 49.00 | 0.221% |
| 9 | Chen Ximei | 14.00 | 0.063% |
| 10 | Lu Shuyi | 14.00 | 0.063% |
| 11 | Wu Zhaolin | 14.00 | 0.063% |
| 12 | Guan Manping | 7.00 | 0.032% |
| 13 | Liang Xiang | 7.00 | 0.032% |
| 14 | Yang Ruiyun | 7.00 | 0.032% |

| No. | Name of Shareholder | Amount of Capital Contribution (RMB0'000) | Percentage of Capital Contribution |
|---|---|---|---|
| 15 | Chen Guangyan | 7.00 | 0.032% |
| 16 | Liu Zhiwen | 7.00 | 0.032% |
| 17 | Gao Xiujuan | 7.00 | 0.032% |
| 18 | Huang Zhiwei | 7.00 | 0.032% |
| 19 | Yang Yingdong | 7.00 | 0.032% |
| 20 | Tan Liqing | 7.00 | 0.032% |
| 21 | Wang Danping | 7.00 | 0.032% |
| 22 | Gu Yuhe | 7.00 | 0.032% |
| 23 | Zhou Xiaowen | 7.00 | 0.032% |
| 24 | Ou Yongqiang | 7.00 | 0.032% |
| 25 | Zheng Jianxiong | 7.00 | 0.032% |
| 26 | Wang Nanying | 4.90 | 0.022% |
| 27 | Shi Hanqian | 4.90 | 0.022% |
| 28 | Chen Guokang | 4.90 | 0.022% |
| 29 | Chen Zhizhao | 4.90 | 0.022% |
| 30 | Chen Ruijie | 4.90 | 0.022% |
| 31 | Deng Jianhui | 4.90 | 0.022% |
| 32 | Wang Qihua | 4.90 | 0.022% |
| 33 | Liu Guowei | 4.90 | 0.022% |
| 34 | Luo Zhiyong | 4.90 | 0.022% |
| 35 | Chen Xiao | 4.90 | 0.022% |
| 36 | Wang Hong | 4.90 | 0.022% |
| **Total** | | **22,200.00** | **100.000%** |

(3) Change of Type of Company, Equity Transfer and Capital Increase in 2007

On 26 January 2007, Guangzhou Jing Xiu Tang Pharmaceutical Company Limited, Guangzhou Pan Gao Shou Pharmaceutical Company Limited and 33 natural persons had signed a statement agreeing that 3.919% of the equity interests in Guangzhou Pharmaceuticals held by Guangzhou Jing Xiu Tang Pharmaceutical Company Limited; 3.919% of the equity interests in Guangzhou pharmaceuticals held by Guangzhou Pan Gao Shou Pharmaceutical Company Limited, and the aggregate amount of 2.072% of the equity interests held by 33 natural persons to be transferred to Alliance BMP, and waived the pre-emptive rights.

On 27 January 2007, the "Contract for the Transfer of Capital Contribution of Guangzhou Pharmaceuticals Corporation" was entered into between Guangzhou Jing Xiu Tang Pharmaceutical Company Limited; Guangzhou Pan Gao Shou Pharmaceutical Company Limited; and the 33 natural persons including Feng Zansheng. Pursuant to such contract, Alliance BMP accepted the transfer of the 3.919%, 3.919% and 2.072% equity interests in Guangzhou Pharmaceuticals held by Guangzhou Jing Xiu Tang Pharmaceutical Company Limited, Guangzhou Pan Gao Shou Pharmaceutical Company Limited and 33 natural persons including Feng Zansheng at a consideration of RMB23,710,000, RMB23,710,000 and RMB12,535,600, respectively.

On 27 January 2007, Guangzhou Pharmaceutical Company Limited and Alliance BMP entered into the "Capital Increase Contract for Guangzhou Pharmaceuticals Corporation". It was agreed in such contract that, after the completion of the acceptance of equity interests of Alliance BMP, its capital will be increased to the same equity interests of Guangzhou Pharmaceuticals as held by Guangzhou Pharmaceutical Company Limited. On the same day, both parties had signed the "Joint Venture Contract" and the "Articles of Association of Guangzhou Pharmaceuticals Corporation".

On 6 April 2007, Guangzhou Pharmaceutical Company Limited held its First Extraordinary General Meeting of 2007, which resolved to confirm the aforesaid agreements entered into on 27 January 2007 and the relevant transactions thereunder.

On 30 July 2007, the Ministry of Commerce issued the "Reply on Granting the Establishment of Sino-foreign Joint Venture Guangzhou Pharmaceuticals Corporation by the Ministry of Commerce", which approved that, the investors of Guangzhou Pharmaceuticals, namely Guangzhou Jing Xiu Tang Pharmaceutical Company Limited, Guangzhou Pan Gao Shou Pharmaceutical Company Limited. and the 33 natural person shareholders including Liang Xiang to transfer a total of 3.919%, 3.919% and 2.072% equity interests in Guangzhou Pharmaceuticals held by them respectively to Alliance BMP at a consideration of an equivalent amount of foreign currency of RMB59,955,500; in addition, Alliance BMP had subscribed to a capital increase of an equivalent amount of foreign currency of RMB485,089,000 to Guangzhou Pharmaceuticals; after the approval of equity transfer and capital increase, Guangzhou Pharmaceuticals had changed to a Sino-foreign joint venture; the total investment amount of Guangzhou Pharmaceuticals was RMB1,200,000,000; with a registered capital of RMB400,000,000; each of Guangzhou Pharmaceutical Company Limited and Alliance BMP held 50% equity interests in Guangzhou Pharmaceuticals; approved the "Contract" and the "Articles of Association" signed by the investors of Guangzhou Pharmaceuticals on 27 January 2007. Subsequently, Guangzhou Pharmaceuticals had obtained a Certificate of Approval for Establishment of Enterprises with Foreign Investment in the PRC with No. 4401024670 issued by the Ministry of Commerce.

On 17 December 2007, a board meeting was held by Guangzhou Pharmaceuticals which resolved to approve that the equity interests of Guangzhou Pharmaceuticals, namely, the 3.919%, 3.919% and 2.072% held by Guangzhou Jing Xiu Tang Pharmaceutical Company Limited, Guangzhou Pan Gao Shou Pharmaceutical Company Limited and the 33 natural person shareholders including Liang Xiang transferred to Alliance BMP at the consideration of an equivalent amount of foreign currency of RMB59,955,500; in addition, Alliance BMP subscribed a capital increase of an equivalent amount of foreign currency of RMB485,089,000 to Guangzhou Pharmaceuticals; the meeting resolved to approve that after equity transfer and capital increase, Guangzhou Pharmaceuticals would be changed to a Sino-foreign joint venture, with a registered capital of RMB400,000,000, Guangzhou Pharmaceutical Company Limited and Alliance BMP would each hold 50% of the equity interests in Guangzhou Pharmaceuticals

On 20 December 2007, Guangzhou Jian Ming Certified Public Accountants Company Limited issued the Jian Yan [2007] No. 067 "Capital Verification Report", which stated that the registered capital of Guangzhou Pharmaceuticals prior to this change was RMB222,000,000, with a paid-up capital of RMB22,200,000. As at 18 December 2007, Guangzhou Pharmaceuticals had received the first contribution of GBP6,770,000 from Alliance BMP, equivalent to RMB10,860,100, of which, newly increased registered capital of RMB35,600,000, a capital reserve of RMB65,260,100 which was contributed in currency form, and after this change, the accumulative registered capital of Guangzhou Pharmaceuticals was RMB400,000,000, with a paid-up capital of RMB257,600,000.

On 17 January 2008, Guangzhou Jian Ming Certified Public Accountants Company Limited had issued the Jian Yan [2008] No. 004 "Capital Verification Report", which stated that, as at 8 January 2008, Guangzhou Pharmaceuticals had received the second contribution of GBP26,809,500 from Alliance BMP, equivalent to RMB384,228,900, of which, newly increased registered capital amounted to RMB142,400,000 and a capital reserve amounted to RMB241,828,900 both of which were contributed in currency form, and after this change, the accumulative registered capital of Guangzhou Pharmaceuticals was RMB400,000,000, with a paid-up capital of RMB400,000,000.

On 28 December 2007, Guangzhou Administration of Industry and Commerce had issued Qi He Yue Sui Zong Zi No. 010582 "Business License For the Enterprise Legal Person". The type of company had changed into a Sino-foreign joint venture company with limited liability, with a registered capital of RMB400,000,000.

Upon this change, the shareholding structure of Guangzhou Pharmaceuticals was as follows:

| **Name of Shareholder** | **Amount of Capital Contribution (RMB0'000)** | **Percentage of Capital Contribution** |
|---|---|---|
| Guangzhou Pharmaceutical Company Limited | 20,000.00 | 50% |
| Alliance BMP | 20,000.00 | 50% |
| **Total** | **40,000.00** | **100%** |

(4) Capital Increased in 2011

On 10 March 2011, Guangzhou Pharmaceuticals held the 13th meeting of the first session of the Board No. 111302, the Board resolved to approve the shareholders' capital increase of RMB300,000,000, shareholders of both parties have contributed in accordance to their shareholding proportion of 50% each, resulting in an increased capital of RMB150,000,000

On 3 May 2011, Guangzhou Pharmaceutical Company Limited and Alliance BMP had signed the "Amendments to the Articles of Associations of Guangzhou Pharmaceuticals Corporation".

On 31 May 2011, Bureau of Foreign Trade and Economic Co-operation of Guangzhou City had issued the Sui Wai Jing Mao Zi Pi [2011] No. 449 "Reply on the Capital Increase in Sino-foreign Joint Venture Guangzhou Pharmaceuticals Corporation", which approved that both of the total investment amount and registered capital of Guangzhou Pharmaceuticals to be increased by RMB300,000,000. The newly increased registered capital was subscribed by the investors of Guangzhou Pharmaceuticals. 50% was subscribed by Guangzhou Pharmaceutical Company Limited, which was contributed by cash in RMB; 50% was subscribed by Alliance BMP, which was contributed in foreign exchange note; approved the Amendments to the "Joint Venture Contract of Guangzhou

Pharmaceutical Company Limited" and, the "Amendments to Articles of Associations of Guangzhou Pharmaceuticals Corporation" which were signed by both parties on 3 May 2011. Subsequently, Guangzhou Pharmaceuticals obtained a Certificate of Approval for the Establishment of Enterprises with Foreign Investment in the PRC with No. 4401036140 issued by The People′s Government of Guangzhou Municipality.

On 29 June 2011, Guangzhou Jian Ming Certified Public Accountants Company Limited issued the Jian Yan [2011] No. 020 "Capital Verification Report", which stated that, as at 27 June 2011, Guangzhou Pharmaceuticals had received the newly increased registered capital (paid-up capital) of RMB150,000,000 and GBP14,547,900 (equivalent to RMB150,000,000) subscribed by Guangzhou Pharmaceutical Company Limited and Alliance BMP respectively. Each shareholder had contributed to an aggregate amount of RMB300,000,000 in currency, after this change, Guangzhou Pharmeceuticals had an accumulative registered capital of RMB700,000,000, with a paid-up capital of RMB700,000,000.

On 30 June 2011, Guangzhou Administration of Industry and Commerce issued the "Notice of Approval of Changes in Industrial and Commercial Registration", which approved the matter on the change of the registered capital of Guangzhou Pharmaceuticals from RMB400,000,000 to RMB700,000,000.

Upon this change, the shareholding structure of Guangzhou Pharmaceuticals was as follows:

| **Name of Shareholder** | **Amount of Capital Contribution (RMB0'000)** | **Percentage of Capital Contribution** |
|---|---|---|
| Guangzhou Pharmaceutical Company Limited | 35,000.00 | 50% |
| Alliance BMP | 35,000.00 | 50% |
| **Total** | **70,000.00** | **100%** |

(5) Change of the Name of the Shareholder in 2013

In May 2013, Guangzhou Pharmaceutical Company Limited absorbed and merged with Guangzhou Baiyunshan Pharmaceutical Company Limited through a share swap, Guangzhou Pharmaceutical Company Limited was the acquirer and the subsisting entity upon completion of the absorption and merger, its name was then changed to "Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited".

On 19 September 2013, Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and Alliance BMP had signed the amended "Amendments to the Articles of Associations of Guangzhou Pharmaceuticals Corporation".

On 18 October 2013, Guangzhou Administration of Industry and Commerce issued the Notice of Approval of Changes in Industrial and Commercial Registration, which approved that the matter on the changed of the investor's name from Guangzhou Pharmaceutical Company Limited to Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited.

Upon this change, the shareholding structure of Guangzhou Pharmaceuticals was as follows:

| Name of Shareholder | Amount of Capital Contribution (RMB0'000) | Percentage of Capital Contribution |
|---|---|---|
| Baiyunshan | 35,000.00 | 50% |
| Alliance BMP | 35,000.00 | 50% |
| **Total** | **70,000.00** | **100%** |

3. *As of the valuation date, the capital contribution and shareholding percentage of the appraised entity were as follows:*

| Name of Investor | Amount of Capital Contribution (RMB0'000) | Shareholding Percentage |
|---|---|---|
| ALLIANCE BMP LIMITED | 35,000 | 50% |
| Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited | 35,000 | 50% |
| **Total** | **70,000** | **100%** |

*4. Assets, Profit and Loss Condition in Recent Years*

(1) Consolidated Statement

The condition of consolidated balance sheet of the enterprise for the previous 3 years and of the valuation date is listed as follows:

Currency Unit: RMB0'000

| Item | 31 December 2014 | 31 December 2015 | 31 December 2016 | Valuation Date |
|---|---|---|---|---|
| **Total current assets** | **1,189,782.74** | **1,483,602.97** | **1,586,006.39** | **1,774,254.62** |
| Available-for-sale financial assets | 135.98 | 189.86 | 71.44 | 78.38 |
| Investment properties | 16.97 | 15.64 | 14.31 | 13.31 |
| Fixed assets | 14,944.03 | 19,634.76 | 23,667.08 | 26,716.34 |
| Construction in progress | 149.90 | 422.79 | 1,323.69 | 4,841.39 |
| Fixed assets pending for disposal | — | — | — | — |
| Intangible assets | 8,693.81 | 8,525.91 | 8,522.14 | 8,638.31 |
| Goodwill | 4,914.49 | 5,094.13 | 5,094.13 | 5,094.13 |
| Long-term prepaid expenses | 3,904.21 | 3,615.17 | 3,257.48 | 2,652.34 |
| Deferred tax assets | 2,540.58 | 3,197.64 | 4,539.13 | 6,362.85 |
| **Total non-current assets** | **35,299.96** | **40,695.90** | **46,489.40** | **54,397.06** |
| **Total assets** | **1,225,082.70** | **1,524,298.86** | **1,632,495.79** | **1,828,651.68** |
| **Total current liabilities** | **991,832.77** | **1,266,434.38** | **1,306,135.53** | **1,458,171.19** |
| **Total non-current liabilities** | **1,730.63** | **3,946.63** | **47,521.09** | **72,182.76** |
| **Total liabilities** | **993,563.40** | **1,270,381.01** | **1,353,656.62** | **1,530,353.95** |
| **Total shareholders' equity** | **231,519.30** | **253,917.86** | **278,839.17** | **298,297.73** |

The condition of consolidated income statement of the enterprise for the previous 3 years and for the period from January 2017 to September 2017 is listed as follows:

Currency Unit: RMB0'000

| Item | For the year ended 31 December 2014 | For the year ended 31 December 2015 | For the year ended 31 December 2016 | January 2017 to September 2017 |
|---|---|---|---|---|
| Revenue | 2,623,857.28 | 2,939,317.52 | 3,300,480.54 | 2,727,091.89 |
| Less: Cost of sales | 2,484,710.73 | 2,779,070.64 | 3,122,014.37 | 2,562,659.28 |
| Taxes and surcharges | 2,314.81 | 2,644.53 | 3,605.38 | 3,488.20 |
| Selling and distribution expenses | 57,468.65 | 69,043.95 | 83,663.75 | 83,205.74 |
| General and administrative expenses | 24,479.45 | 26,473.21 | 26,811.27 | 20,347.42 |
| Financial expenses | 25,567.18 | 28,221.51 | 27,930.70 | 24,350.75 |
| Asset impairment losses | 693.11 | 3,361.72 | 3,147.47 | 7,035.81 |
| Add: Investment income | 4.03 | 4.46 | 65.46 | 3.36 |
| Other income | — | — | — | 232.70 |
| Operating profit | 28,627.38 | 30,506.42 | 33,373.06 | 26,240.75 |
| Add: Non-operating income | 444.79 | 749.69 | 1,137.12 | 121.16 |
| Less: Non-operating expenses | 120.06 | 68.38 | 189.20 | 82.54 |
| Total profit | 28,952.11 | 31,187.72 | 34,320.98 | 26,279.38 |
| Less: Income tax expenses | 8,235.80 | 7,656.93 | 9,313.11 | 6,826.02 |
| Net profit | 20,716.31 | 23,530.79 | 25,007.88 | 19,453.35 |
| Less: ※Minority interests | 1,567.54 | 1,950.80 | 2,417.32 | 1,054.41 |
| Attributable to owners of the parent company | 19,148.78 | 21,580.00 | 22,590.56 | 18,398.95 |

The condition of consolidated cash flow of the enterprise for the previous 3 years and the valuation date is listed as follows:

Currency Unit: RMB0'000

| Item | For the year ended 31 December 2014 | For the year ended 31 December 2015 | For the year ended 31 December 2016 | January 2017 to September 2017 |
|---|---|---|---|---|
| **1. Cash flows from operating activities** | | | | |
| Cash received from sales of goods or rendering of services | 3,000,068.84 | 3,418,827.98 | 3,833,838.61 | 2,779,849.61 |

| Item | For the year ended 31 December 2014 | For the year ended 31 December 2015 | For the year ended 31 December 2016 | January 2017 to September 2017 |
|---|---|---|---|---|
| Refund of taxes and surcharges | — | — | — | — |
| Cash received relating to other operating activities | 1,309.13 | 2,296.45 | 2,753.49 | 1,468.88 |
| Sub-total of cash inflows | 3,001,377.97 | 3,421,124.43 | 3,836,592.09 | 2,781,318.48 |
| Cash paid for goods and services | 2,886,618.17 | 3,287,782.48 | 3,657,433.68 | 2,829,222.90 |
| Cash paid to and on behalf of employees | 41,008.12 | 48,362.19 | 54,576.13 | 45,686.16 |
| Payments of taxes and surcharges | 29,263.74 | 33,675.36 | 36,761.13 | 30,519.12 |
| Cash paid relating to other operating activities | 35,802.13 | 38,063.95 | 52,399.80 | 54,546.16 |
| Sub-total of cash outflows | 2,992,692.16 | 3,407,883.98 | 3,801,170.74 | 2,959,974.34 |
| Net cash flows from operating activities | 8,685.81 | 13,240.45 | 35,421.35 | -178,655.86 |
| **2. Cash flows from investing activities** | | | | |
| Cash received from disposal of investments | — | — | 3.00 | — |
| Cash received from returns on investments | 640.19 | 370.49 | 65.46 | 3.36 |
| Net cash received from acquisition of subsidiaries | 2,260.00 | — | — | — |
| Net cash received from disposal of fixed assets | 44.80 | 28.90 | 54.14 | 5.62 |
| Sub-total of cash inflows | 2,944.99 | 399.39 | 122.60 | 8.98 |
| Cash paid to acquire fixed assets, intangible assets and other long-term assets | 4,862.84 | 5,984.21 | 4,762.01 | 4,712.57 |
| Cash paid to pay the acquisition payment in installments | 200.00 | — | — | — |
| Net cash paid to acquire subsidiaries | — | 215.23 | — | — |
| Cash paid relating to other investing activities | 1,377.00 | 212.67 | — | 105.60 |
| Sub-total of cash outflows | 6,439.84 | 6,412.12 | 4,762.01 | 4,818.17 |
| Net cash flows from investing activities | -3,494.84 | -6,012.73 | -4,639.41 | -4,809.19 |

| Item | For the year ended 31 December 2014 | For the year ended 31 December 2015 | For the year ended 31 December 2016 | January 2017 to September 2017 |
|---|---|---|---|---|
| **3. Cash flows from financing activities** | | | | |
| Cash received from obtaining borrowings | 418,960.76 | 296,824.76 | 496,196.01 | 587,813.59 |
| Cash received from issuing bonds | — | 40,000.00 | 40,000.00 | — |
| Cash received relating to other financing activities | 155,993.49 | 270,835.13 | 343,078.77 | 218,976.43 |
| Sub-total of cash inflows | 574,954.25 | 607,659.89 | 879,274.78 | 806,790.02 |
| Cash repayments of borrowings | 313,391.43 | 279,265.13 | 436,386.12 | 389,691.74 |
| Cash paid to redeem bonds | 40,000.00 | — | 40,000.00 | 40,000.00 |
| Cash payments for interest expenses and distribution of dividends or profits | 26,371.47 | 29,342.59 | 27,577.55 | 25,753.60 |
| Cash payments relating to other financing activities | 188,712.14 | 305,034.34 | 335,234.99 | 199,964.03 |
| Sub-total of cash outflows | 568,475.04 | 613,642.07 | 839,198.66 | 655,409.38 |
| Cash flows from financing activities | 6,479.20 | -5,982.18 | 40,076.12 | 151,380.64 |
| **4. Net increase in cash and cash equivalents** | **11,670.17** | **1,245.55** | **70,858.07** | **32,084.41** |
| Add: Cash and cash equivalents at beginning of year/period | 96,474.93 | 108,145.10 | 109,390.64 | 180,248.71 |
| **5. Cash and cash equivalents at end of year/period** | **108,145.10** | **109,390.64** | **180,248.71** | **148,164.31** |

Note: KPMG Huazhen LLP Guangzhou Branch has audited the data for the year ended 31 December 2014, and issued unqualified audit reports. KPMG Huazhen LLP has audited the data for the years ended 31 December 2015 to 2016 and nine months ended 30 September 2017, and issued the audit report of KPMG Huazhen Shen Zi No. 1703067.

(2) Financial Statement of the Company

The condition of balance sheet of the enterprise for the previous 3 years and the valuation date is listed as follows:

Currency Unit: RMB0'000

| **Item** | **31 December 2014** | **31 December 2015** | **31 December 2016** | **Valuation Date** |
|---|---|---|---|---|
| **Total current assets** | 847,759.38 | 1,063,708.18 | 1,036,206.36 | 1,165,108.86 |
| Available-for-sale financial assets | 84.20 | 79.74 | 71.44 | 78.38 |
| Long-term equity investments | 60,836.78 | 63,848.12 | 99,071.57 | 99,071.57. |
| Investment properties | 16.97 | 15.64 | 14.31 | 13.31 |
| Fixed assets | 8,945.12 | 13,839.50 | 18,368.72 | 21,328.52 |
| Construction in progress | 149.90 | 422.79 | 1,312.22 | 4,841.39 |
| Construction materials | — | — | — | — |
| Fixed assets pending for disposal | — | — | — | — |
| Intangible assets | 6,669.99 | 6,660.70 | 6,965.59 | 7,237.42 |
| Long-term prepaid expenses | 3,124.38 | 2,924.06 | 2,448.59 | 1,809.59 |
| Deferred tax assets | 1,233.81 | 1,341.76 | 1,724.20 | 2,382.98 |
| Other non-current assets | 1,262.00 | — | — | — |
| **Total non-current assets** | 82,323.14 | 89,132.30 | 129,976.65 | 136,763.16 |
| **Total assets** | 930,082.51 | 1,152,840.48 | 1,166,183.01 | 1,301,872.02 |
| **Total current liabilities** | 742,233.88 | 946,942.88 | 904,999.32 | 985,726.37 |
| **Total non-current liabilities** | 1,183.36 | 3,411.82 | 47,046.37 | 71,782.13 |
| **Total liabilities** | 743,417.23 | 950,354.70 | 952,045.69 | 1,057,508.50 |
| **Total shareholders' equity** | 186,665.28 | 202,485.78 | 214,137.32 | 244,363.53 |

The condition of income statement of the enterprise for the previous 3 years and for the period from January 2017 to September 2017 is listed as follows:

Currency Unit: RMB0'000

| Item | For the year ended 31 December 2014 | For the year ended 31 December 2015 | For the year ended 31 December 2016 | January 2017 to September 2017 |
|---|---|---|---|---|
| Revenue | 1,720,250.53 | 1,913,849.87 | 2,122,379.80 | 1,743,706.55 |
| Less: Cost of sales | 1,644,575.04 | 1,825,503.41 | 2,028,339.99 | 1,658,201.74 |
| Taxes and surcharges | 1,018.91 | 1,189.64 | 1,965.96 | 1,774.86 |
| Selling and distribution expenses | 29,834.24 | 35,338.57 | 43,357.80 | 39,000.51 |
| General and administrative expenses | 12,905.79 | 14,144.05 | 13,919.42 | 11,662.19 |
| Financial expenses | 15,679.90 | 17,723.92 | 18,687.56 | 16,825.34 |
| Asset impairment losses | 25.30 | 2,542.46 | 1,639.58 | 2,423.55 |
| Add: Profit arising from the changes in fair value | | | | |
| Investment income | 1,534.95 | 2,345.69 | 576.43 | 19,803.36 |
| Operating profit | 17,746.31 | 19,753.50 | 15,045.92 | 33,814.73 |
| Add: Non-operating income | 384.29 | 294.22 | 864.59 | 14.38 |
| Less: Non-operating expenses | 77.10 | 11.99 | 18.81 | 28.83 |
| Total profit | 18,053.49 | 20,035.73 | 15,891.69 | 33,800.28 |
| Less: Income tax expenses | 4,637.44 | 4,195.60 | 4,233.93 | 3,579.27 |
| Net profit | 13,416.05 | 15,840.13 | 11,657.76 | 30,221.01 |

The cash flow of the enterprise for the previous 3 years and the valuation date was listed as follows:

Currency Unit: RMB0'000

| Item | For the year ended 31 December 2014 | For the year ended 31 December 2015 | For the year ended 31 December 2016 | January 2017 to September 2017 |
|---|---|---|---|---|
| **1. Cash flows from operating activities** | | | | |
| Cash received from sales of goods or rendering of services | 1,939,415.37 | 2,180,709.82 | 2,482,860.63 | 1,784,696.01 |
| Cash received relating to other operating activities | 1,263.20 | 1,525.85 | 1,991.15 | 1,104.58 |

| Item | For the year ended 31 December 2014 | For the year ended 31 December 2015 | For the year ended 31 December 2016 | January 2017 to September 2017 |
|---|---|---|---|---|
| Sub-total of cash inflows | 1,940,678.58 | 2,182,235.66 | 2,484,851.78 | 1,785,800.60 |
| Cash paid for goods and services | 1,867,683.81 | 2,107,215.83 | 2,392,601.16 | 1,857,972.26 |
| Cash paid to and on behalf of employees | 22,289.72 | 26,294.49 | 30,149.62 | 24,949.34 |
| Payments of taxes and surcharges | 14,785.99 | 15,435.15 | 17,036.90 | 14,156.63 |
| Cash paid relating to other operating activities | 17,996.22 | 19,666.82 | 32,346.85 | 23,325.64 |
| Sub-total of cash outflows | 1,922,755.73 | 2,168,612.28 | 2,472,134.53 | 1,920,403.87 |
| Net cash flows from operating activities | 17,922.85 | 13,623.38 | 12,717.25 | -134,603.27 |
| **2. Cash flows from investing activities** | | | | |
| Cash received from returns on investments | 6,411.15 | 6,186.80 | 3,027.38 | 1,973.01 |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | 40.45 | 0.75 | 6.24 | 1.57 |
| Cash received from disposal of investments | 54,240.00 | 58,852.00 | 56,674.00 | 15,800.00 |
| Sub-total of cash inflows | 60,691.60 | 65,039.55 | 59,707.62 | 17,774.59 |
| Cash paid to acquire fixed assets, intangible assets and other long-term assets | 3,659.80 | 5,222.28 | 3,898.52 | 3,240.11 |
| Cash paid to acquire investments | 59,540.00 | 57,240.00 | 54,534.00 | 18,750.00 |
| Net cash paid to acquire subsidiaries | — | 326.51 | — | — |
| Cash paid to pay the acquisition payment in installments | 200.00 | — | — | — |
| Cash paid to acquire minority interest | 1,377.00 | 212.67 | — | 105.60 |
| Cash paid to establish subsidiary | 50.00 | — | — | — |
| Cash paid to increase capital to subsidiary | — | — | — | — |
| Cash paid to prepaid capital increased payment | 1,262.00 | — | — | — |
| Sub-total of cash outflows | 66,088.80 | 63,001.46 | 58,432.52 | 22,095.71 |

| Item | For the year ended 31 December 2014 | For the year ended 31 December 2015 | For the year ended 31 December 2016 | January 2017 to September 2017 |
|---|---|---|---|---|
| Net cash flows from investing activities | -5,397.20 | 2,038.09 | 1,275.10 | -4,321.13 |
| **3. Cash flows from financing activities** | | | | |
| Cash received from obtaining borrowings | 290,172.33 | 202,347.87 | 350,434.36 | 436,188.85 |
| Cash received from issuing bonds | — | 40,000.00 | 40,000.00 | |
| Cash received relating to other financing activities | 106,620.39 | 233,353.07 | 252,092.67 | 143,514.79 |
| Sub-total of cash inflows | 396,792.72 | 475,700.94 | 642,527.03 | 579,703.64 |
| Cash repayments of borrowings | 206,475.90 | 206,317.60 | 309,309.34 | 274,517.28 |
| Cash paid to redeem bonds | 40,000.00 | — | 40,000.00 | 40,000.00 |
| Cash payments for interest expenses and distribution of profits | 20,637.03 | 22,305.11 | 21,716.65 | 21,635.49 |
| Cash payments relating to other financing activities | 135,036.43 | 263,896.52 | 223,959.19 | 134,347.71 |
| Sub-total of cash outflows | 402,149.35 | 492,519.23 | 594,985.18 | 470,500.48 |
| Cash flows from financing activities | -5,356.64 | -16,818.29 | 47,541.85 | 109,203.16 |
| **4. Net increase in cash and cash equivalents** | **7,169.01** | **-1,156.82** | **61,534.20** | **-29,721.23** |
| Add: Cash and cash equivalents at beginning of year/period | 68,262.13 | 75,431.14 | 74,274.32 | 135,808.51 |
| **5. Cash and cash equivalents at end of year/period** | **75,431.14** | **74,274.32** | **135,808.51** | **106,087.28** |

Note: KPMG Huazhen LLP Guangzhou Branch has audited the data for the year ended 31 December 2014, and issued unqualified audit reports. KPMG Huazhen LLP has audited the data for the years ended 31 December 2015 to 2016 and nine months ended 30 September 2017, and issued the audit report of KPMG Huazhen Shen Zi No. 1703067.

5. *Summary of the Long-term Investment of the Appraised Entity:*

(1) Guangzhou Guo Ying Company Limited*（廣州國盈醫藥有限公司）

Guangzhou Guo Ying Company Limited was established on 16 October 1989, with a registered capital of RMB465,000,000, which was organised by Guangzhou Pharmaceuticals Corporation through a capital contribution of 100%.

The main segments of enterprise are wholesale of medical apparatus in category II and III; wholesale of Chinese patent medicine and Chinese medicine herbal pieces; wholesale of prepackaging food; wholesale of Western medicine; wholesale of equipment for medical diagnosis; surveillance and treatment; the operation of licensed medical apparatus (i.e. medical apparatus in category II which require Permits for Medical Apparatus Operation Enterprises to operate); the wholesale of cosmetic products and sanitary supplies; wholesale of daily utensils and various household supplies; wholesale of chemical products (excluding dangerous chemicals); the wholesale and trading of commodities (excluding commodities subject to license and approval); the operation of unlicensed medical apparatus (i.e. medical apparatus which does not require Permits for Medical Apparatus Operation Enterprises to operate, including medical apparatus in category I and medical apparatus in category II that does not require "Permits for Medical Apparatus Operation Enterprises" to operate as specified by the State).

As at the valuation date, the total assets was RMB3,052,465,600; while the total liabilities was RMB2,507,114,600, and net assets was RMB545,351,000, the above data had not been independently audited for the individual company.

(2) Shaanxi Guangyao Kangjian Pharmaceutical Company Limited*（陝西廣藥康健醫藥有限公司）

Shaanxi Guangyao Kangjian Pharmaceutical Company Limited was established on 18 August 2011, as at the valuation date, Shaanxi Kangjian Pharmaceutical Chain Company Limited*（陝西康健醫藥連鎖有限公司）had invested RMB35,000,000, which accounted for 40% of the paid-up capital and Guangzhou Pharmaceuticals Corporation had invested RMB52,500,000, which accounted for 60% of the paid-up capital.

The main segments of enterprise are Chinese medicine; Chinese patent medicine; Chinese medicine herbal pieces; chemical raw materials intermediates; chemical active pharmaceutical ingredients; antibiotics; biochemical medicines; biological products (including vaccine); antibiotics crude drugs; psychoactive drugs in category II: medical toxic drugs; anabolic agents and peptide hormone; medical apparatus in category II; medical apparatus in category III; medical electronic instruments and equipment; medical X-ray equipment; clinical test and analysis instruments; extracorporeal circulation and blood processing equipment; medical suture materials and adhesives; disposable aseptic medical apparatus (wholesale); medical apparatus in category I; cosmetics; disinfection supplies; worker-protection items; daily merchandise; sales of agricultural and sideline products; packaging of Chinese medicine; wholesale of vaccine; field leasing; product information consultation; medical technology consultation; storage (excluding dangerous chemicals); conference and exhibition services; consultation; general cargo transportation (items within the scope of the aforesaid category require approvals according to laws and administrative regulations of the PRC or as prescribed by the State Council and could be operated by holding a license within the valid period; engagement in business activity is not permitted without approval) healthcare food (wholesale); wholesale of prepackaging food; dairy products (including powdered infant formula) and in vitro diagnostic reagent (apparatus and pharmaceuticals).

As at the valuation date, the total assets was RMB585,625,500, while the total liabilities was RMB467,085,500, and the net assets was RMB118,540,000, the above data had not been independently audited for the individual company.

(3) Chengdu Guangyao Xinhuiyuan Pharmaceutical Company Limited*(成都廣藥新匯源醫藥有限公司)

Chengdu Guangyao Xinhuiyuan Pharmaceutical Company Limited was established on 6 August 2012, as at the valuation date, Chengdu Huixin Huiyuan Investment Company Limited* (成都匯新匯源投資有限公司) had invested RMB24,500,000, which accounted for 49% of the paid-up capital and Guangzhou Pharmaceuticals Corporation had invested RMB25,500,000, which accounted for 51% of the paid-up capital.

The main segments of enterprise are wholesale of biochemical medicines; Chinese medicine herbal pieces; biological products (excluding preventive biological products); chemical active pharmaceutical ingredients; antibiotics crude drugs; Chinese patent medicine; chemical raw materials intermediates; antibiotic preparations; sales of medical apparatus in category I, II and III; sales of disinfection supplies (excluding dangerous goods); daily chemical product; medical project investment and product research and development; storage service; general cargo transportation; special road freight transportation (frozen and fresh- keeping); loading and unloading; business information consultation; conference service; exhibition and display service; healthcare product (excluding food); wholesale of prepackaging food; dairy products (including powdered infant formula); sales of medical medical apparatus; instruments and meters equipment.

As at the valuation date, the total assets was RMB361,720,700, while the total liabilities was RMB252,147,300, and net assets was RMB109,573,400, the above data had not been independently audited for the individual company.

(4) Guangdong Meixian Pharmaceutical Company Limited* (廣東省梅縣醫藥有限公司)

Guangdong Meixian Pharmaceutical Company Limited is a limited liability company established on 23 December 2003, with a registered capital of RMB14,000,000. Guangzhou Pharmaceuticals Corporation contributed to 60% of the capital (amounting to RMB8,400,000), the contribution of Liu Zhenqiang accounted for 26.83% of the registered capital and the contribution of Liu Zhuo accounted for 13.17% of the registered capital.

The main segments of enterprise medicine operation; operation of medical apparatus in category I, II and III (Permits for Medical Apparatus Operation Enterprises is required for the operation of the specific item) and sales of food (healthcare food).

As at the valuation date, the total assets was RMB237,597,500, while the total liabilities was RMB197,906,200, and the net assets was RMB39,691,300, the above data had not been independently audited for the individual company.

(5) Hainan Guangyao Chenfei Pharmaceutical Company Limited*(海南廣藥晨菲醫藥有限公司)

Hainan Guangyao Chenfei Pharmaceutical Company Limited is a limited liability company established on 15 March 2011, with a registered capital of RMB56,000,000. Guangzhou Pharmaceuticals

Corporation contributed to 60% of the capital (amounting to RMB33,600,000) the percentage of capital contribution of Wu Xiaowen, Cai Jianqiu were 8.636% and 11.364% respectively, Hainan Chenfei Investment Holdings Company Limited*（海南晨菲投資控股有限公司） contributed to 20% of the capital (amounting to RMB11,200,000).

The main segments of enterprise are the sales of Chinese patent medicine; chemical active pharmaceutical ingredients and preparations; antibiotics crude drugs and preparations; biochemical medicines; biological products; medical apparatus (operate within the approved business scope of Permits for Medical Apparatus Operation Enterprises); category II psychotropic drug preparations; protein assimilation preparations and peptide hormone; medical toxic drugs; wholesale and retail of chemical raw material (excluding dangerous chemicals); disinfectants; glassware; building material; daily merchandise; office supplies; household appliances; clothing textiles and cosmetics; business information consultation; medicine information consultation; marketing planning; labour services; conferencing services (excluding travel agency business); field leasing; freight forwarder; cargo storage (excluding dangerous chemicals). (an administrative permit is required for the operation of an event requiring a licence).

As at the valuation date, the total assets was RMB1,029,525,000, while the total liabilities was RMB912,568,100, and the net assets was RMB116,956,900, the above data had not been independently audited for the individual company.

(6) Fujian Guangyao Jieda Company Limited*（福建廣藥潔達醫藥有限公司）

Fujian Guangyao Jieda Company Limited was established on 26 June 1993, with a registered capital of RMB30,100,000; Guangzhou Pharmaceuticals Corporation had subscribed to an amount of capital contribution of RMB15,652,000; Beijing Daen Shengge Trade Company Limited*（北京達恩聖戈商貿有限公司）had subscribed to an amount of capital contribution of RMB13,244,000, Yang Hui had subscribed to an amount of capital contribution of RMB602,000, and Zhuang Yuangui had subscribed to an amount of capital contribution of RMB602,000.

The main segments of enterprise are wholesale of Chinese medicine herbal pieces; Chinese patent medicine; chemical active pharmaceutical ingredients; chemical raw materials intermediates; antibiotics crude drugs; antibiotic preparations; biochemical medicines; biological products; category II psychotropic drug preparations; operation of category III surgical instruments; puncture injection equipment; medical electronic instruments and equipment; medical high-frequency instruments and equipment; physiotherapy and rehabilitation equipment; medical devices for traditional Chinese medicine; medical ray protective equipment; equipment; clinical test and analysis instruments; extracorporeal circulation and blood processing equipment; equipment and apparatus for operation theatres; accidents and emergency rooms and clinics; category III medical suture materials and adhesives; medical macromolecule materials and products; category II of general treatment apparatus; medical X-ray auxiliary devices and components; medical test and fundamental equipment; dental instrument and equipment; ward nursing equipment and instruments; disinfection and sterilization equipment and instruments; general cargo transportation; transportation for containers; wholesale of packaging food; wholesale of healthcare food; sales of category I of medical apparatus products and disinfection products; leasing of self-owned property; storage (excluding dangerous goods); wholesale of instruments and meters; cosmetics and chemical products (excluding dangerous goods). (Items requiring statutory approval may only commence business activity upon receiving approval from the related authorities.)

As at the valuation date, the total assets was RMB70,618,700, while the total liabilities was RMB41,715,300, and the net assets was RMB28,903,400. The above data had not been independently audited for the individual company.

(7) Guangzhou Pharmaceutical Corporation Limited of Jianmin Medicine Chain* (廣州健民醫藥連鎖有限公司)

Guangzhou Pharmaceutical Corporation Limited of Jianmin Medicine Chain is a limited liability company (solely invested by corporation) established on 21 January 1967, with a registered capital of RMB8,600,0000, which was organised by Guangzhou Pharmaceuticals Corporation through a capital contribution of 100%.

The main segments of enterprise are general operating items and licensed operating items. General operating items include marketing planing services; trade consultation services; product information consultation services; nutrition and health consultation services; field leasing (excluding storage); advertising; retail of medical supplies and equipment (excluding medicine and medical apparatus); retail of cosmetics and sanitary supplies; operation of unlicensed medical apparatus; general retail of daily groceries; retail of cleaning and washing daily necessities; retail of seafood and dried seafood; retail of general merchandise (excluding retail of food); retail of household appliances; import and export of goods (excluding exclusively sold and controlled commodities); trade agency; retail and trading of commodities (excluding commodities subject to license and approval); information technology consulting services. Licensed operating items include retail of dairy products; retail of medicines; retail of liquor; retail of prepackaging food; retail of equipment for medical diagnosis; surveillance and treatment; retail of non-alcoholic drinks and tea; retail of Chinese medicine herbal pieces; operation of licensed medical apparatus and the retailing of bulk food.

As at the valuation date, the total assets was RMB134,060,700, while the total liabilities was RMB34,102,200, and net assets was RMB99,958,500. The above data had not been independently audited for the individual company.

Guangzhou Jianmin Pharmaceutical Corporation Limited* (廣州健民醫藥有限公司) is a limited liability company (invested solely by corporation) established on 11 August 1980, with a registered capital of RMB8,000,000, which was organized by Guangzhou Pharmaceutical Corporation Limited of Jianmin Medicine Chain through a capital contribution of 100%, being a wholly-owned subsidiary of Guangzhou Pharmaceutical Corporation Limited of Jianmin Medicine Chain. As at the valuation date, the total assets was RMB170,807,100, while total liabilities was RMB159,633,100, and the net assets was RMB11,174,000. The above data had not been independently audited for the individual company.

(8) Guangzhou Qihua Medical Equipment Company Limited

Guangzhou Qihua Medical Equipment Company Limited is a limited liability company (a wholly-owned foreign-invested enterprise) established on 28 April 1978, with a registered capital of RMB11,880,000, which was organized by Guangzhou Pharmaceuticals Corporation through a capital contribution of 100%.

The main segments of enterprise are operation of unlicensed medical apparatus; retail of medical supplies and equipment (excluding medicine and medical apparatus); wholesale of kitchen supplies, sanitary products and daily groceries; retail of kitchen supplies and daily groceries; wholesale of chinaware and glassware; retail of chinaware and glassware; wholesale of labour protective suppliers; retail of labour protective supplier; wholesale of cosmetics and sanitary supplies; retail of cosmetics and sanitary supplies; storage agency services; other storage operations (excluding crude oil, refined oil storage, gas storage, dangerous goods storage); wholesale of household appliances; retail of household appliances; mechanical and electrical equipment installation services; repair of instruments and meters; maintenance services of medical equipment; product information consultation services; advertising; field leasing (excluding storage); mechanical equipment leasing; medical equipment leasing services; furniture and household appliances leasing services; electronic automation engineering installation services; electronic equipment engineering installation services; intelligent installation engineering services; packing, loading and unloading and transportation service agency; logistic agency services; transportation consultation services; conference and exhibition services; market operation management, stalls leasing; information technology consulting services; wholesale of baby appliances; retail of baby appliances; wholesale of cleaning suppliers; wholesale of hardware products; retail of hardware; retails of switch, socket, wiring board, wire, cable and insulating material. Wholesale of textiles, knitwear and raw materials; retail of textiles and knitwear; wholesale of mechanical accessories; retail of mechanical accessories; wholesale of stationery; retail of stationery; wholesale of office equipment supplies; wholesale of electronic products; retail of electronic products; retail of electronic components; wholesale of electronic equipment; retail of lamps; wholesale of food additives; retail of food additives; retail of glass fiber reinforced polyester products; special glass; wholesale of rubber products; wholesale of plastic products; wholesale of leather and leather products; retail of wooden, plastic, leather daily necessities; house leasing; repair of household electrical appliance; repair of consumer electronic products. Operation of licensed medical apparatus; retail of equipment for medical diagnosis, surveillance and treatment; wholesale of chemical products (including dangerous chemicals); sales of non-pharmaceutical precursor chemicals; the storage of dangerous chemicals; road-transport, wholesale of prepackaging food and the retail of prepackaging food.

As at the valuation date, the total assets was RMB281,558,000, while the total liabilities was RMB243,905,200, and the net assets was RMB37,652,800. The above data had not been independently audited for the individual company.

Guangzhou Wankang Orthopaedics Medical Instrument Company Limited*（廣州萬康骨科醫療器械有限公司）is a wholly-owned subsidiary of Guangzhou Pharmaceuticals newly established on 31 August 2017, being a wholly-owned subsidiary of Guangzhou Qihua Medical Equipment Company Limited, with a registered capital of RMB10,000,000, to which Guangzhou Qihua contributed 100%. Its principal activities include retail of medical supplies and equipment (excluding medicine and medical apparatus); operation of unlicensed medical apparatus; wholesale and trading of commodities (excluding commodities subject to license and approval); retail and trading of commodities (excluding commodities subject to license and approval); import and export of goods (excluding exclusively sold and controlled commodities); import and export of technology; biotechnology promotion services; biotechnology consultation, exchange services; enterprise image planning services; retail of internet product (excluding commodities subject to license and approval); sales of internet product (excluding commodities subject to license and approval). As at 30 September 2017, Guangzhou Wankang Orthopaedics Medical Instrument Company Limited has not completed the capital contribution, and no business was carried out.

(9) Foshan Guangyao Jianze Pharmaceutical Company Limited* (佛山市廣藥健擇醫藥有限公司)

Foshan Guangyao Jianze Pharmaceutical Company Limited is a limited liability company established on 22 June 1992, with registered capital of RMB13,500,000, to which Guangzhou Pharmaceuticals Corporation contributed RMB8,100,000 accounting for 60% of the registered capital of the Company, Yao Bosen contributed RMB4,725,000 accounting for 35% of the registered capital of the Company, and Luo Jian contributedRMB675,000 accounting for 5% of the registered capital of the Company.

The main segments of enterprise are wholesale of Chinese patent medicine; chemical raw materials intermediates; antibiotics crude drugs; antibiotic preparations; biochemical medicines; biological products (excluding vaccine); category II of psychotropic drug (preparations); protein assimilation preparations; peptide hormone; Chinese medicine herbal pieces and disinfection products (excluding the prohibited products and products operated subject to license). Wholesale of category II, III of 6801-6812 surgical instruments; puncture injection equipment; medical electronic instruments and equipment; medical optical instruments & apparatus and endoscopy devices (excluding soft and hard contact lens and its care solution); medical ultrasonic instruments and relevant devices; medical laser instruments and equipment; medical high-frequency instruments and equipment; physiotherapy and rehabilitation equipment; medical X-ray equipment; clinical test and analysis instruments; extracorporeal circulation and blood processing equipment; implant materials and artificial organs; equipment and apparatus for operation theatres; accidents and emergency rooms and clinics; dental materials; medical hygienic materials and surgical dressings; medical suture materials and adhesives; medical macromolecule materials and products; interventional equipment; category II of general treatment apparatus; medical devices for traditional Chinese medicine; medical X-ray auxiliary devices and components; medical ray protective equipment; devices, medical test and fundamental equipment; dental instruments and equipment; ward nursing equipment and instruments; disinfection and sterilization equipment and instruments; software; medical cold therapy; cryogenic and refrigeration equipment and apparatus; medical apparatus in vitro diagnostic reagent (including products managed by cold chain ); category III of in vitro diagnostic reagent (excluding diagnostic reagent under special management). Wholesale of healthcare food and cosmetics; wholesale and retail of prepackaging food and daily merchandise; product information consultation; medical technology consultation; conference and exhibition services and consultation. The following items operated by specific branches only: retail of prescription medicines and over-the-counter medicines; Chinese patent medicine, Chinese medicine herbal pieces; biochemical medicines; biological products (excluding protective biological products); chemical raw materials intermediates; antibiotic preparations; healthcare food; dairy products (including powdered infant formula), disinfection products, cosmetics and medical apparatus.

As at the valuation date, the total assets was RMB253,945,900, while the total liabilities was RMB187,033,100, and the net assets was RMB66,912,800, the above data had not been independently audited for the individual company.

(10) Guangzhou Xinte Pharmaceuticals Company Limited

Guangzhou Xinte Pharmaceuticals Company Limited is a limited liability company (wholly-owned foreign-invested enterprise) established on 14 April 1997, with a registered capital of RMB50,000,000, which was organized by Guangzhou Pharmaceuticals Corporation through a capital contribution of 100%.

The main segments of enterprise are principal activities: Chinese patent medicine, chemical active pharmaceutical ingredients intermediates; antibiotics crude drugs; antibiotic preparations; biochemical medicines; biological products (excluding vaccine); category II of psychotropic drug (preparations); medical toxic drugs (western medicines); protein assimilation preparations and peptide hormone. Auxiliary activities: glassware, skin care products, cosmetics, daily merchandise and disinfectants. Sales including category II: Basic surgical instruments, neurosurgery surgical instruments, chest cardiovascular surgical instruments, abdominal surgical instruments, urinary anorectal surgical instruments, orthopedic surgical instruments, common diagnosis instrument, physiotherapy and rehabilitation equipment, medical devices for traditional Chinese medicine, medical X-ray equipment, medical X-ray accessories and components, medical test and fundamental equipment, dental instruments and equipment, ward nursing equipment and instruments, disinfection and sterilization equipment and instruments, medical cold therapy, cryogenic refrigeration equipment apparatus and software. Category III: interventional equipment; category II, III: ophthalmic surgical instruments, puncture injection equipment, medical electronic instruments and equipment, medical optical instruments & apparatus and endoscopy devices (excluding lens and its care solution), medical ultrasonic instruments and relevant devices, medical laser instruments and equipment, medical high-frequency instruments and equipment, clinical test and analysis instruments, extracorporeal circulation and blood processing equipment, implant materials and artificial organs, equipment and apparatus for operation theatres, accidents and emergency rooms and clinics, dental materials, medical hygienic materials and dressings, medical suture materials and adhesives, medical macromolecule materials and products; prepackaging food and dairy products (excluding powdered infant formula).

As at the valuation date, the total assets was RMB655,624,800, while the total liabilities was RMB590,319,700, and the net assets was RMB65,305,100. The above data had not been independently audited for an individual company.

(11) Shenzhen Guangyao Liankang Pharmaceutical Company Limited* (深圳廣藥聯康醫藥有限公司)

Shenzhen Guangyao Liankang Pharmaceutical Company Limited is a limited liability company (invested solely by corporation) established on 23 May 1994, with a registered capital of RMB15,000,000, which was organized by Guangzhou Pharmaceuticals Corporation through a capital contribution of 100%.

The main segments of enterprise comprises wholesale of Chinese patent medicine; chemical active pharmaceutical ingredients; chemical raw materials intermediates; antibiotics crude drugs; antibiotic preparations; biochemical medicines; biological products (excluding vaccine), category II of psychotropic drug (preparations); protein assimilation preparations and peptide hormone; wholesale of category III of medical apparatus; wholesale of healthcare food; wholesale of prepackaging food (excluding reheated) and dairy products (excluding powdered infant formula); economic information consultation (excluding talent agencies, securities, insurance, funds, futures, financial businesses and other restricted items); conference planning, exhibition and display planning. Operation of category I and II of medical apparatus; wholesale of daily necessities and cosmetics; domestic trade (excluding items which require pre-approvals before boarding according to laws and administrative regulations or as prescribed by the State Council).

As at the valuation date, the total assets was RMB392,056,500, while the total liabilities was RMB363,824,700, and the net assets was RMB28,231,800. The above data had not been independently audited for the individual company.

(12) Hunan Guangyao Hengsheng Pharmaceutical Company Limited

Hunan Guangyao Hengsheng Pharmaceutical Company Limited is a limited liability company (invested solely by corporation invested or controlled by a non-natural person) established on 15 November 2010, with a registered capital of RMB55,000,000, which was organized by Guangzhou Pharmaceuticals Corporation through a capital contribution of 100%.

The business scope of enterprise are engaging in wholesale of Chinese patent medicine; Chinese medicine herbal pieces, chemical active pharmaceutical ingredients and preparations; antibiotic preparations; biochemical medicines; biological products; anesthetics; category I and II of psychotropic drug (preparations); pharmaceutical precursor chemicals preparations; protein assimilation preparations and peptide hormone; in vitro diagnostic reagent (with valid period to 9 November 2015); engaging in operation of category II and III of medical apparatus within the scope approved by Permits for Medical Apparatus Operation Enterprises (with valid period to 4 November 2015); wholesale of healthcare food (operate within the scope of administrative licensing registered varieties); sales of cosmetics; rubber products and healthcare product allowed by the laws and regulations of the state (excluding healthcare food); disinfection products; conference; display services and its consultation (exhibitions require to be approved separately).

As at the valuation date, the total assets was RMB415,125,900, while the total liabilities was RMB348,958,100, and the net assets was RMB66,167,800. The above data had not been independently audited for the individual company.

(13) Guangxi Guangyao Xinshidai Pharmaceutical Company Limited* (廣西廣藥新時代醫藥有限公司)

Guangxi Guangyao Xinshidai Pharmaceutical Company Limited is a limited liability company ((a joint venture between a foreign investment enterprise and a Chinese-funded enterprise) established on 2 May 2013, with a registered capital of RMB50,000,000, to which Guangzhou Pharmaceuticals Corporation contributed 70%, equivalent to RMB35,000,000 and Guangxi Xinshidai Pharmaceutical Company Limited*（廣西新時代醫藥有限公司）contributed 30%, equivalent to RMB15,000,000.

The main segments of enterprise comprises wholesale of Chinese medicine; Chinese medicine herbal pieces; Chinese patent medicine; chemical active pharmaceutical ingredients and preparations; biochemical medicines; antibiotics crude drugs and preparations; biopharmaceuticals (excluding vaccine); protein assimilation preparations; peptide hormone; category II of psychotropic drugs; sales of category I, II and III of medical apparatus (items requiring licence may only commence business according to the scope approved by the relevant license); general cargo transportation (items requiring licence may only commence business according to the scope approved by the license and if it is within the valid period); cosmetics, disinfection supplies, daily necessities and glassware; wholesale of healthcare food. (excluding items prohibited by laws, items restricted by laws and regulations may only commence business activity upon obtaining approval)

As at the valuation date, the total assets was RMB141,075,100, while the total liabilities was RMB67,312,800, and the net assets was RMB73,762,300. The above data had not been independently audited for the individual company.

(14) Hubei Guangyao Jida Pharmaceutical Company Limited

Hubei Guangyao Jida Pharmaceutical Company Limited is a limited liability company (invested solely by corporation) established on 11 November 2013, with a registered capital of RMB30,500,000, to which Guangzhou Pharmaceuticals Corporation contributed 70%, equivalent to RMB21,350,000 and Hubei Qinjida Pharmaceutical Company Limited*（湖北秦吉達藥業有限責任公司）contributed 30%, equivalent to RMB9,150,000.

The main segments of enterprise comprises wholesale of Chinese patent medicine; chemical raw materials intermediates; antibiotic preparations; biochemical medicines; biological products, category II of psychotropic drug preparations; protein assimilation preparations; peptide hormone (including refrigerated and cold medicines); category III of medical apparatus; prepackaging food; dairy products (including powdered infant formula), healthcare food (term of operation is in line with the license); wholesale and retail of category I and II of medical apparatus; disinfection supplies; business information consultation; medical technology consultation; conference and exhibition services; exhibition and display service; wholesale and retail of mechanical equipment; hardware products and electronic products; machinery and equipment leasing.

As at the valuation date, the total assets was RMB212,239,700, while the total liabilities was RMB172,978,000, and the net assets was RMB39,261,700. The above data had not been independently audited for the individual company.

(15) Jiangmen Guangyao Qiaokang Pharmaceutical Company Limited *（江門廣藥僑康醫藥有限公司）

Jiangmen Guangyao Qiaokang Pharmaceutical Company Limited is a limited liability company (invested solely by corporation) established on 10 October 2013, with registered capital of RMB15,000,000, which was organized by Guangzhou Pharmaceuticals Corporation through capital contribution in percentage of 100%.

The main segments of enterprise comprises the wholesale of pharmaceuticals and medical apparatus (operation subjected to the valid Drug Business License and Permits for Medical Apparatus Operation Enterprises), business information consultation services; conference planning; exhibition and display planning. (Items requiring statutory approval may only commence business activity upon receiving approval from the related authorities).

As at the valuation date, the total assets was RMB386,447,400, while the total liabilities was RMB362,641,400, and the net assets was RMB23,806,000. The above data had not been independently audited for the individual company.

(16) Guangzhou Pharmaceuticals (Hong Kong) Limited

Guangzhou Pharmaceuticals (Hong Kong) Limited is a limited liability company established on 24 June 2014, with a registered capital of RMB500,000, which was organised by Guangzhou Pharmaceuticals Corporation through capital contribution of 100%.

As at the valuation date, the total assets was RMB19,661,300, while the total liabilities was RMB18,359,200, and the net assets was RMB1,302,100. The above data have not been audited.

Jianmin International Company Limited is a limited liability company established on 24 September 2014, with registered capital of HKD300,000, which was organised by Guangzhou Pharmaceuticals (Hong Kong) Limited through a capital contribution of 100%. As at the valuation date, the total assets was RMB28,241,400, while the total liabilities was RMB26,481,000, and the net assets was RMB1,760,400. The above data had not been independently audited for the individual company.

(17) Zhuhai Guangyao Kang Ming Pharmaceutical Company Limited * (珠海廣藥康鳴醫藥有限公司)

Zhuhai Guangyao Kang Ming Pharmaceutical Company Limited (formerly known as: Zhuhai Guangyao Kang Ming Pharmaceutical Company Limited*(珠海市康鳴醫藥有限公司)is a limited liability company (invested solely by corporation) established on 3 August 1999, with a registered capital of RMB550,000, which was organized by Guangzhou Pharmaceuticals Corporation through a capital contribution of 100%.

The main segments of enterprise comprise wholesale of Chinese medicine herbal pieces; Chinese patent medicine; chemical active pharmaceutical ingredients; chemical raw materials intermediates; antibiotics crude drugs; antibiotic preparations; biochemical medicines; biological products (excluding vaccine); category II of psychotropic drug (preparations); protein assimilation preparations and peptide hormone (implemented according to the Drug Business License); wholesale of healthcare food (implemented according to the Hygiene Certificate for Healthcare Food Operation Enterprises); wholesale of category I, II and III of medical apparatus (implemented according to the Permits for Medical Apparatus Operation Enterprises); prepackaging food (edible oil, dried fruit and alcoholic beverage) and dairy products (including powdered infant formula) (implemented according to the Food Distribution Permits).

As at the valuation date, the total assets was RMB54,044,200, while the total liabilities was RMB53,762,900, and the net assets was RMB281,300. The above data had not been independently audited for the individual company.

(18) Hubei Guangyao An Kang Pharmaceutical Company Limited

Hubei Guangyao An Kang Pharmaceutical Company Limited is a limited liability company (invested or controlled by natural person) established on 2 March 2004, with a registered capital of RMB60,00,000, to which Guangzhou Pharmaceuticals Corporation contributed 51%, amounting to RMB3,060,000, Shi Lei contributed 20.5%, amounting to RMB1,230,000, Fan Wenjun contributed 20.5%, amounting to RMB1,230,000, and Mou Zongxin contributed 8%, amounting to RMB480,000. The main segments of enterprise are Chinese patent medicine; chemical raw materials intermediates; antibiotics, biochemical medicines; biological products; category II of psychotropic drugs; sales of healthcare food (valid period is in line with the term approved by the license); sales of disinfection and sanitary supplies. As at the valuation date, the total assets was RMB23,654,400, while the total liabilities was RMB8,505,300, and the net assets was RMB15,149,100. The above data had not been independently audited for the individual company.

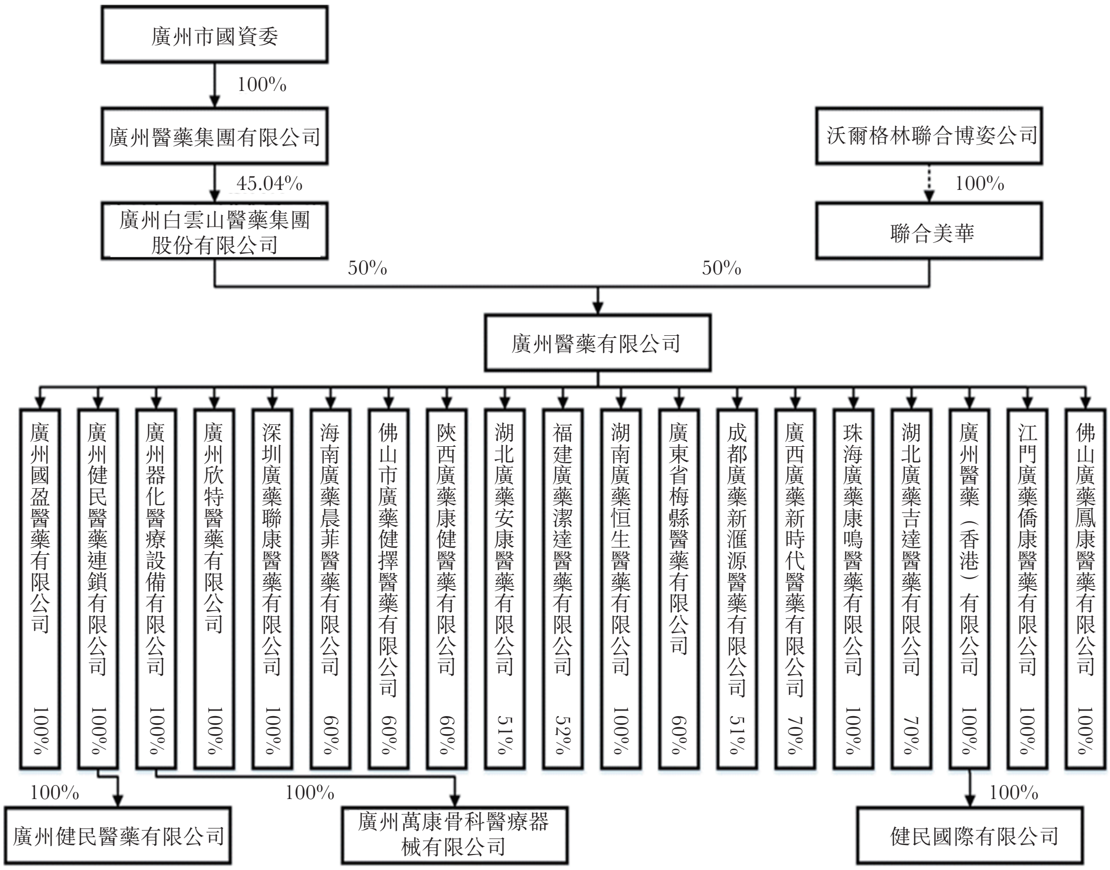
In July 2013, a judgment was handed down by the Intermediate People's Court in Wuhan City, Hubei Province to allow the dissolution of Hubei Guangyao An Kang Pharmaceutical Company Limited (Civil Judgment of the Intermediate People's Court in Wuhan City, Hubei Province) (2012) "E Wu Han Zhong Min Shang Chu Zi No. 00266"). As at the valuation date, Hubei Guangyao An Kang Pharmaceutical Company Limited was in liquidation.

(19) Foshan Guangyao Fengkang Pharmaceutical Company Limited* (佛山廣藥鳳康醫藥有限公司)

Foshan Fengkang is a wholly-owned subsidiary of Guangzhou Pharmaceuticals newly established on 9 August 2017, with a registered capital of RMB5,100,000, which was organized by Guangzhou Pharmaceuticals Corporation through a capital contribution of 100%. The business scope of enterprise comprises wholesale and retail of pharmaceuticals and medical apparatus, and food (operation subject to valid license), wholesale and retail of daily necessities and cosmetics; and the import and export businesses of the aforesaid products (excluding the restricted or prohibited items in the Catalogue for the Guidance of Foreign Investment Industries). (Items requiring statutory approval may only commence business activity upon receiving approval from the related authorities). As at 30 September 2017, Foshan Guangyao Fengkang Pharmaceutical Company has not completed the capital contribution, and no business was carried out.

*6. Introduction of the Operation Management Structure and Research and Development Status*

(1) Operation Management Structure

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|---|---|
| 廣州市國資委 | Stated-owned Assets Supervision and Administration Commission of Guangzhou |
| 廣州醫藥集團有限公司 | Guangzhou Pharmaceutical Holdings Limited |
| 廣州白雲山醫藥集團股份有限公司 | Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited |
| 沃爾格林聯合博姿公司 | Walgreens Boots Alliance, Inc. |
| 聯合美華 | ALLIANCE BMP |
| 廣州醫藥有限公司 | Guangzhou Pharmaceuticals Corporation |
| 廣州國盈醫藥有限公司 | Guangzhou Guo Ying Company Limited |
| 廣州健民醫藥連鎖有限公司 | Guangzhou Pharmaceutical Corporation Limited of Jianmin Medicine Chain |

| | |
|---|---|
| 廣州器化醫療設備有限公司 | Guangzhou Qihua Medical Equipment Company Limited |
| 廣州欣特醫藥有限公司 | Guangzhou Xinte Pharmaceuticals Company Limited |
| 深圳廣藥聯康醫藥有限公司 | Shenzhen Guangyao Liankang Pharmaceutical Company Limited |
| 海南廣藥晨菲醫藥有限公司 | Hainan Guangyao Chenfei Pharmaceutical Company Limited |
| 佛山市廣藥健擇醫藥有限公司 | Foshan Guangyao Jianze Pharmaceutical Company Limited |
| 陝西廣藥康健醫藥有限公司 | Shaanxi Guangyao Kangjian Pharmaceutical Company Limited |
| 湖北廣藥安康醫藥有限公司 | Hubei Guangyao An Kang Pharmaceutical Company Limited |
| 福建廣藥潔達醫藥有限公司 | Fujian Guangyao Jieda Company Limited |
| 湖南廣藥恒生醫藥有限公司 | Hunan Guangyao Hengsheng Pharmaceutical Company Limited |
| 廣東省梅縣醫藥有限公司 | Guangdong Meixian Pharmaceutical Company Limited |
| 成都廣藥新匯源醫藥有限公司 | Chengdu Guangyao Xinhuiyuan Pharmaceutical Company Limited |
| 廣西廣藥新時代醫藥有限公司 | Guangxi Guangyao Xinshidai Pharmaceutical Company Limited |
| 珠海廣藥康鳴醫藥有限公司 | Zhuhai Guangyao Kang Ming Pharmaceutical Company Limited |
| 湖北廣藥吉達醫藥有限公司 | Hubei Guangyao Jida Pharmaceutical Company Limited |
| 廣州醫藥(香港)有限公司 | Guangzhou Pharmaceuticals (Hong Kong) Limited |
| 江門廣藥僑康醫藥有限公司 | Jiangmen Guangyao Qiaokang Pharmaceutical Company Limited |
| 佛山廣藥鳳康醫藥有限公司 | Foshan Guangyao Fengkang Pharmaceutical Company Limited |
| 廣州健民醫藥有限公司 | Guangzhou Jianmin Pharmaceutical Corporation Limited |
| 廣州萬康骨科醫療器械有限公司 | Guangzhou Wankang Orthopaedics Medical Instrument Company Limited |
| 健民國際有限公司 | Jianmin International Company Limited |

(2) Research and Development Status

Guangzhou Pharmaceuticals Corporation has formed the industry leading digital integration and operation informatisation management system. It was certified by the Testing Laboratory of China National Accreditation Service for Conformity Assessment (NO.CNAS L3731) in 2013. In 2015, it became the first batch of enterprises in the country which passed the digital integration and operation informatisation management system and assessment system. It owns 22 self-developed software copyrights.

*7. Main Product Varieties, Main Markets and Operation Analysis*

(1) Main Product Varieties

Guangzhou Pharmaceuticals Corporation operates domestic, imported and joint venture manufacturers of nearly 50,000 products including Chinese and Western parent medicine, chemicals, pharmaceutical raw materials, medical apparatus, chemical reagents, glassware and healthcare products with different specifications. It has strong variety libraries of prescription medicines, over-the-counter medicines, base medicines and services, which enable it to provide pharmaceutical delivery services to 25,800 customers across the country, so as to meet the overall needs of different types of customers. It is the pharmaceutical reserve and storage unit in Guangzhou Area and Guangzhou Military Region, the first-aid medicines supply unit in Guangdong Province and the dedicated pharmaceutical and medical device unit for athletes of Guangzhou Asian Games. In 2016, the sales income of Guangzhou Pharmaceuticals recorded a year-on-year growth of 12.25%, and realized a year-on-year profit growth of 10.78%, ranking the top five in the pharmaceutical circulation industry in China and the first in Guangdong Province.

(2) Main Markets Analysis

It promotes the rational distribution of operation networks of enterprise by conglomeration, with its operation network in Guangdong as the core to the vertical and in-depth development, and implements mergers and acquisitions for expansion in Eastern China, Southern China, northwest and southwest regions across the country, then forms an operation network radiating from Guangdong to the whole country. At present, the Company owns 21 wholly-owned and joint-venture subsidiaries, mainly in Guangdong with radiation across the whole country, and its subsidiaries have extended throughout provincial capitals in each of Hunan, Hubei, Fujian, Sichuan, Shaanxi, Guangxi and Hainan.

(3) Operation Analysis

In 2011, Guangzhou Pharmaceuticals Corporation expanded its field of e-commerce to B2C and the B2C business of "Guangyao Jian Min Network" was officially launched, which is one of the few enterprises in Guangdong province that possesses the legal qualifications of B2B and B2C. By leveraging on a strong foundation of management, Guangzhou Pharmaceuticals Corporation gave full play to the advantages of comprehensive information management to build an all-around of e-commerce service platform, developed and innovated new services such as DTC (drug delivery to customers), and strengthened cooperation with each major e-commerce platform to expand pharmaceutical e-commerce business. It also opened a flagship shop on Tmall.com and large pharmacy, to set foot across the B2C e-commerce business. In August 2015, the Guangyao Jian Min Network under the Company was launched for operation, and became the first medical insurance designated online drugstore realizing the payment without bank cards in China. In 2016, the sales income of e-commerce in the whole network of "Singles Day" amounted to nearly RMB54,000,000, representing a year-on-year increase of 80%. The total sales income of e-commerce reached RMB266,090,000 in 2016, which increased 77.09%. In addition, Guangzhou Pharmaceuticals Corporation owns China time-honored retail brand of Jian Min Pharmaceutical.

(4) Subjects of Principal Activities and Sales Model

The principal activity of the appraised entity is pharmaceutical business distribution, which mainly refers to the pharmaceutical distribution process of purchasing goods from upstream manufacturers and then wholesaling them to downstream distributor or directly selling to the retail end-users such as hospitals and pharmacies, obtaining profit from transaction differences and provision of value-added services. The specific sales model of the Company is introduced as follows:

A. Wholesale

The wholesale business of the appraised entity could be classified into 4 categories, of which:

① Traditional hospitals wholesale, the essence of which is pharmaceutical distribution, referring to the business model that the pharmaceutical distribution enterprise directly sells the pharmaceuticals to the hospital, being a traditional segment of the appraised entity.

② HIHPA hospitals wholesale is a new segment of the appraised entity. The pharmaceutical distribution enterprises extend the logistics service to the drug storage, pharmacy and in-patient ward of the hospital by means of informatisation, which realised the integration of information flow, logistics and capital flow on the pharmaceutical management of hospitals. It is also known as pharmacy hosting as the enterprise of pharmacy-hosted distributes the pharmaceuticals exclusively to the hospital pays the hospital a custodian fee or provides pharmaceutical rebates each year, and the enterprise obtains profits from entering the pharmaceutical of hospital.

③ Commercial allocation wholesale, being a model that pharmaceutical distribution enterprises sell pharmaceutical products to another distribution enterprise.

④ Commercial retail wholesale is referred to the pharmaceutical distribution enterprises as it sells pharmaceutical products to enterprises such as Da Shen Lin for retail.

B. Retail Store

The business model of retail of medicines is a business model that directly interacts with the end-users. In the current long-term equity investments of the enterprise, Guangzhou Pharmaceutical Corporation Limited of Jianmin Medicine Chain and its subsidiary, Guangzhou Jianmin Pharmaceutical Corporation Limited are operating in a retail model.

C. E-commerce B2C

E-commerce B2C business model is to develop and innovate a new service, DTC (drug delivery to customers) through opening a flagship shop on Tmall.com and large pharmacy, cooperating with each major e-commerce platform and relying on the e-commerce service platform.

D. Storage Logistic Services

It mainly refers to the accompanying services including pharmaceutical storage, pharmaceutical sales and distribution provided by the wholesale business.

E. Medical Apparatus

In the current long-term equity investments of enterprise, Guangzhou Qihua Medical Equipment Company Limited engages in wholesale service of provision for medical apparatus.

*8. The Implementation of Significant Accounting Policies by the Enterprise*

The enterprise carried out recognition and measurement on the going concern and actual transaction and event basis in accordance with the requirements of "Accounting Standards for Business Enterprises-Basic Standard" and other various specific accounting standards, application guidance and interpretations of standards, and prepared the financial statements in combination with the Preparation Convention of Information Disclosure by Companies Offering Securities to the "Public No.15—General Provisions on Financial Reporting (amended in 2014)" issued by the China Securities Regulatory Commission (CSRC). For details regarding the significant accounting policies and accounting estimation, please see the audit report.

*9. The Relationship between the Commissioning Party and the Appraised Entity*

The Commissioning Party is one of the shareholders of the appraised entity, and as at the valuation date, it held 50% equity interests in the appraised entity.

(III) ***Other Users of the Valuation Report other than the Commissioning Party***

Other users of the valuation report agreed in the business agreement and the users of the valuation report specified by the laws and regulations of the state.

## II. Purpose of Valuation

Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited proposed to acquire the equity interest of Guangzhou Pharmaceuticals Corporation, the joint venture, in cash, and this valuation is for the purpose of provision for reference to the economic action of the proposed equity acquisition in Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited.

Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited has published the "Announcement on Suspension of Trading on Material Asset Restructurings of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited" in respect of this economic action on 14 November 2017, and prepared for the acquisition.

III. **Subjects and Scope of Valuation**

The subjects of this valuation are the entire equity interests in Guangzhou Pharmaceuticals Corporation on the valuation date.

The specific scope of valuation covers the various assets and liabilities of Guangzhou Pharmaceuticals Corporation as shown on the balance sheet as at the valuation date, and the overall intangible assets not presented on the account book, of which, in the individual financial statements of Guangzhou Pharmaceuticals Corporation, the carrying amount of total assets is RMB13,018,720,200, the carrying amount of total liabilities is RMB10,575,085,000, and the carrying amount of shareholders' equity is RMB2,443,635,300; in the consolidated financial statements, the carrying amount of total assets is RMB18,286,516,800, the carrying amount of total liabilities is RMB15,303,539,500,' equity attributable to the shareholders of the parent company is an aggregate of RMB2,737,037,000, and the total shareholders' equity is RMB2,982,977,300. The following are the assets condition of the individual financial statements of Guangzhou Pharmaceuticals Corporation.

**Summary of Assets Valuation Reporting Form**

Currency Unit: RMB0'000

| **Item** | **Carrying amount** |
|---|---|
| Current assets | 1,165,108.86 |
| Non-current assets | 136,763.16 |
| Of which: Available-for-sale financial assets | 78.38 |
| Long-term equity investments | 99,071.57 |
| Investment properties | 13.31 |
| Fixed assets | 21,328.52 |
| Construction in progress | 4,841.39 |
| Construction materials | — |
| Fixed assets pending for disposal | — |
| Intangible assets | 7,237.42 |
| Long-term prepaid expenses | 1,809.59 |
| Deferred tax assets | 2,382.98 |
| Other non-current assets | — |
| **Total assets** | **1,301,872.02** |
| Current liabilities | 985,726.37 |
| Non-current liabilities | 71,782.13 |
| **Total liabilities** | **1,057,508.50** |
| **Net assets (shareholders' equity)** | **244,363.53** |

The information and features of assets with larger value are as follows:

1. ***Tangible Assets:***

*(1) Inventories*

The carrying amount of inventories (commodity stocks) is RMB1,974,252,600, mainly refer to the pharmaceutical pending for sale.

All the inventories listed in the scope of valuation are held by the appraised entity, the basic information of which is as follows:

| **Type** | **Ownership status** | **Economic status** | **Physical condition** |
|---|---|---|---|
| Commodity stocks | No dispute | Good turnover | Storing in the warehouse of Guangzhou Pharmaceuticals Corporation, under good custody |

*(2) Investment properties*

There is 1 investment property with a gross floor area of 102.24 square meters, built in 1997, the building structure of which is frame structure. The original carrying amount is RMB411,200 and the net carrying amount is RMB133,100. The investment property is located at No.15 Yongsheng Street, Donghu Road, Yuexiu District (越秀區東湖路永勝街15號), the property ownership certificate has been handled. It has a simple building structure, is under foundation and maintenance, and is under normal use and mainly for rental purposes.

*(3) Buildings*

There are 62 buildings with gross floor area of 40,547.12 square meters, original carrying amount of RMB89,332,000 and net carrying amount of RMB27,148,700.

The buildings mainly include the complex building of 1F to 7F, No. 4, Shier Fu Xin Street, Da Tong Road, Liwan District (荔灣區大同路十二甫新街4號1-7層), buildings A, B and C of Huang Jin Wei warehouse (黃金圍倉庫A，B，C棟), which are located at Da Tong Road, Liwan District, Guangzhou and Huang Jin Wei plant area, respectively, most of them being built in 1995 and the building structures being mainly the frame structure with a total area of 40,547.12 square meters. The buildings have obtained the property ownership certificate. They have simple building structure, are under foundation and maintenance, and are under normal use, which can meet the production sites needs of the current business of the enterprise.

The main buildings and land use rights of enterprises have not completed a mortgage loan and have not set any other rights currently.

*(4) Equipment*

There are 147 machinery and equipment with the original carrying amount of RMB195,123,200, and a net carrying amount of RMB142,204,200; the main machinery and equipment are installed in the warehouses of Shishan and Huang Jin Wei. There are 272 vehicles with the original carrying amount of RMB29,434,300, and a net carrying amount of 14,791,500. There are 6,951 office equipment and electronic equipment with the original carrying amount of RMB71,724,700, and a net carrying amount of 29,120,700.

The machinery and equipment are the pharmaceutical distribution business equipment, it mainly includes logistics and transportation equipment in logistics center and automatic tablet placement machine, which are stored in Shishan warehouse and the Huang Jin Wei warehouse for use.

The enterprise operates at three shifts, implements the dynamic equipment maintenance and regular maintenance system. The equipment is under normal management, the production and operation of equipment is under normal condition, and the operating environment of machinery and equipment is simple, but in line with the performance requirements of the equipment.

The overall technical performance of machinery and equipment is at the upstream level as compared with similar equipment, which could meet the production needs of the current business of the enterprise.

*(5) Construction in progress*

There are 21 equipment projects, most of which are hospital service extension projects, with carrying amount of RMB48,413,900.

The construction in progress begins in 2017. Currently, all projects of construction in progress are under normal operation with no signs of inability to continue construction or termination as a result of insufficient construction funds.

2. ***Intangible assets***

*(1) Land use rights*

A total of 7 parcels of lands are used by the appraised entity, all of which are used for daily office and operation, with an aggregate of 31,523.58 square meters.

The lands are located at Shier Fu Xin Street, Da Tong Road, Liwan District and Huang Jin Wei. The lands are of state-owned lands with the land use of office and warehouse. Parts of the lands have completed the formality of land payment and the state-owned land use right certificate, and paid all the land transfer fees.

There is currently no mortgage loan or other rights attached to the right to use the land.

*(2) Other intangible assets*

According to the reporting of the appraised entity, among which, the total carrying amount of other intangible assets include the system software of the Intelligent Great Health Community Service Platform and the mobile nursing information system software with a total carrying amount of RMB13,586,600.

3. ***Long-term equity investments***

Unit: RMB

| No. | Name of investee | Investment date | Term of investment agreed | Shareholding percentage (%) | Investment cost | Carrying amount |
|---|---|---|---|---|---|---|
| 1 | Fujian Guangyao Jieda Company Limited | June 1993 | Long-term | 52% | 16,641,775.05 | 16,641,775.05 |
| 2 | Jiangmen Guangyao Qiaokang Pharmaceutical Company Limited | October 2013 | Long-term | 100% | 15,000,000.00 | 15,000,000.00 |
| 3 | Hainan Guangyao Chenfei Pharmaceutical Company Limited | March 2011 | Long-term | 60% | 43,800,000.00 | 43,800,000.00 |
| 4 | Guangdong Meixian Pharmaceutical Company Limited | December 2003 | Long-term | 60% | 18,500,000.00 | 18,500,000.00 |
| 5 | Guangzhou Pharmaceuticals (Hong Kong) Limited | June 2014 | Long-term | 100% | 500,000.00 | 500,000.00 |
| 6 | Guangxi Guangyao Xinshidai Pharmaceutical Company Limited | May 2013 | Long-term | 70% | 40,000,000.00 | 40,000,000.00 |
| 7 | Guangzhou Pharmaceutical Corporation Limited of Jianmin Medicine Chain | January 1967 | Long-term | 100% | 86,000,000.00 | 86,000,000.00 |
| 8 | Shaanxi Guangzhou Pharmaceutical Kang Jian Pharmaceutical Company Limited | August 2011 | Long-term | 60% | 67,500,000.00 | 67,500,000.00 |
| 9 | Hubei Guangyao An Kang Pharmaceutical Company Limited | March 2004 | Long-term | 51% | 3,060,000.00 | 0.00 |
| 10 | Shenzhen Guangyao Liankang Pharmaceutical Company Limited | May 1994 | Long-term | 100% | 16,200,000.00 | 16,200,000.00 |
| 11 | Hubei Guangyao Jida Pharmaceutical Company Limited | November 2013 | Long-term | 70% | 22,400,000.00 | 22,400,000.00 |
| 12 | Guangzhou Qihua Medical Equipment Company Limited | April 1978 | Long-term | 100% | 20,408,795.74 | 20,408,795.74 |
| 13 | Guangzhou Xinte Pharmaceuticals Company Limited | April 1997 | Long-term | 100% | 50,000,000.00 | 50,000,000.00 |
| 14 | Foshan Guangyao Jianze Pharmaceutical Company Limited | June 1992 | Long-term | 60% | 19,500,000.00 | 19,500,000.00 |
| 15 | Guangzhou Guo Ying Company Limited | October 1989 | Long-term | 100% | 465,000,000.00 | 465,000,000.00 |
| 16 | Zhuhai Guangyao Kang Ming Pharmaceutical Company Limited | August 1999 | Long-term | 100% | 3,265,101.13 | 3,265,101.13 |
| 17 | Chengdu Guangyao Xinhuiyuan Pharmaceutical Company Limited | August 2012 | Long-term | 51% | 38,000,000.00 | 38,000,000.00 |
| 18 | Hunan Guangyao Hengsheng Pharmaceutical Company Limited | November 2010 | Long-term | 100% | 68,000,000.00 | 68,000,000.00 |
| 19 | Foshan Guangyao Fengkang Pharmaceutical Company Limited | August 2017 | Long-term | 100% | 0.00 | 0.00 |
| Total | | | | | 993,775,671.92 | 990,715,671.92 |

As of 30 September 2017, Foshan Guangyao Fengkang Pharmaceutical Company Limited has not completed the capital contribution, and no business was carried out. The total carrying amount of the long-term equity investments is RMB990,715,700, which accounted for 7.61% of the carrying amounts of the total assets. The balance sheet and income statement of the investee as at the valuation date are as follows:

*(1) Fujian Guangyao Jieda Company Limited*

Currency Unit: RMB0'000

| Item | For the year ended or as of 31 December 2014 | For the year ended or as of 31 December 2015 | For the year ended or as of 31 December 2016 | For the nine months ended or as of 30 September 2017 |
|---|---|---|---|---|
| Total assets | 18,761.58 | 15,377.56 | 7,819.04 | 7,061.87 |
| Total liabilities | 15,048.94 | 12,199.28 | 4,606.09 | 4,171.53 |
| Net assets | 3,712.64 | 3,178.28 | 3,212.95 | 2,890.34 |
| Revenue | 35,909.26 | 33,228.29 | 13,659.28 | 8,498.72 |
| Total profit | 381.09 | -684.79 | 60.08 | -322.61 |
| Net profit | 297.65 | -534.36 | 34.67 | -322.61 |

Note: Fujian Huacheng Certified Public Accountants Company Limited has audited the data for 2014, 2015 and 2016 in tables, and issued the unqualified audit report. The data for 2017 had not been independently audited for the individual company.

*(2) Jiangmen Guangyao Qiaokang Pharmaceutical Company Limited*

Currency Unit: RMB0'000

| Item | For the year ended or as of 31 December 2014 | For the year ended or as of 31 December 2015 | For the year ended or as of 31 December 2016 | For the nine months ended or as of 30 September 2017 |
|---|---|---|---|---|
| Total assets | 10,864.89 | 15,752.53 | 23,657.74 | 38,644.74 |
| Total liabilities | 9,296.88 | 13,976.67 | 21,314.39 | 36,264.14 |
| Net assets | 1,568.01 | 1,775.86 | 2,343.35 | 2,380.60 |
| Revenue | 23,406.79 | 29,895.75 | 37,877.25 | 43,394.90 |
| Total profit | 205.32 | 304.36 | 792.40 | 53.59 |
| Net profit | 174.45 | 225.29 | 590.01 | 37.25 |

Note: GP Certified Public Accountants (Special General Partnership) has audited the data for 2014, 2015 and 2016 in tables, and issued the unqualified audit report. The data for 2017 had not been independently audited for the individual company.

*(3) Hainan Guangyao Chenfei Pharmaceutical Company Limited*

Currency Unit: RMB0'000

| Item | For the year ended or as of 31 December 2014 | For the year ended or as of 31 December 2015 | For the year ended or as of 31 December 2016 | For the nine months ended or as of 30 September 2017 |
|---|---|---|---|---|
| Total assets | 37,793.40 | 58,279.22 | 94,254.35 | 102,952.50 |
| Total liabilities | 28,999.97 | 50,461.39 | 84,404.07 | 91,256.81 |
| Net assets | 8,793.43 | 7,817.83 | 9,850.28 | 11,695.69 |
| Revenue | 50,200.01 | 74,869.44 | 113,050.92 | 103,588.16 |
| Total profit | 1,479.61 | 1,736.52 | 2,781.49 | 2,523.42 |
| Net profit | 1,084.79 | 1,259.80 | 2,032.45 | 1,845.41 |

Note: Hainan Houji Certified Public Accountants (General Partnership)*（海南厚積會計師事務所（普通合夥）has audited the data for 2014, 2015 and 2016 in tables, and issued the unqualified audit report. The data for 2017 had not been independently audited for the individual company.

*(4) Guangdong Meixian Pharmaceutical Company Limited*

Currency Unit: RMB0'000

| Item | For the year ended or as of 31 December 2014 | For the year ended or as of 31 December 2015 | For the year ended or as of 31 December 2016 | For the nine months ended or as of 30 September 2017 |
|---|---|---|---|---|
| Total assets | 13,737.88 | 21,342.23 | 22,286.23 | 23,759.75 |
| Total liabilities | 10,694.34 | 18,298.67 | 18,608.20 | 19,790.62 |
| Net assets | 3,043.54 | 3,043.56 | 3,678.03 | 3,969.13 |
| Revenue | 24,688.17 | 29,751.42 | 34,356.40 | 26,372.82 |
| Total profit | 817.90 | 845.04 | 858.77 | 406.12 |
| Net profit | 607.32 | 625.02 | 634.47 | 291.10 |

Note: KPMG Huazhen LLP Guangzhou Branch has audited the data for 2014, 2015 and 2016 in tables, and issued the unqualified audit report. The data for 2017 had not been independently audited for the individual company.

*(5) Guangzhou Pharmaceuticals (Hong Kong) Limited*

Currency Unit: RMB0'000

| Item | For the year ended or as of 31 December 2014 | For the year ended or as of 31 December 2015 | For the year ended or as of 31 December 2016 | For the nine months ended or as of 30 September 2017 |
|---|---|---|---|---|
| Total assets | 469.04 | 1,876.87 | 1,976.35 | 1,966.13 |
| Total liabilities | 420.00 | 1,825.84 | 1,837.24 | 1,835.92 |
| Net assets | 49.04 | 51.03 | 139.11 | 130.21 |
| Revenue | — | 1,059.75 | 1,201.39 | 229.12 |
| Total profit | -0.96 | 1.99 | 99.01 | -8.90 |
| Net profit | -0.96 | 1.99 | 88.08 | -8.90 |

Note: Infinity Assurance Limited has audited the data for 2014, 2015 and 2016 in tables, and issued the unqualified audit report. The data for 2017 had not been independently audited for the individual company.

*(6) Guangxi Guangyao Xinshidai Pharmaceutical Company Limited*

Currency Unit: RMB0'000

| Item | For the year ended or as of 31 December 2014 | For the year ended or as of 31 December 2015 | For the year ended or as of 31 December 2016 | For the nine months ended or as of 30 September 2017 |
|---|---|---|---|---|
| Total assets | 12,021.00 | 12,659.42 | 13,782.30 | 14,107.51 |
| Total liabilities | 6,191.84 | 6,422.49 | 6,810.94 | 6,731.28 |
| Net assets | 5,829.16 | 6,236.93 | 6,971.36 | 7,376.23 |
| Revenue | 34,162.15 | 31,044.86 | 36,671.69 | 14,740.54 |
| Total profit | 715.13 | 551.49 | 986.25 | 543.00 |
| Net profit | 533.25 | 407.78 | 734.43 | 404.87 |

Note: Guangxi GuiXinCheng Certified Public Accountants Company Limited has audited the data for 2014, 2015 and 2016 in tables, and issued the unqualified audit report. The data for 2017 had not been independently audited for the individual company.

*(7) Guangzhou Pharmaceutical Corporation Limited of Jianmin Medicine Chain*

Currency Unit: RMB0'000

| **Item** | **For the year ended or as of 31 December 2014** | **For the year ended or as of 31 December 2015** | **For the year ended or as of 31 December 2016** | **For the nine months ended or as of 30 September 2017** |
|---|---|---|---|---|
| Total assets | 19,587.58 | 25,896.69 | 26,593.18 | 13,406.07 |
| Total liabilities | 9,167.52 | 15,577.77 | 16,284.24 | 3,410.22 |
| Net assets | 10,420.06 | 10,318.92 | 10,308.94 | 9,995.85 |
| Revenue | 37,966.01 | 43,353.19 | 55,096.10 | 38,509.99 |
| Total profit | 468.44 | 110.68 | 36.86 | -56.90 |
| Net profit | 349.33 | 73.52 | 26.78 | -56.97 |

Note: GP Certified Public Accountants (Special General Partnership) has audited the data for 2014, 2015 and 2016 in tables, and issued the unqualified audit report. The data for 2017 had not been independently audited for the individual company.

*(8) Shaanxi Guangzhou Pharmaceutical Kang Jian Pharmaceutical Company Limited*

Currency Unit: RMB0'000

| **Item** | **For the year ended or as of 31 December 2014** | **For the year ended or as of 31 December 2015** | **For the year ended or as of 31 December 2016** | **For the nine months ended or as of 30 September 2017** |
|---|---|---|---|---|
| Total assets | 45,946.14 | 48,336.91 | 60,688.21 | 58,562.55 |
| Total liabilities | 35,088.19 | 37,543.13 | 49,218.74 | 46,708.55 |
| Net assets | 10,857.95 | 10,793.78 | 11,469.47 | 11,854.00 |
| Revenue | 152,929.35 | 149,761.41 | 143,471.43 | 99,043.37 |
| Total profit | 1,543.85 | -268.57 | 626.78 | 512.72 |
| Net profit | 1,138.17 | -249.00 | 452.24 | 384.54 |

Note: Xigema Certified Public Accountants (Special Ordinary Partnership) has audited the data for 2014, 2015 and 2016 in tables, and issued the unqualified audit report. The data for 2017 had not been independently audited for the individual company.

*(9) Shenzhen Guangyao Liankang Pharmaceutical Company Limited*

Currency Unit: RMB0'000

| **Item** | **For the year ended or as of 31 December 2014** | **For the year ended or as of 31 December 2015** | **For the year ended or as of 31 December 2016** | **For the nine months ended or as of 30 September 2017** |
|---|---|---|---|---|
| Total assets | 18,957.38 | 28,879.19 | 26,029.36 | 39,205.65 |
| Total liabilities | 15,843.84 | 25,058.63 | 21,441.19 | 36,382.47 |
| Net assets | 3,113.54 | 3,820.56 | 4,588.17 | 2,823.18 |
| Revenue | 64,832.60 | 77,742.86 | 81,74992 | 75,227.45 |
| Total profit | 846.95 | 1,083.26 | 1,179.04 | 904.09 |
| Net profit | 601.19 | 767.14 | 844.32 | 635.01 |

Note: GP Certified Public Accountants (Special General Partnership) has audited the data for 2014, 2015 and 2016 in tables, and issued the unqualified audit report. The data for 2017 had not been independently audited for the individual company.

*(10) Hubei Guangyao Jida Pharmaceutical Company Limited*

Currency Unit: RMB0'000

| **Item** | **For the year ended or as of 31 December 2014** | **For the year ended or as of 31 December 2015** | **For the year ended or as of 31 December 2016** | **For the nine months ended or as of 30 September 2017** |
|---|---|---|---|---|
| Total assets | 15,865.38 | 17,396.83 | 15,415.57 | 21,223.97 |
| Total liabilities | 12,667.24 | 13,901.96 | 11,683.13 | 17,297.80 |
| Net assets | 3,198.14 | 3,494.86 | 3,732.44 | 3,926.17 |
| Revenue | 23,569.01 | 29,214.31 | 29,078.32 | 17,280.94 |
| Total profit | 216.80 | 415.35. | 335.56 | 258.30 |
| Net profit | 148.14 | 296.72 | 237.58 | 193.72 |

Note: Union Power Certified Public Accountants (Special General Partnership) has audited the data for 2014, 2015 and 2016 in tables, and issued the unqualified audit report. The data for 2017 had not been independently audited for the individual company.

*(11) Guangzhou Qihua Medical Equipment Company Limited*

Currency Unit: RMB0'000

| Item | For the year ended or as of 31 December 2014 | For the year ended or as of 31 December 2015 | For the year ended or as of 31 December 2016 | For the nine months ended or as of 30 September 2017 |
|---|---|---|---|---|
| Total assets | 12,937.92 | 16,689.19 | 20,156.49 | 28,155.80 |
| Total liabilities | 8,358.08 | 11,642.17 | 14,617.47 | 24,390.52 |
| Net assets | 4,579.84 | 5,047,02 | 5,539.02 | 3,765.28 |
| Revenue | 24,770.98 | 29,589.45 | 38,594.72 | 38,767.39 |
| Total profit | 590.17 | 686.82 | 732.35 | 706.94 |
| Net profit | 437.31 | 510.91 | 543.09 | 526.26 |

Note: GP Certified Public Accountants (Special General Partnership) has audited the data for 2014, 2015 and 2016 in tables, and issued the unqualified audit report. The data for 2017 had not been independently audited for the individual company.

*(12) Guangzhou Xinte Pharmaceuticals Company Limited*

Currency Unit: RMB0'000

| Item | For the year ended or as of 31 December 2014 | For the year ended or as of 31 December 2015 | For the year ended or as of 31 December 2016 | For the nine months ended or as of 30 September 2017 |
|---|---|---|---|---|
| Total assets | 46,292.62 | 49,480.38 | 56,133.73 | 65,562.48 |
| Total liabilities | 38,783.07 | 41,498.36 | 47,573.27 | 59,031.97 |
| Net assets | 7,509.55 | 7,982.02 | 8,560.46 | 6,530.51 |
| Revenue | 100,843.63 | 110,916.41 | 123,331.11 | 98,884.47 |
| Total profit | 688.88 | 725.99 | 871.42 | 893.41 |
| Net profit | 493.28 | 521.80 | 630.61 | 670.06 |

Note: GP Certified Public Accountants (Special General Partnership) has audited the data for 2014, 2015 and 2016 in tables, and issued the unqualified audit report. The data for 2017 had not been independently audited for the individual company.

*(13) Foshan Guangyao Jianze Pharmaceutical Company Limited*

Currency Unit: RMB0'000

| Item | For the year ended or as of 31 December 2014 | For the year ended or as of 31 December 2015 | For the year ended or as of 31 December 2016 | For the nine months ended or as of 30 September 2017 |
|---|---|---|---|---|
| Total assets | 18,990.55 | 22,209.42 | 26,382.02 | 25,394.59 |
| Total liabilities | 13,756.97 | 16,392.53 | 19,993.92 | 18,703.31 |
| Net assets | 5,233.58 | 5,816.89 | 6,388.10 | 6,691.28 |
| Revenue | 36,008.47 | 33,451.63 | 44,464.86 | 35,106.38 |
| Total profit | 768.46 | 722.24 | 887.04 | 404.24 |
| Net profit | 560.78 | 539.56 | 651.54 | 303.18 |

Note: GP Certified Public Accountants (Special General Partnership) has audited the data for 2014, 2015 and 2016 in tables, and issued the unqualified audit report. The data for 2017 had not been independently audited for the individual company.

*(14) Guangzhou Guo Ying Company Limited*

Currency Unit: RMB0'000

| Item | For the year ended or as of 31 December 2014 | For the year ended or as of 31 December 2015 | For the year ended or as of 31 December 2016 | For the nine months ended or as of 30 September 2017 |
|---|---|---|---|---|
| Total assets | 160,289.03 | 206,288.35 | 245,511.75 | 305,245.56 |
| Total liabilities | 140,330.80 | 183,494.19 | 182,995.38 | 250,711.46 |
| Net assets | 19,958.23 | 22,794.15 | 62,516.37 | 54,535.10 |
| Revenue | 383,385.95 | 462,934.50 | 552,865.47 | 497,606.86 |
| Total profit | 3,609.02 | 4,210.15 | 6,801.47 | 5,954.98 |
| Net profit | 2,649.16 | 3,100.84 | 5,032.30 | 4,418.73 |

Note: KPMG Huazhen LLP Guangzhou Branch has audited the data for 2014, 2015 and 2016 in tables, and issued the unqualified audit report. The data for 2017 had not been independently audited for the individual company.

*(15) Zhuhai Guangyao Kang Ming Pharmaceutical Company Limited*

Currency Unit: RMB0'000

| Item | For the year ended or as of 31 December 2014 | For the year ended or as of 31 December 2015 | For the year ended or as of 31 December 2016 | For the nine months ended or as of 30 September 2017 |
|---|---|---|---|---|
| Total assets | 1,367.70 | 4,935.66 | 4,854.66 | 5,404.42 |
| Total liabilities | 1,177.91 | 4,843.15 | 4,669.65 | 5,376.29 |
| Net assets | 189.79 | 92.51 | 185.01 | 28.13 |
| Revenue | 5,509.36 | 6,593.33 | 9,063.67 | 7,014.17 |
| Total profit | 20.88 | 141.37 | 96.36 | -155.88 |
| Net profit | 14.35 | 119.65 | 92.50 | -156.88 |

Note: Zhuhai Doumen Dancheng Certified Public Accountant Firm Limited* (珠海市斗門丹誠有限責任會計師事務所) has audited the data for 2014 and 2015 in tables, and issued the unqualified audit report. GP Certified Public Accountants (Special General Partnership) has audited the data in tables for 2016, and issued the unqualified audit report. The data for 2017 had not been independently audited for the individual company.

*(16) Chengdu Guangyao Xinhuiyuan Pharmaceutical Company Limited*

Currency Unit: RMB0'000

| Item | For the year ended or as of 31 December 2014 | For the year ended or as of 31 December 2015 | For the year ended or as of 31 December 2016 | For the nine months ended or as of 30 September 2017 |
|---|---|---|---|---|
| Total assets | 32,522.21 | 39,249.74 | 34,855.64 | 36,172.07 |
| Total liabilities | 25,133.58 | 30,532.72 | 24,683.12 | 25,214.73 |
| Net assets | 7,388.63 | 8,717.02 | 10,172.52 | 10,957.34 |
| Revenue | 92,658.19 | 104,399.28 | 109,312.04 | 69,173.58 |
| Total profit | 1,555.74 | 1,822.24 | 1,984.58 | 1,070.99 |
| Net profit | 1,148.91 | 1,328.39 | 1,455.50 | 784.82 |

Note: KPMG Huazhen LLP Guangzhou Branch has audited the data for 2014, 2015 and 2016 in tables, and issued the unqualified audit report. The data for 2017 had not been independently audited for the individual company.

*(17) Hunan Guangyao Hengsheng Pharmaceutical Company Limited*

Currency Unit: RMB0'000

| Item | For the year ended or as of 31 December 2014 | For the year ended or as of 31 December 2015 | For the year ended or as of 31 December 2016 | For the nine months ended or as of 30 September 2017 |
|---|---|---|---|---|
| Total assets | 22,006.77 | 21,549.36 | 31,033.97 | 41,512.59 |
| Total liabilities | 18,715.22 | 15,536.42 | 24,676.59 | 34,895.81 |
| Net assets | 3,291.54 | 6,012.94 | 6,357.38 | 6,616.78 |
| Revenue | 43,619.20 | 49,286.06 | 53,349.38 | 42,842.55 |
| Total profit | 251.78 | 337.44 | 502.98 | 394.15 |
| Net profit | 158.98 | 337,44 | 368.17 | 259.40 |

Note: Hunan Zhonghao Certified Public Accountants Company Limited*（湖南中皓會計師事務所有限責任公司）has audited the data for 2014, 2015 and 2016 in tables, and issued the unqualified audit report. The data for 2017 had not been independently audited for the individual company.

All of the assets listed above are controlled by Guangzhou Pharmaceuticals Corporation. All assets are used in a normal manner without significant damage and obvious non-recoverable circumstances.

The appraised target and the scope of valuation are in line with the subjects and scope involved in the relevant economic activities. KPMG Huazhen LLP has audited the book value of the assets and liabilities included in the valuation and issued the audit report (KPMG Huazhen Shen Zi No. 1703067).

All of the valuation works of this project were carried out by Guo Zhong Lian Assets Evaluation, Land & Real Estate Appraisal Company Limited. No conclusion of any relevant reports issued by any other agency in relation to the value of the assets has been cited during the process of valuation.

IV. **Type of Value and its Definition**

Since the parties involved for the purpose of the valuation in respect of this project are all equal, the economic activities conducted by such parties are normal and of fair market activities. Therefore, the type of value selected for this project is market value.

Market value is the estimated value of the appraised target in an arm's length transaction conducted at the valuation date between a willing buyer and a willing seller acting rationally without duress.

This project is about the assessment of the market value of all shareholders' equity of Guangzhou Pharmaceuticals Corporation at the valuation date on the assumption of going-concern.

V. **Valuation Date**

The valuation date for the assets under this project is 30 September 2017. The valuation date is determined through negotiation between the commissioning party and the appraised entity and by taking into account a number of factors, such as the need for materialisation of economic activities, the size of assets of the appraised entity, the workload, the estimated time required, compliance requirements, and the convenience of provision of data at the end of the accounting period, as well as the stability of interest rates and exchange rates, and the need to ensure that the valuation date and the date of materialization of economic activities is as close as possible. In this valuation, the standard for price being effective at the valuation date is selected as the standard for sourcing of price.

VI. **Basis for Valuation**

The basis of the laws and regulations complied with, the basis for the specific acts, the basis of property rights and the basis of pricing in this valuation of assets include:

(I) ***Basis of economic activities***

"Announcement of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited on Suspension of Trading Regarding the Major Assets Reorganization" released on 14 November 2017.

(II) ***Major basis of laws and regulations***

1 "Company Law of the People's Republic of China" (Decree No. 42 of the President of the People's Republic of China);

2. "Assets Valuation Law of the People's Republic of China" (Decree No. 46 of the President of the People's Republic of China);

3. "Securities Law of the People's Republic of China" (Decree No. 43 of the President of the People's Republic of China);

4. "Measures for the Administration of Major Assets Reorganization of Listed Companies" (CSRC Decree No. 109);

5. "Law of the People's Republic of China on State-owned Assets of Enterprises" (Adopted by Decree No. 5 of the President of the People's Republic of China, 5th Session of the Standing Committee of the 11th National People's Congress on 28 October, 2008);

6. "Provisional Regulations on the Supervision and Administration of State-owned Assets of Enterprises" (Decree No. 378 of the State Council of the People's Republic of China);

7. "Provisional Measures for the Administration of Valuation of State-owned Assets of Enterprises" (Decree No. 12 of State-owned Assets Supervision and Administration Commission of the State Council);

8. "Method for the Supervision and Administration of Transaction of State-owned Assets of Enterprises" (Decree No. 32 of State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance);

9. "Notice on Issues Related to the Strengthening of Administration of State-owned Assets of Enterprises" (Guo Zi Wei Chan Quan [2006] No. 274);

10. "Notice on Matters Related to the Review of Valuation Report in Respect of State-owned Assets of Enterprises" (Guo Zi Chan Quan [2009] No. 941);

11. "Accounting Law of the People's Republic of China" (Decree No. 24 of the President of the People's Republic of China);

12. "Law of the People's Republic of China on Urban Real Estate Management" (Decree No. 29 of the President of the People's Republic of China);

13. "Land Administration Law of the People's Republic of China" (Decree No. 28 of the President of the People's Republic of China);

14. "Regulations on the Implementation of the Law on the Administration of Land of the People's Republic of China" (Decree No. 256 of the State Council of the People's Republic of China);

15. "Accounting Standards for Business Enterprises - Fundamental Standards" (Decree No. 33 of the Ministry of Finance, promulgated in 2006 (new standard));

16. "General Standards of Finance of Business Enterprises" (Decree No. 41 of the Ministry of Finance).

(III) ***Criteria and norms for valuation***

1. "Standards for Valuation of Assets — Basic Standards" (Cai Zi [2017] No. 43);

2. "Professional Ethic Standards for Valuation of Assets" Zhong Ping Xie [2017] No. 30);

3. "Practice Standards for Valuation of Assets — Procedure of Valuation" Zhong Ping Xie [2017] No. 31);

4. "Practice Standards for Valuation of Assets — Valuation Report" Zhong Ping Xie [2017] No. 32);

5. "Practice Standards for Valuation of Assets — Commission Contract for Valuation of Assets" Zhong Ping Xie [2017] No. 33);

6. "Practice Standards for Valuation of Assets — Filings for Valuation of Assets" Zhong Ping Xie [2017] No. 34);

7. "Practice Standards for Valuation of Assets — Value of Corporate" Zhong Ping Xie [2017] No. 36);

8. "Practice Standards for Valuation of Assets — Intangible Assets" Zhong Ping Xie [2017] No. 37);

9. "Practice Standards for Valuation of Assets — Immovable Assets" Zhong Ping Xie [2017] No. 38);

10. "Practice Standards for Valuation of Assets — Machinery and Equipment" Zhong Ping Xie [2017] No. 39);

11. "Guidelines for Valuation Report in Respect of State-owned Assets" (Zhong Ping Xie [2017] No. 42);

12. "Guidelines for Quality Control of the Business of Asset Valuation Institutions" (Zhong Ping Xie [2017] No. 46);

13. "Guiding Opinions on Types of Valuation of Assets" (Zhong Ping Xie [2017] No. 47);

14. "Guiding Opinions on the Legal Ownership in Respect of the Target of the Valuation of Assets" (Zhong Ping Xie [2017] No. 48);

15. "Guiding Opinions on Evaluation of Investment Properties" (Zhong Ping Xie [2017] No. 53);

16. "Accounting Standard for Business Enterprises No. 1 - Inventory";

17. "Accounting Standard for Business Enterprises No. 3 - Investment Properties";

18. "Expert Guidance on Valuation of Assets No. 6 - Disclosure of Valuation Report in Respect of Major Assets Reorganization of Listed Companies" (Zhong Biao Xie [2015] No. 67);

19. "Accounting System of Business Enterprises" (Ministry of Finance Cai Kuai [2005] No. 25);

20. "Enterprise Financial Accounting Report Ordinance" (Decree No. 287 of the State Council of the People's Republic of China);

21. "Provisional Measures for Financial Treatment of Loss of Properties of Business Enterprises" (Cai Qi [2003] No. 233);

22. "Code on Valuation of Properties" (National Standard GB/T50291-2015 of the People's Republic of China);

23. "Regulations on the Classification and Grading of Urban Lands" (GB/T 18507-2014);

24. "Regulations on the Evaluation of Urban Lands" (National Standard GB/T18508-2014 of the People's Republic of China);

25. "Notice of Guangzhou SASAC on the Printing and Issue of 'the Administration of Valuation of Assets of the Enterprises Under the Supervision of Guangzhou SASAC (Trial Implementation)'" (Sui Guo Zi Ping Gu [2017] No. 5).

(IV) ***Basis for determination of title***

1. "Certificate for Registration of Title of State-owned Assets";

2. "Certificate for the Use of State-owned Land", "Contract for the Transfer of the Land Use Right of State-owned Land" and vouchers for the payment of land transfer payment;

3. "Property Settlement Certificate" / "Property Ownership Certificate";

4. "Construction Project Planning Permit", "Planning Permit for Land Used for Construction Purpose" / "Approval for Land Used for Construction Purpose";

5. "Motor Vehicle Operating License";

6. Invoices, contracts and agreements in respect of the purchase of fixed assets;

7. Contracts, agreements and invoices in respect of relevant business in the operation of the enterprise;

8. Detailed schedule for inspection and valuation of assets provided by the commissioning party and the appraised entity of the valuation.

(V) ***Basis for the determination of prices***

1. "Regulations on Land Price Management in Guangdong Province", Decree No. 46 of Guangdong Provincial People's Government;

2. "Standards of Compensation and Protection in Respect of Land Acquisition in Guangdong Province" (Yue Guo Tu Zi Fa [2006] No. 149);

3. "Notice on the Announcement of the Standard Base Land Price of Land Use Rights of State-owned Lands" (Sui Guo Fang Zi [2010] No. 55);

4. "Notice on the Announcement and Implementation of 'Standard of the Lowest Price for the Transfer of Industrial Land in the PRC' " (Guo Tu Zi Fa [2006] No. 307);

5. "Regulations on Financial Management of Construction of Infrastructures", (Cai Jian [2002] No. 394);

6. "Regulations on the Management of Charges for Engineering Survey and Design" (Ji Jia Ge [2002] No. 10);

7. "Supplementary Notice on Issues Related to the Regulations on the Management of Charges for Engineering Survey and Design" (Ji Ban Jia Ge [2002] No. 1153);

8. "Regulations on the Management of Charges for Construction Project Supervision and Related Services" (Fa Gai Jia Ge [2007] No. 670);

9. "Provisional Measures on the Management of Charges for Tendering Agency Services" (Ji Jia Ge [2002] No. 1980);

10. "Notice on Issues Related to the Regulations on Charges for Environmental Impact Consultation" (Ji Jia Ge [2002] No. 125);

11. "Guangdong Province Construction and Decoration Project Pricing Schedule";

12. "Guangdong Province Installation Project Pricing Schedule";

13. "Index for Construction and Installation Engineering Costs and Index for the Price of Three Categories of Materials for Guangzhou City";

14. "Guangzhou City Market Guidance Prices of Construction Materials";

15. "Standards for Assessment of Levels of Damage to Buildings" (Issued by the former Ministry of Urban and Rural Construction and Environmental Protection of the PRC);

16. "Regulations on the Management of Charges for Construction Project Supervision and Related Services" (Fa Gai Jia Ge [2007] No. 670), promulgated by the Development and Reform Commission and the Ministry of Construction on 30 March, 2007, which became effective on 1 May, 2007;

17. The latest version "Mechanical and Electrical Products Prices Manual" (Machinery Industry Information Institute, Machinery Industry Press);

18. "Mechanical and Electrical Products Prices Information Query System" (Machinery Industry Information Institute);

19. Relevant statistical information as set out in "China Economic Prosperity Monthly Report" issued by National Bureau of Statistics;

20. Latest version of "Standards for Evaluation of Enterprise Performance", issued by Statistics and Evaluation Bureau of State-owned Assets Supervision and Administration Commission of the State Council;

21. "Manual of Commonly Used Method and Parameters in Valuation of Assets" published by Machinery Industry Press;

22. Data related to bonds as published on the website of China Bond Information (www.chinabond.com.cn);

23. Interest rates of deposits and loans of financial institutions promulgated by the People's Bank of China;

24. Public information of relevant listed companies;

25. Statistics issued by Shanghai Wind Information Technology Company Limited (WIND information);

26. Statistical data and technical standards data released by relevant national departments;

27. Relevant data for filing, such as the balance sheet, income statement, detailed statement of valuation of assets, as well as other relevant data for valuation provided by the enterprise;

28. Relevant business forecast data and financial and accounting statements, as well as other financial and operation data provided by the enterprise;

29. Information on recent transaction prices and results of price inquiry through the Internet and telephone in respect of the market of machinery and equipment and materials;

30. Information on recent transaction prices and compensation for land acquisition on the real estate market of the region where the real estate is located;

31. Information on projects budgeting, e.g. fixed budgeting amount of construction and installation projects and fixed amount for expenses of construction and installation projects of the region where the real estate is located;

32. Site survey, verification and market survey data obtained by the appraisers.

(VI) ***Valuation date and others***

1. Detailed schedule for inspection and filing of assets as at the base date of valuation;

2. Audit report (KPMG Huazhen Shen Zi No. 1703067) provided by KPMG Huazhen LLP;

3. Other information relevant to the valuation, etc.

## VII. Methods of Valuation

(I) ***Introduction of methods of valuation***

There are generally three methods for valuation of asset, i.e. asset-based approach, market-based approach and income-based approach.

1. The asset-based approach, also known as cost-based approach, refers to the method of determining the value of the appraised target on the basis of reasonable assessment of the value of the company's assets and liabilities.

2. The market-based approach refers the method of determining the value of the appraised target by comparing the appraised target with comparable listed companies or comparable transactions cases.

3. The income-based approach refers to the method of determining the value of the appraised entity by capitalising or discounting the expected income of the appraised target. The income-based approach does not directly use the actual market reference to illustrate the current fair market value of the appraised entity, however, it evaluates the asset from the perspective of expected profitability of the asset, which is the fundamental basis for determining the current market value of the assets. Therefore, it is in line with the basic definition of assets.

(II) ***Selection of valuation methods***

*1. Analysis on the application of market-based approach*

Since there are many listed companies in the same or similar industries in the capital market, their operating and financial data are publicly available. Corresponding appraisal systems and regression analysis can be established, while comparison and analysis can be conducted by obtaining appropriate value ratios or economic indicators through calculation.

*2. Analysis on the application of income-based approach*

The appraisers make judgments on the applicability of the income-based approach based on the overall situation of the enterprise, the purpose of valuation, the analysis of the enterprise's financial statements, as well as the availability for selection and judgement of parameter for the income-based approach.

(1) Judgement on overall situations

① The assets subject to valuation are operating assets, the title of which are clear and remain intact, and the enterprise is capable of operating on a going concern basis.

② The future returns of the assets subject to valuation can be measured in currency form. Specifically, the operating revenues of the enterprise flow into the enterprise in a manner which can be measured in currency form, and corresponding costs and expenses flow out in a manner which can be measured in currency form, and the inflow and outflow of other economic benefits can also be measured in currency corm. As a result, the expected income of the profitability of the overall assets of the enterprise can be measured in currency form.

③ The risk of assets subject to valuation can be measured in currency form. Major risks facing the enterprise include industry risks, operating risks and financial risks, all of which can be measured in currency form.

(2) Judgement on the purpose of valuation

The purpose of the valuation is to provide reference to the commissioning party in respect of the proposed acquisition of equity interest by cash. The valuation must objectively and truthfully reflect the market fair value of all the shareholders' equity interests. Instead of simply summing up the value of the individual asset, the overall value underlying the scale of operation, industry status and mature management mode should be reflected in a comprehensive manner. This means that the enterprise should be treated as an organic system, and the value of all the shareholders' equity interests should be represented by overall profitability.

(3) Judgement on financial information

For an enterprise with complete financial and accounting data, normal operation, sound management, and having its accounting statements audited and verified by auditing agencies, its profitability can be reasonably expected.

(4) Judgement on the availability of parameters for the income-based approach

To date, the domestic capital market has made considerable progress. There are also quite a number of listed companies in the pharmaceutical distribution industry. Relevant data, such as relevant beta, risk-free rate of return and return for market risks, can be obtained easily. The external conditions for the income-based approach are more mature. At the same time, it is also in line with international practice to use the income-based approach for the valuation.

Based on the analysis of the four factors as listed above, in the opinion of the appraisers, the income-based approach can be used for the valuation both in theory and in practice.

*3. Analysis on the application of the asset-based approach*

The data in respect of the assets and liabilities of the appraised entity are complete and the financial data of its historical operation are sound. The assets and liabilities of the appraised entity on and off the balance sheet can be identified. At the same time, information regarding the market price for acquiring or developing similar assets is available. For assets with profitability, its income and risks can be matched by reasonable measures, that is, the value of each asset can be determined with appropriate specific method which is selected according to specific conditions. As to this valuation, requirements for valuation through the asset-based approach are satisfied.

Since the appraised entity is engaged in the pharmaceutical distribution industry, its business operation relies mainly on the company's sales pipeline, procurement pipeline and subject of bidding, etc. Assets-based valuation is not a good approach for the purpose of reflecting the value of intangible assets and reflecting the overall value of the enterprise. Compared with the asset-based approach, the market-based approach and the income-based approach are more capable of fully reflecting the overall value of the enterprise. Therefore, we do not adopt the asset-based approach for this project.

(III) ***Introduction to the methods applied for the valuation***

**§ Introduction to the income-based approach**

The specific methods commonly used in the income-based approach include the method of discounted dividend and the method of discounted cash flow. The method of discounted dividend is the specific method of discounting the expected dividend to determine the value of the appraised target. It is usually applicable to assessing the value of non-controlling equity interests of shareholders. The discounted cash flow method usually includes the discounted free cash flow of enterprise model and model of discounted free cash flow for equity interest. Appropriate cash flow discounting model is selected based on the future business model, capital structure, utilisation status of assets and the development trend of future income. As the appraised target is the total equity value of the shareholders of the appraised entity, the method of discounted free cash flow (DCF) is applicable.

*1. Selection of valuation model*

Taking into account the establishment of the appraised entity, the capital structure and historical operation, especially the future business model, the stability and growth of earnings, the expected changes in the capital structure and the utilisation of the assets, we adopt the discounted free cash flow of enterprise model.

*2. Basic idea for the valuation*

According to the due diligence and the composition of assets and characteristics of main business of the appraised entity, during the process of valuation, the capital value of the equity interests is evaluated on the basis of the consolidated statements of appraised entity. The basic ideas are as follows:

(1) The assets included in the scope of the statements, namely, the operating assets, excess assets, non-operating assets and liabilities should be treated separately, and corresponding statements will be adjusted. Excess assets, non-operating assets and liabilities include funds in the form of currency as required for operations other than normal operations, current assets and liabilities such as current and non-operating cash flows from non-operating activities of the enterprise, non-operating foreign investments, non-current assets or liabilities such as sluggish or idle equipment as at the base date;

(2) The assets and main businesses included in the corresponding statements of the operating assets, the expected profits are estimated based on the changing trend of the business conditions and business types before and after the reference day, and the value of the operating assets is discounted respectively;

(3) The excess assets, non-operating assets and liabilities that are not included in the scope of the operating statements and are not considered in the estimation of the expected income, their value will be valued separately; and

(4) The enterprise value of the appraised entity is obtained by aggregating the assets and liabilities listed above. The value of all the equity of the shareholders of the appraised entity is obtained after deducting the interest-bearing debts and the value of the minority equity interest.

3. *Formula for calculating the valuation*

Set out below is the formula for calculating the valuation:

$E = B - D - M$ (1)

Where: E: Value of the total equity of shareholders of the appraised entity of valuation;
B: Enterprise value of the appraised entity;
D: Value of the interest-bearing debts of the appraised entity;
M: Value of the equity of the minority shareholder of the appraised entity.

Where: $B = P + C$ (2)

Where: P: Value of operating assets of the appraised entity

$$P = \sum_{i=1}^{n} \frac{R_i}{(1+r)^i} + \frac{R_{n+1}}{r(1+r)^n} \quad (3)$$

Where: $R_i$: The expected income of the appraised target in the ith year of the forecast period; the forecast period refers to the time lapsed from the valuation date to the date when the appraised entity delivers relatively stable operating income.

$R_{n+1}$: Expected income of the appraised target in the first year after the expiration of the forecast period;
r: Discount rate;
n: Future operating period of the appraised target;

C: Value of excess and non-operating assets (liabilities) of the appraised entity as at the base date;

$C = C_1 + C_2$ (4)

Where: $C_1$: Value of current excess and non-operating assets (liabilities) of the appraised entity as at the base date;
$C_2$: Value of non-current excess and non-operating assets (liabilities) of the appraised entity as at the base date;

4. *Selection of major parameters when applying the income-based approach*

(1) Indicators for expected income and the point of time for the realisation of income

According to the specific circumstances of the appraised entity, the free cash flow of enterprise is used as the indicator for expected income of operating assets.

Corporate free cash flow = Revenue - Costs - Taxes + Depreciation and amortization + Interest expenses × (1 - Corporate income tax rate) - Capital expenditures - Changes in net working capital

In the formula above, the expected income includes the distributable but unallocated profit of the realised profits of the appraised entity as at the valuation date and in prior years, without deducting the costs for the management of the equities during the period in which the owner of the appraised target holds the interest, as well as the taxes and related expenses that may be payable outside the People's Republic of China when the expected income is obtained.

The expected income is evenly realized each year, and distributed throughout the period, and the point of time of realisation is set at the middle of each year.

(2) Forecast period

In order to reasonably predict the rule of change and trend of operating revenue and income in the coming years, the longest forecast period which is predictable should be selected. The forecast period will be determined based on the comprehensive analysis of the income and cost structure, financial conditions, capital structure, capital expenditure, investment income and risk level of the appraised entity, combined with macroeconomic policies, industry cycles, management's future business development planning and forecast of prospect for the development of market, current situation and prospect for the development of the industry, as well as other factors that affect the enterprises entering the stable period. The 3 months and 5 complete revenue years after the valuation date are selected as the forecast period.

(3) Expected income period for expected income

Since the term of operation of the industry in which the appraised entity is engaged is not limited by relevant laws and regulations of the state, nor are there requirements in respect of the term of operation in the articles of association, joint-venture contracts and other documents of the appraised entity, the industry in which the appraised entity is engaged is under continuous development with no foreseeable period of demise. In addition, as judgement is based upon the composition of the main operations of the appraised entity, its current conditions of operation, the characteristics of the its owned assets and resources, as well as the judgement of its potential for future development and prospect, it is believed that the appraised entity has the capability to compete in the market as well as the capability of sustainable operation under normal circumstances, the appraised entity will be in continuous operation. Therefore, the income period for determining the expected income is a perpetual term.

(4) Liquidation value at the time when expected income ends

As the appraised entity has been in continuous operation and the expected income from its shareholders' equity has an indefinite duration, the liquidation value of the appraised entity is set to zero after the period of perpetual operation.

(5) Discount rate

As the discounted free cash flow of enterprise model is used in the valuation model, according to the principle of uniform expected caliber and discount rate, the discount rate are determined by the calculation based on the weighted average cost of capital model (WACC). That is:

$$r = r_d \times w_d + r_e \times w_e \qquad (5)$$

$W_d$: Debt ratio of the appraised target;

$$w_d = \frac{D}{(E+D)} \qquad (6)$$

$W_e$: Equity ratio of the appraised target;

$$w_e = \frac{E}{(E+D)} \qquad (7)$$

$r_d$: Post-tax costs of debts of the appraised target;

$r_e$: Cost of equity capital. For the purpose of the valuation, the cost of equity capital ($r_e$) is determined using the capital asset pricing model (CAPM);

$$r_e = r_f + \beta_e \times (r_m - r_f) + \varepsilon \qquad (8)$$

Where: $r_f$: Risk-free rate of return;

$r_m$: Expected rate of return of the market;

$\epsilon$: Characteristic risk adjustment coefficient of the appraised target;

$\beta_e$: Expected market risk coefficient of the appraised target;

$$\beta_e = \beta_u \times (1 + (1-t) \times \frac{D}{E}) \qquad (9)$$

$\beta_u$: Unleveraged market risk coefficient of comparable companies;

$$\beta_u = \frac{\beta_t}{1+(1-t)\frac{D_i}{E_i}} \qquad (10)$$

$\beta_t$: Expected market average risk factor for the shares of comparable companies

*5. Determination of the value of excess assets*

Excess assets refer to the redundant assets that are not directly related to the income of the appraised entity and exceed the operating costs of the appraised entity. As shown by our analysis, the appraised entity does not have significant excess assets.

*6. Determination of the value of non-operating assets*

Non-operating assets refer to those assets that are not directly related to the income of the appraised entity and do not generate any benefits and net of non-operating liabilities. The non-operating assets and liabilities are classified based on the basis of consolidated statements of the appraised entity. As shown by the result of the analysis, non-operating assets of the appraised entity mainly include those assets that are not included in income projections, such as construction in progress, equipment that are discarded or being idle as at the base date. Non-operating assets and liabilities are mainly assessed using the cost-based approach.

*7. Determination of the value of interest-bearing debts*

Interest-bearing debts refer to those that the appraised entity needs to pay interest on. The interest-paying debts are analysed based on the consolidated statements of the appraised entity. Interest-bearing debts are mainly assessed using the asset-based approach.

**§ Introduction of the market-based approach**

Two specific methods commonly used in market-based approach are the method of comparison with listed companies and the method of comparison with transaction cases. The method of comparison with listed companies refers to acquiring and analysing the operating and financial data of comparable listed companies, calculating the appropriate value ratio, and determining the specific method of evaluating the appraised target based on the comparative analysis with the appraised enterprise. Method of comparison with transaction cases refers to the obtainment and analysis of case data in relation to the acquisitions, disposal and mergers of comparable companies, calculate the appropriate value ratio, based on a comparative analysis of the appraised enterprise, to determine the specific method of assessment of the appraised target.

The appraised entity to be assessed is mainly engaged in the pharmaceutical wholesale industry. There are 13 listed companies listed on the Shanghai and Shenzhen Stock Exchanges as at the valuation date, among which, 4 listed companies which are similar to the appraised entity in terms of the business structure, business model, size of the enterprise, allocation and use of asset, the stage of operation, potential of growth risk, operation risks and financial risks, may be selected as comparable cases. Therefore, we used the method of comparison with listed companies as the method of valuation.

*1. Principle for the selection of listed companies*

According to the requirements of the guidelines, the market-based approach shall make reference to the listed companies or transaction cases which are comparable with the appraised entity. In this valuation, the principle for the selection of comparable listed companies are as follows:

(1) With a history of listing and trading for a period of not less than 24 months.

(2) Products produced or services provided by such companies are similar and are affected by the same economic factors.

(3) Such companies have comparable scale of operation or capabilities, and are faced with similar operating risks.

(4) Such companies have similar operating results and comparable profitability capabilities.

(5) The expected growth rates, i.e. potential for future growth are equal or similar.

After selecting the comparable listed companies, basic financial and operating data and statements which are suitable for the purpose of comparison are prepared through the use of publicly disclosed operating and financial data and adjustment in respect of the differences and extraordinary items arising from the adoption of different accounting policies between the comparable companies and the appraised entity.

*2. Select and calculate the value ratio of comparable listed companies*

Appropriate value ratio is determined according to the actual situations of the appraised entity and comparable listed companies, and the value ratios of comparable listed companies are calculated based on the adjusted basic financial and operating data and statements which are suitable for the purpose of comparison.

*3. The value ratios of comparable listed companies will be compared, modified and adjusted by reference to that of the appraised entity in terms of the following factors*

(1) Adjustments for operating conditions, which include profitability, operational capability, solvency and potential growth, etc.

(2) Adjustments for expected growth rate

(3) Adjustments for other factors

*4. Calculation of the result of comparison*

Based on the revised value ratios of comparable listed companies, the average value ratio will be derived by averaging according to the average weight. The comparison result will be obtained based on the net assets as at the valuation data and the profits for the year prior to the valuation date. The result of the calculation using the price to earnings ratio (PE) based on the industry in which the appraised entity engaged and other conditions such as its operating conditions will be deemed as the final result of valuation using the market-based approach.

*5. Adjustments for excess assets and non-operating assets*

The result of valuation which takes the market-based approach will be achieved on the basis of the comparison results and the summarisation of the result of valuation of the excess assets and non-operating assets of the appraised entity.

*6. The market-based approach model*

Following the market-based approach, and based on the characteristics of the industries in which appraised entity is engaged, in the valuation, the appraised target is valued using the price to book ratio (PB) and the price to earnings ratio (PE) respectively. The basic formula is:

(1) The P/B valuation formula is:

$$P = \sum_{i=1}^{n} (PB_i \times A_i \times B_i \times C_i \times D_i \times E_i) \times E + I + H$$

Where: P—Enterprise value of the appraised entity
$PB_i$—Value ratio of the ith comparable target company
$A_i$—Profitability adjustment coefficient of the ith comparable target company
$B_i$—Operation capability adjustment coefficient of the ith comparable target company
$C_i$—Growth capability adjustment coefficient of the ith comparable target company
$D_i$—Risk management capability adjustment coefficient of the ith comparable target company
$E_i$—Innovation capability adjustment coefficient of the ith comparable target company
B—Net book assets of the appraised entity as at the base date
I—Excess assets
H—Non-operating assets and liabilities.

(2) The P/E valuation formula is:

$$P = \sum_{i=1}^{n} (PE_i \times A_i \times B_i \times C_i \times Q_i\ ) \times E + I + H$$

Where: P—Enterprise value of the appraised entity
$PE_i$—Value ratio of the ith comparable target company
$A_i$—Expected growth rate adjustment coefficient of the ith comparable target company
$B_i$—Operation adjustment coefficient of the ith comparable target company

$C_i$—Adjustment coefficient for other factors of the ith comparable target company
E—Net profit for the year prior to the base date of the appraised entity
I—Excess assets
H—Non-operating assets and liabilities.

VIII. **Process of the Implementation of Valuation and Relevant Situations**

In accordance with the regulations on valuation of assets issued by the relevant state agencies and general principle of accounting, and pursuant to the agreement signed between our company and Guangzhou Baiyunshan Pharmaceutical Group Company Limited in respect of valuation of assets, the appraisers of our company have conducted the inspection and verification of the legal documents and accounting records provided by the appraised entity, and carried out on-site inspection and verification on relevant assets. They have also obtained relevant title certificates, conducted necessary market research and comparison of transaction prices, as well as other asset valuation process. Detailed process of the valuation of assets is set out below:

(I) ***The phase of preparation for valuation***

1. After accepting the commission of Guangzhou Baiyunshan Pharmaceutical Group Company Limited, our company selected relevant assets appraisers and conducted detailed discussion with the commissioning party with relevant staff of the appraised entity on the purpose of the appraisal, the valuation date, the scope of valuation, the characteristic of the major assets involved in the commissioned valuation.

2. Based on the specific characteristics of the assets subject to valuation, comprehensive valuation plans and procedural plans were formulated, and important appraised target, valuation procedures and major valuation methods are identified.

3. Based on the characteristics of the assets subject to the commissioned valuation, the appraisers were divided into current assets valuation team, equipment valuation team and real estate valuation team. Each team was responsible for the inventorying and valuation of the assets declared by the appraised entity.

This phase of the work had been carried out in the period from 1 to 8 November 2017.

(II) ***The phase of asset inventorying***

*1. Filing of detailed schedule of declaration of asset valuation*

According to the characteristics of the commissioned assets, specific guidance had been offered to the appraised entity in asset inventorying and completing the detailed schedule of declaration of asset valuation.

*2. Verification of the authenticity and legitimacy of the appraised target*

According to the list of assets appraisal declaration provided by the appraised entity, appraisers conducted inventorying and verification one by one in order to confirm their objective existence; examine and collect title documents of appraised assets, including vehicle operation license, contract, invoices and other data to verify the legality of their legal title;

*3. Research on the composition of the book value*

Based on the characteristics of assets of the appraised entity, relevant accounting vouchers, accounting books and information on budgeting of the enterprise were reviewed to obtain information on the composition of the value of assets filed by the enterprise for valuation.

*4. Collection of data for valuation*

Submit the list of data related to the valuation to the appraised entity to provide guidance on the enterprise for collection and preparation of relevant information.

5. In-depth understanding of the production, management and operation of the enterprise, such as: staffing, supply of materials and resources, management system and management policies, financial planning and business planning; analysis of the financial data for prior years, and analysis of the operating conditions and development plans.

This phase of the work had been carried out in the period from 9 to 20 November 2017.

(III) ***The phase of valuation and estimation***

1. With the support of the professional technical personnel of the appraised entity, each professional team of appraisers conducted surveys and inventorying of all physical assets at the depositing site, the details of which are set out below:

   With the support of the professional technical personnel of the appraised entity, the appraiser carried out on-site inspection of the physical assets, reviewed relevant operation records, and filled in the investigation working tables in respect of the key equipment, housing and lands. In addition, they also communicated with members for the management of equipment and properties of the enterprise, as well as with engineering technical personnel, with a view to understanding the management system for equipment and properties, systems for maintenance and the status of utilisation. On the basis of in-depth investigation and understanding, combined with the data collected, they conducted comprehensive analysis on the data collected to determine the newness rate of the physical assets.

2. Each professional team of appraisers conducted market research separately, collecting information on the market transaction prices related to the appraised entity, and organising and analysing the information and data collected.

3. Based on the forecast of the future income provided by the enterprise, macroeconomic data and relevant data of the industry were collected, and the rationality of the forecast was analysed based on the enterprise's capability of production, market conditions, business management level and development plan.

4. The capitalisation rate was determined on the basis of a weighted average cost of capital (WACC) and the rationality of the capitalisation rate was analysed.

5. Income for future years were discounted at the selected capitalisation rate to arrive at the present value of the assets.

6. Preliminary results were achieved based on the situation of the valuation. Opinions from experts were obtained, and it was ensured that there was no double-valuation and item omitted for valuation. After that, relevant opinions were analysed and modifications and improvement were made.

This phase of the work had been carried out in the period from 21 to 30 November 2017.

(IV) ***The phase of summary of valuation and submission of reports***

Each professional team summarised the results of valuation of each appraised target. Relevant personnel were arranged to carry out reasonable analysis on such two approaches, and determined the result of one of the approaches as the conclusion of the valuation.

According to our requirements for standardisation of asset valuation, members of each professional teams were arranged to prepare description of valuation techniques in respect of the relevant assets. The results of valuation, the reports of asset valuation and description in respect of valuation techniques were subject to three-tier review on the basis on review by responsible person of the project in accordance with the procedures required by our company, i.e. the responsible person of the project delivered the audited working draft, the reports of asset valuation and description of valuation techniques and detail schedule on valuation to the head of division responsible for the project for preliminary review. After revision based on the preliminary opinion of review, such materials was revised and submitted to quality supervision department for review. Further revision was made based on the feedback of the quality supervision department, following which; such materials were submitted to the general manger for endorsement. Finally, the formal report was prepared and delivered to the commissioning party.

This phase of the work had been carried out in the period from 1 to 21 December 2017.

IX. **Valuation Assumptions**

(I) ***Basic assumptions***

1. Transactional assumption: Transactional assumption is to assume that all the appraised assets are already in the course of transaction and the valuer carries out the valuation based on a simulated market with reference to the conditions of the trade of the appraised assets. The appraised assets is an estimate of the price at which the appraised assets is most likely to conclude the transaction.

2. Open market assumption: open market assumption is a hypothetical statement or restriction on the conditions of the market which the assets are intended to enter and what impact is to be accepted by the assets under such market conditions. Open market assumption

assumes that there are well-developed and perfect market conditions with willing buyer and willing seller, both of which are in equal position and have opportunities and time in obtaining sufficient market information to, without any forced conditions or limitation, take voluntary and rational action in respect of the transaction.

3. Continuing operation assumption: It is assumed that the appraised entity, after realising the economic activities which are the purpose of the valuation, will continue to operate in the operating period as stipulated in the articles of association of the appraised entity in accordance with its original business objectives, mode of operation, management standards, financial structure, industry conditions and market conditions, and that its revenue is forecastable.

4. Continuing use assumption: Continuing use assumption first assumes that the appraised assets (including assets currently being employed and reserved assets) are being used and, based on the relevant data and information, will continue to be employed. Continuing use assumption describes the market conditions or environment for the appraised entity and particularly describes the entity's status of continuance. Specifically, it includes continuing to be used as the existing usage; continuing to be used with a change of usage; continuing to be used at a different location or space. Continuing to be used as existing usage refers to the case when the appraised asset will continue to be used according to the existing usage purpose and manner after change in the property rights or related business. Continuing to be used with a change of usage refers to the case when the appraised asset will continue to be used with a change of the existing usage purpose being replaced by a new usage purpose after change in property rights or related business. Continuing to be used at a different location or space refers to the case when the appraised asset in use will continue to be used with a change of location or space and continue to be used at another location or space after change in property rights or related business. We assume continuing to be used as the existing usage is applied for the use of assets in this valuation.

(II) ***General assumptions:***

1. It is expected that there will be no material change in the relevant laws, regulations and policies applicable to the industry of the appraised entity;

2. It is expected that there will be no material change in the economic and social environment and the overall economic development, save and except for those changes already known to the public;

3. The fluctuation in the bank's interest rates and exchange rates in the PRC will be within a reasonable range;

4. There will be no material change in the current national taxation policies, save and except for those changes already known to the public;

5. There will be no unpredictable or force majeure factor that would cause material adverse effect;

6. There will be no material change in the accounting policy and measurement method of the appraised entity after the valuation date;

7. The free cash flow of the appraised entity will be generated evenly in each forecast period;

8. There will be no material change in the mode of operation of the appraised entity.

(III) ***Special Assumptions***

1. With regard to the legal description or legal issues of the appraised assets (including their ownership or encumbrance limitations), apart from those disclosed in the Valuation Report, the ownership of the appraised assets is assumed to be in good condition and tradable in the market, not subject to any lien and easement, have not been violated and bears no other encumbrances.

2. Our company has conducted independent review of the information provided by the Company and other parties upon which the conclusion, in whole or in part, relating to the Appraised Value set out in the valuation report pursuant to the valuation procedures. No representation is made as to the authenticity and accuracy of such information.

3. It is assumed that all certificates, licenses, letters of consent or other legal or administrative authorization documents signed or issued by relevant local and national government institutions, private organizations or groups, which are required by the users and have been taken into account in deriving the valuation set out in the valuation report, have been or could be obtained or updated at any time.

4. The valuation is made based on the purchasing power of the local currency on the valuation date.

5. All improvements on all relevant assets performed by the Guangzhou Pharmaceutical Company Limited are in compliance with all the relevant laws and the regulations, and other laws, plans, or engineering requirements set by the relevant higher competent administrations.

6. Estimations made in the valuation report are based on the assumption that all significant or potential factors which may affect the valuation analysis have been fully disclosed between the appraised entity and us.

(IV) ***Assumptions Relating to the Business Operation and Forecast***

1. It is assumed that the appraised entity will continue to develop and operate its relevant assets according to development and operation plans and planned modes of development and operation after realising the economic activities which are the purpose of the valuation.

2. It is assumed that the current macroeconomic policy environment, including the relevant laws, regulations and administrative policies, industrial policies, financial policies and tax policies, is relatively stable. Unless otherwise stated, it is assumed that the appraised entity fully complies with all relevant laws and regulations.

3. It is assumed that there will be no material changes in the international financial environment, global economic environment and national macroeconomic conditions, and that there will be no material change in the political, economic and social environment in which the appraised entity operates.

4. It is assumed that there will be no material change in the interest rates, exchange rates, tax bases and tax rates, and charges under the relevant implemented policies.

5. It is assumed that the conditions of the assets of the appraised entity would not be the same all the time during the period of continuing operation.

6. The valuation is based on the existing operating capability of the appraised entity on the valuation date (not taking into account the potential future expansion of the business capability related to the management, business strategies and additional investments, as well as the possible impacts of any changes in subsequent productions and operations). It is assumed that the appraised entity will maintain the total investment amount as at the valuation date, and the level of financial leverage will remain substantially the same.

7. It is assumed that the appraised entity will continue to operate in accordance with the then existing management standards as at the valuation date, and the management of the appraised entity is diligent, responsible and is relatively stable and capable of performing its duties (not taking into account any impacts on expected future revenues brought by substantial adjustments of the operators or substantial changes in the management level).

8. It is assumed that the accounting policies to be adopted by the appraised entity in the future and at the time of preparing the Valuation Report are substantially the same.

9. It is assumed that the appraised entity fully complies with the relevant national and local laws and regulations which are applicable to carrying out lawful operations.

## X. Conclusions of Valuation

The assessment has mainly adopted the market-based approach and the income-based approach. Based on the above assessment, we have arrived at the following assessment conclusions:

### (I) *Valuation conclusion of the income-based approach:*

The income-based approach was applied to evaluate the total equity of the shareholders of Guangzhou Pharmaceuticals Corporation, which was at RMB4,624,709,500, representing an appreciation of RMB1,887,672,500 and an appreciation rate of 68.97% as compared to the net book assets.

For details of the valuation conclusion, please refer to the Summary of Valuation Results of the Income-based Approach.

**Summary of the Valuation Results of the Income-based Approach**
Valuation date: 30 September 2017

Appraised entity: Guangzhou Pharmaceuticals Corporation Currency Unit: RMB0'000

| Items | October — December 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Years of stable growth |
|---|---|---|---|---|---|---|---|
| I. Total income from operations | 836,330.00 | 3,841,685.79 | 4,138,852.61 | 4,451,239.69 | 4,773,780.40 | 4,989,719.03 | 4,989,719.03 |
| II. Total cost of operations | 783,790.90 | 3,600,265.28 | 3,870,665.07 | 4,157,917.28 | 4,454,725.68 | 4,653,641.46 | 4,653,641.46 |
| Taxes and surcharges | 1,442.58 | 6,436.28 | 7,012.56 | 7,556.15 | 8,112.55 | 8,491.91 | 8,491.91 |
| Selling and distribution expenses | 26,470.46 | 119,290.84 | 131,090.66 | 143,834.46 | 157,189.85 | 169,897.19 | 169,897.19 |
| General and administrative expenses | 7,818.47 | 31,258.94 | 34,048.55 | 35,757.32 | 37,766.03 | 39,817.75 | 39,817.75 |
| Financial expenses | 7,270.00 | 33,402.17 | 35,989.31 | 38,708.98 | 41,517.08 | 43,396.64 | 43,396.64 |
| Add: Investment income | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| III. Operating profit | 9,537.60 | 51,032.29 | 60,046.47 | 67,465.49 | 74,469.20 | 74,474.08 | 74,474.08 |
| Net non-operating income and expenses | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| IV. Total profit | 9,537.60 | 51,032.29 | 60,046.47 | 67,465.49 | 74,469.20 | 74,474.08 | 74,474.08 |
| Less: Income tax expenses | 2,384.40 | 12,758.07 | 15,011.62 | 16,866.37 | 18,617.30 | 18,618.52 | 18,618.52 |
| V. Net profit | 7,153.20 | 38,274.21 | 45,034.85 | 50,599.12 | 55,851.90 | 55,855.56 | 55,855.56 |
| Add: Depreciation | 1,160.64 | 6,922.55 | 9,202.55 | 11,282.55 | 12,662.55 | 14,042.55 | 14,042.55 |
| Add: amortization | 502.14 | 2,010.94 | 1,770.32 | 728.30 | 668.14 | 632.40 | 632.40 |
| Add: Interest expenses (net of tax effect) | 21,341.38 | 21,899.76 | 25,004.76 | 28,109.76 | 28,109.76 | 28,109.76 | 28,109.76 |
| Less: Capital expenditures | 10,932.68 | 24,915.21 | 25,065.97 | 23,575.82 | 15,935.56 | 16,246.94 | 14,674.95 |
| Less: Additional operating capital | -324,018.66 | 23,892.19 | 26,606.34 | 10,703.63 | 9,430.16 | 552.09 | 0.00 |
| Net cash flow | 343,243.34 | 20,300.06 | 29,340.16 | 56,440.28 | 71,926.63 | 81,841.24 | 83,965.32 |
| Discount rate | 8.48% | 8.48% | 8.49% | 8.49% | 8.49% | 8.49% | 8.49% |
| Discounted cash flow | 339,810.91 | 19,082.06 | 25,525.94 | 45,152.22 | 53,225.71 | 55,652.04 | 672,562.21 |
| Total discounted cash flow | 1,211,011.09 | | | | | | |
| Excess assets | 0.00 | | | | | | |
| Add: Net non-operating assets and liabilities | 5,683.25 | | | | | | |
| Less: Interest-bearing debts | 712,693.74 | | | | | | |
| The total value of the company's equity | 504,000.60 | | | | | | |
| Less: Minority interests | 41,529.65 | | | | | | |
| Assessed value of equity interest attributable to owners of parent company | 462,470.95 | | | | | | |

(II) ***Valuation conclusion of the market-based approach:***

The market-based approach was applied to evaluate the total equity of the shareholders of Guangzhou Pharmaceuticals Corporation, which was at RMB4,682,650,800, representing an appreciation of RMB1,945,613,700 and an appreciation rate of 71.08% as compared to the net book assets.

(III) ***Explanation on the selection of the valuation results:***

The difference in the valuation conclusions between the income-based approach and the asset-based approach valuation is RMB 57,941,300, representing a difference rate of 1.25%. The main reasons for the difference are as follows:

The appraised entity is engaged in the pharmaceutical distribution industry, and its business operation mainly depends on the company's sales channels, procurement channels and the bidding subjects:

(1) Sales channels. The enterprise makes efforts in in-depth development of its operation network with Guangdong as the core, while expand itself through mergers and acquisitions in the eastern, southern, northwestern and southwestern regions of the country to form a business network covering the whole country with Guangdong as the center. At present, the company owns 21 wholly-owned and joint-venture subsidiaries mainly rooted in Guangdong, and having a wide coverage of cities and provincial capitals including Hunan; Hubei; Fujian; Sichuan; Shaanxi; Guangxi and Hainan.

(2) Procurement channels. The company procures a variety of pharmaceutical products of more than 51,200 from stable suppliers.

(3) Bidding subjects. With the advancement of medical reform in China, the government has conducted a comprehensive management of the procurement approach of pharmaceutical products and carried out reforms in terms of bidding method. Due to its good reputation and quality service which has been operating for years, business development opportunities have been brought into the enterprise after the implementation of procurement through bidding.

The income-based approach uses the expected income of assets as the standard of value, reflecting the scale of the operating capacity of the assets. Such profitability is subject to the impact of multiple conditions including macro economy, government control, business operation and management and the effective use of assets.

The market-based approach places the appraised target in a complete and realistic market environment, and then evaluate it based on the comparison factors after analysing and adjusting the transaction price of the asset in the selected reference case.

The market-based approach determines the value of an enterprise in terms of its business performance and overall market performance, while the income-based approach predicts its value based on the profitability, and these two complement each other. As the valuation results of these two different approaches come closer to each other, they can be mutually validated. In view of the fact that the valuation is for the purpose of acquisition of equity, the report on this valuation has adopted the result of the income-based approach as the valuation conclusion.

**In summary, the valuation has used the result of the income-based approach.**

**The total equity of the shareholders of Guangzhou Pharmaceutical Company Limited was evaluated at RMB4,624,709,500, namely the amount in Renminbi in words: four billion six hundred and twenty four million seven hundred and nine thousand five hundred.**

(IV) ***Analysis of the reasons of appreciation or depreciation:***

1. *Analysis of the reasons of appreciation resulted from the market-based approach*

The appraised entity is in a stable operation period with good operation ability and high financial indicators. Therefore, the evaluated value is appreciated by using the market-based approach.

2. *Analysis of the reasons of appreciation resulted from the income-based approach*

The income-based approach predicts the potential income that the asset expects to achieve based on the existing operation and management mode of the appraised entity and the market and policy environments. Under the existing market and policies, after operating in the service industry for many years, the appraised entity has entered a stable period recording a promising profitability.

(V) ***Explanation of the valuation conclusion***

1. The valuation conclusion has not taken into consideration the impact of the outstanding taxes payable on the appraised entity and the asset involved, and all kinds of transaction taxes and fees and other expenses that may be required to be paid arising from the transaction, nor does it make any adjustment to taxation provided for the appreciation of appraised asset.

2. It is known to the appraiser that the value of some shareholders' equity does not necessarily equal the product of the total equity of the shareholders and the ratio of shareholding. Due to the unavailability of transaction data of the industry and related equity and subject to the current pricing rules of title transaction, no premiums and discounts on the controlling interests and minority interests are taken into account in the valuation.

3. It is known to the appraiser that the liquidity of assets may have a significant impact on the value of the target of valuation. Therefore, the impact of the liquidity of assets on the value of the target of valuation has been considered in the valuation.

4. The appraisers and the valuer assume the legal responsibility for making professional judgment on the value of the assets under the valuation purpose described in this report, but do not bear the legal responsibility for making any judgment on the economic activity in

respect of the valuation purpose. The valuation largely depends on the information and materials of the appraised target provided by the commissioning party, the appraised entity and other related parties. Therefore, the valuation is based on the premise of the authenticity and lawfulness of the relevant documents and materials provided by the commissioning party and the appraised entity, such as documents of economic activity, documents of ownership of the assets, the certificates and accounting vouchers, and the technical parameters and business data. The authenticity and completeness of relevant information have an impact on the valuation results. The commissioning party and the appraised entity shall take responsibility for the authenticity and completeness of the information.

5. Special attention should be paid to the "Valuation assumptions" and "Notes of Special Matters" set out in this report when using the valuation conclusion.

6. Within the term of validity after the valuation date, the following principles shall be applied to the quantity of asset and pricing standards in the event of any change in them:

   (1) In the event of any change in the quantity of assets, the quantity of assets should be adjusted according to the original valuation method;

   (2) When the price standard of the asset changes and as a result, has a significant impact on the valuation results, the commissioning party shall promptly engage a qualified asset valuer to re-determine the evaluated value;

   (3) In respect of changes in the quantity of assets and price standards after the valuation date, the commissioning party shall take into full consideration in determining the actual price and make adjustment accordingly.

## XI. Notes of Special Matter

The valuation and estimation of the following matters are beyond the practicing capacity and capability of our appraisers, but the matters may indeed affect the valuation conclusion. Users of the valuation report should pay special attention to:

1. Among the assets contained in the valuation, there is a property located at the 5F, No. 19-1, New Street, Shier Fu, Datong Road, Liwan District (Guangdong Real Estate Certificate No. C4647203). 7.4 square meters of this property has not applied for registration of property rights. The valuation has not taken into account the impact of the defect of the aforesaid property title on its valuation[Note].

*Note: The reasons that the valuation had not taken into consideration of the impact of the defect of the aforesaid property title as such defect will not affect the continuing operation of the said property as well as the fee to replace the relevant title certificate is relatively low.*

2. Hubei Guangyao An Kang Pharmaceutical Company Limited, in which Guangzhou Pharmaceuticals Corporation has a long-term equity investment, has been approved for dissolution by the Intermediate People's Court in Wuhan City, Hubei Province in July 2013 ((Civil Judgment of the Intermediate People's Court in Wuhan City, Hubei province) (2012) E Wu Han Zhong Min Shang Chu Zi No. 00266). As at the valuation date, Hubei Guangyao An Kang Pharmaceutical Company Limited was in liquidation[Note].

*Note: As the appraiser was unable to determine the date for the completion date of the said liquidation, it was assumed that the aforementioned company was still in the state of liquidation for the profit forecast period throughout the valuation. The financial impacts of the aforementioned company had already been accounted for in the valuation and such financial impacts on the valuation were relatively low.*

3. The valuer and appraisers disclaim any responsibility for those defects existing in the enterprise that may affect the evaluated value of the assets but are not explained specifically in the engagement, and are unknown to the appraisers after conducting the valuation procedures.

4. The appraisers and the valuer assume the legal responsibility for making professional judgment on the value of the assets under the valuation purpose described in this report, but do not bear the legal responsibility for making any judgment on the economic activity in respect of the valuation purpose. The valuation largely depends on the information and materials of the appraised target provided by the commissioning party, the appraised entity and other related parties. In addition, the appraisers are not specialists in identifying the authenticity and completeness. They have conducted necessary inspection and verification for the valuation in accordance with the requirements under the Assets Valuation Law. Therefore, in the event of any untrue materials provided by the commissioning party and the appraised entity, the appraisers and valuers disclaim any legal responsibility with regard to property titles of the appraised target.

The above special matter (if existed) shall be brought to the attention of the users of this report.

## XII. Explanation of the Restricts on the Use of the Valuation Report

1. This valuation report can be only be used for valuation purpose and usage set out herein;

2. The valuer and appraisers disclaim any responsibility for any failure of the use of the valuation report by the commissioning party and others in accordance with the law, the administrative laws and within the scope of use specified herein;

3. The valuation report can only be used by the users specified herein. Any other institutions and individuals are not allowed to have access to the valuation report except those as agreed in the contract of asset valuation and provided in the law and regulations;

4. The users of the valuation report should have a correct understanding of the valuation conclusion. The price in the conclusion is not equivalent to that achieved by the appraised target. The valuation conclusion should not be regarded as the guarantee of the achievable price of the appraised target;

5. The valuation conclusion shall not be used until the valuation report has been approved or filed with;

6. The conclusion of this report can only be used by the commissioning party for the purpose herein and by the supervision and administration department of state-owned assets for examination and verification. The right of use of the report vests in the commissioning party. Without the consent of the valuer that issued the valuation report, the contents of the report shall not be extracted, quoted or disclosed in public media, except as otherwise stipulated by the laws and regulations and the relevant parties;

7. If any policy change has a significant impact on the valuation conclusion, it should re-determine the valuation date for another valuation;

8. The valuation report is valid for one year from the valuation date on 30 September 2017, and a new valuation for the asset is required upon the expiry of one year.

XIII. **Valuation Date of the Report**

The professional opinions of this report were arrived on 21 December 2017.

Guo Zhong Lian Assets Evaluation, Land & Real Estate Appraisal Company Limited.

Legal representative : Huang Xi Qin

Asset appraiser : Lu Zi Jian

Asset appraiser : Ouyang Wen Jin

21 December 2017

*Notes: Mr. Lu Zi Jian has over 20 years of experience in asset valuation and holds the qualification of Certified Public Valuer. Mr. Ouyang Wen Jin has over 10 years of experience in asset valuation and holds the qualification of Certified Public Valuer.*

The Asset Valuation Report on the Market Value of All the Equity Interest of the Shareholders in Guangzhou Pharmaceuticals Corporation in Relation to the Proposed Equity Interest Acquisition by Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited* (《廣州白雲山醫藥集團股份有限公司擬實施股權收購涉及廣州醫藥有限公司股東全部權益市場價值資產評估報告》) conducted valuation on the market value of the entire shareholders' interests of Guangzhou Pharmaceuticals Corporation involved in the proposed equity acquisition by Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited as at 30 September 2017 using the market approach and income approach respectively, based on the particular valuation assumptions and limitations. The following is a summarised description of the market approach and the income approach.

## (I) Summary of valuation using the income-based approach is explained as follows

**Summary of the Valuation Results of the Income-based Approach**

Valuation date: 30 September 2017

Appraised entity: Guangzhou Pharmaceuticals Corporation    Currency Unit: RMB0'000

| Items | October — December 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Years of stable growth |
|---|---|---|---|---|---|---|---|
| I. Total income from operations | 836,330.00 | 3,841,685.79 | 4,138,852.61 | 4,451,239.69 | 4,773,780.40 | 4,989,719.03 | 4,989,719.03 |
| II. Total cost of operations | 783,790.90 | 3,600,265.28 | 3,870,665.07 | 4,157,917.28 | 4,454,725.68 | 4,653,641.46 | 4,653,641.46 |
| Taxes and surcharges | 1,442.58 | 6,436.28 | 7,012.56 | 7,556.15 | 8,112.55 | 8,491.91 | 8,491.91 |
| Selling and distribution expenses | 26,470.46 | 119,290.84 | 131,090.66 | 143,834.46 | 157,189.85 | 169,897.19 | 169,897.19 |
| General and administrative expenses | 7,818.47 | 31,258.94 | 34,048.55 | 35,757.32 | 37,766.03 | 39,817.75 | 39,817.75 |
| Financial expenses | 7,270.00 | 33,402.17 | 35,989.31 | 38,708.98 | 41,517.08 | 43,396.64 | 43,396.64 |
| Add: Investment income | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| III. Operating profit | 9,537.60 | 51,032.29 | 60,046.47 | 67,465.49 | 74,469.20 | 74,474.08 | 74,474.08 |
| Net non-operating income and expenses | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| IV. Total profit | 9,537.60 | 51,032.29 | 60,046.47 | 67,465.49 | 74,469.20 | 74,474.08 | 74,474.08 |
| Less: Income tax expenses | 2,384.40 | 12,758.07 | 15,011.62 | 16,866.37 | 18,617.30 | 18,618.52 | 18,618.52 |
| V. Net profit | 7,153.20 | 38,274.21 | 45,034.85 | 50,599.12 | 55,851.90 | 55,855.56 | 55,855.56 |
| Add: Depreciation | 1,160.64 | 6,922.55 | 9,202.55 | 11,282.55 | 12,662.55 | 14,042.55 | 14,042.55 |
| Add: Amortisation | 502.14 | 2,010.94 | 1,770.32 | 728.30 | 668.14 | 632.40 | 632.40 |
| Add: Interest expenses (net of tax effect) | 21,341.38 | 21,899.76 | 25,004.76 | 28,109.76 | 28,109.76 | 28,109.76 | 28,109.76 |
| Less: Capital expenditures | 10,932.68 | 24,915.21 | 25,065.97 | 23,575.82 | 15,935.56 | 16,246.94 | 14,674.95 |
| Less: Additional operating capital | -324,018.66 | 23,892.19 | 26,606.34 | 10,703.63 | 9,430.16 | 552.09 | 0.00 |
| Net cash flow | 343,243.34 | 20,300.06 | 29,340.16 | 56,440.28 | 71,926.63 | 81,841.24 | 83,965.32 |
| Discount rate | 8.48% | 8.48% | 8.49% | 8.49% | 8.49% | 8.49% | 8.49% |
| Discounted cash flow | 339,810.91 | 19,082.06 | 25,525.94 | 45,152.22 | 53,225.71 | 55,652.04 | 672,562.21 |
| Total discounted cash flow | 1,211,011.09 | | | | | | |
| Excess assets | 0.00 | | | | | | |

| Items | October — December 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Years of stable growth |
|---|---|---|---|---|---|---|---|
| Add: Net non-operating assets and liabilities | 5,683.25 | | | | | | |
| Less: Interest-bearing debts | 712,693.74 | | | | | | |
| The total value of the company's equity | 504,000.60 | | | | | | |
| Less: Minority interests | 41,529.65 | | | | | | |
| Assessed value of equity interest attributable to owners of parent company | 462,470.95 | | | | | | |

1. ***Valuation Model of the Income-based Approach***

Taking into account the establishment of the appraised entity, its historical operation, future business model, capital structure, asset utilisation status, present status and development prospects of the industry located, and the development trend of future income, especially the operating and income stability as well as the stability and growth of forecast future income, we adopt the discounted cash flow approach (DCF) in the valuation, in which future expected income is valued by using the valuation model of discounting the expected free cash flow of the appraised entity.

2. ***Determination of Expected Income***

According to the specific circumstances of the appraised object in this appraisal project, the appraiser predicts and determines the expected income Ri of the appraised interest by using the following formula:

Expected income Ri = Expected free cash flow of enterprise = Income-Costs - Taxes + Depreciation and Amortisation + Interest Expenses × (1 - Enterprise Income Tax Rate) - Capital Expenditure - Net Changes in Working Capital

Based on the analysis of the historical business performance of the enterprise, the appraiser makes detailed predictions on Ri for the future years through a year-by-year prediction of items such as income, cost and expenses of the enterprise.

When forecasting the net profit, the appraiser does not consider all kinds of unforeseeable extraordinary items (such as non-operating income and expenses, subsidies, etc.), but appraised separately for the external investment of the enterprise. Therefore, investment income is not considered when forecasting the net profit. The appraiser forecasts the expected net profit by using the following simplified net profit formula:

Expected net profit = Operating income - Operating costs - Operating taxes and surcharges - Operating expenses - Administrative expenses - Finance costs - Income tax

3. ***Forecast of the Net profit***

*(1) Operating income from principal activities*

The operating income from principal activities of the appraised entity is the income from pharmaceutical distribution. Based on the historical data, it can be seen that the appraised entity was mainly engaged in the wholesale of pharmaceuticals, and the proportion of income from the wholesale business to total operating income from principal activities of the appraised entity was 97.73% in 2012, 97.73% in 2013, 97.66% in 2014, 97.42% in 2015, 96.88% in 2016, and 96.34% from January to September 2017, showing a gradual downward trend. The relatively fast growth in 2012-2014 is mainly driven by factors such as the sustained rapid development of macro-economy in China, aging population, change in disease spectrum and state support of new medical reforms, bringing the pharmaceutical distribution industry to a period of rapid development. Increased concentration of the former pharmaceutical industry coexisted with the "excessive, tiny and scattered" industrial structure. With the establishment of China's multi-level medical security system and the implementation of the healthcare system covering both urban and rural areas, the third terminal represented by the rural medical institutions and urban community medical centers have experienced an unprecedented development. After a period of mergers and acquisitions, and restructuring process, the concentration of the industry has increased to a certain extent, especially for pharmaceutical distribution enterprises, while the sales volume of the pharmaceutical distribution industry continued to grow in 2014 despite a somewhat decrease in the growth rate.

In addition, the wholesale business model entered a stable phase in 2015 and 2016, with a slowdown in growth as the total sales of the pharmaceutical distribution industry shifted from a rapid growth to a moderate growth. The deepening of the "two-invoice system" policy will further pressurise the pharmaceutical distribution segment, enhance the industrial concentration, and the integrated management model of the pharmaceutical service supply chain will be further optimised. As a large commercial company with a high reputation, strong normativity and strong terminal sales coverage, the appraised entity will have a relatively large market space under the "two-invoice system" policy so that the wholesale business of the appraised entity could still maintain the basic level of income growth in 2017.

The current long-term equity investments of the enterprise, Guangzhou Jianmin Pharmaceuticals Chain Company Limited* (廣州健民醫藥連鎖有限公司) and its wholly-owned subsidiary Guangzhou Jianmin Pharmaceutical Company Limited* (廣州健民醫藥有限公司) operate in a retail model. The retail business of stores recorded a relatively large fluctuation of historical income growth rate, this is mainly because the appraised entity increased the number of stores year by year to roll out the retail network. According to the operating policies of the enterprise's management and the forecast for the development of the enterprise, the future number of stores will grow at the rate of 10 stores per year while the income will continue to grow but the growth rate will gradually slowdown in the future. The B2C business model of e-commerce was a newly developed business in 2014 mainly to cater the e-commerce market of the then society, it is in a stage of rapid development during the development period, and is expected to gradually decrease in the future. Warehousing and logistics services have a relatively large fluctuation of historical income growth rate and will remain growing gradually at a slow rate in the future according to the operation policies of the enterprise management. The historical average annual growth rate of medical device wholesale services is 23.55%, and the future annual income is expected to continue to rise but the growth rate will gradually slow down over time. Based on the operating conditions of various business segments and considering the state medical reforms and industrial policies, the income growth rate for the principal activities of the appraised entity during the forecast period will be around 7% - 8% and will gradually slow down over the operation period.

*(2) Costs of principal activities*

The costs of principal activities of the appraised entity consists of mainly purchase costs. By analysing the historical cost of principal activities of the enterprise, it can be known that all costs of the principal activities of the appraised entity are variable costs. In recent years the costs of the principal activities are well controlled, showing a stable trend between the proportion of the costs of principal activities to the operating income of principal activities and there are no substantial fluctuation on the historical annual consolidated gross profit margin, showing an overall rising trend. On the basis of a stable scale and development of the enterprise, taking into account the relatively favuorable impact of the pharmaceutical distribution industry and state pharmaceutical policies such as the "two-invoice system" on the appraised entities in the future, coupled with HIHPA hospitals wholesale (meaning pharmacy hosting) and a new segment of the appraised entity, the appraised entity is entitled to certain rights of change of drugs for the demand provided by the hospital and may appropriately change the drugs so as to raise the gross profit margin. Therefore, it is expected that the gross profit margin of the appraised entity will still maintain an upward trend.

The historical gross margin of the wholesale business has not changed much and generally showed an upward trend. The traditional business segment of the appraised entity is the wholesale business of traditional hospitals, with a relatively stable historical gross margin but showing a general downward trend mainly due to the release of new state policies to control the proportion of medicines and eliminate the markup on medicines* (藥品加成). To control the proportion of medicines, therefore, many hospitals started preferring medicines with a high popularity and a strong price-performance ratio as alternatives. As such, the appraised entity now gradually transits from using high-end drugs to low-end drugs and operates by using the puerile sales policy. HIHPA Hospital Wholesale is the new business segment of the appraised entity in recent years in response to the state's new policies. It is currently under construction and therefore its historical gross margin has not yet been stabilised. It is expected that the business will enter a stable operation phase in 2019. The gross margin of the commercial allocation wholesale and commercial retail wholesale expects to use the average of its historical gross margin.

Retail stores have a relatively small fluctuation of historical gross margin due to the stable business model; hence its historical average gross margin is used in the forecast. The gross margin of e-commerce B2C Business was relatively stable from 2014 to 2016 and fluctuated more from January to September in 2017 than its historical period due to the change in terms and conditions of cooperation by suppliers of Jianmin International, which resulted in a decrease in the direct gross margin of products. In future years, forecast will be made according to historical average gross margin. The historical gross margin of the warehousing and logistics business had slight fluctuations. The relatively large fluctuation from January to September in 2017 is a result of the inclusion of certain non-cost supplier service fees. The fluctuations in other years are relatively small and so forecast will be made by using the historical average gross margin. The historical gross margin of medical equipment business declined significantly in 2012-2013 and tended to stabilise from 2013 to 2016. Moreover, Guangzhou Wankang Orthopedics Medical Instrument Company Limited, which was newly established in August 2017 and a wholly-owned subsidiary of Guangzhou Zhuhua, is expected to play an active role in the development of the equipment business in the future. Therefore, the historical average gross margin of medical equipment will be used for the forecast in the coming years. According to the forecast of the gross margin of the above principal activities, the gross margin for the forecast period is about 6.5% and will rise slowly as the time of operation goes by. The cost of principal activities in the forecast period is calculated based on the income and gross margin of the principal activities.

*(4) Selection of discount rate*

In order to estimate the discount rate, we must first determine the cost of equity capital based on the Capital Asset Pricing Model (CAPM) as used by the reference company. We then estimate the weighted average cost of capital (WACC) based on the target capital structure calculated by the reference company and the loan interest rate as at the valuation date of the company, and discount the estimated cash flows of the appraised entity.

Considering that the principal activities of the appraised entity is pharmaceutical distribution business, we use the information of the listed companies in the pharmaceutical distribution industry to calculate the discount rate, and calculate the weighted average cost of capital (WACC) by the weighted average method.

1. ***Cost of equity capital***

Calculation of the cost of equity capital by using the Capital Asset Pricing Model (CAPM) is determined according to the following formula:

$$Rt = Rf + \beta \times Rpm + Rc$$

Where: Rt: Cost of equity capital
Rf: Risk-free rate of return
β: Industry risk adjustment coefficient
Rpm: Market risk premium
Rc: Entity-specific risk return

*(1) Rate of return on security investment Rf*

Rate of return on security investment, also known as risk-free rate of return and security rate, refers to the lowest rate of return the investors should get under current market conditions. In China, the Treasury Bonds are a relatively safe investment, so the rate of the Treasury Bonds can be regarded as the safest and the lowest rate of return in investment plans, that is, the rate of return on security investment. In this valuation, the appraiser refers to the latest "Yield Curve of China's Fixed-rate Government Bonds" published on the "China Bond Information Network" (www.chinabond.com.cn) as at the Valuation date, and select the return rate of government bonds as a risk-free rate of return. As at the Valuation date, the interest rate of China's 50-year government bond is 4.3053%, therefore 4.3053% is used as the risk-free rate of return.

*(2) Determination of β coefficient*

The valuer obtains the β coefficient ($\beta_u$) from the sample listed companies excluding the financial leverage from professional financial information platforms such as Wind Financial Terminal, and then translates it into a Beta coefficient (β) with the target financial leverage coefficient of the appraised entity.

$$\beta = \beta_u \times (1+(1-t)D/E)$$

Where: t: Income tax rate of the appraised entity
E: Market value of equity
D: Market value of debt

BETA values and $\beta_u$ values of sample listed companies[Note] are as follows:

*Note: The appraiser selected the sample listed companies, which are pharmaceutical distribution companies that were listed companies in the PRC and with sufficient publicly available information to carry out the income-approach valuation, (the listed companies that did not have sufficient publicly available information to carry out the income-approach valuation has been excluded accordingly).*

| Securities Code | Abbreviation of securities | BETAvalue | Beta coefficient $\beta_{ui}$ without financial leverage |
|---|---|---|---|
| 601607.SH | Shanghai Pharmaceutical | 0.8718 | 0.0395 |
| 600998.SH | Jointown | 0.9418 | 0.0273 |
| 600713.SH | Nanjing Pharmaceutical | 1.3837 | 0.0475 |
| 000411.SZ | Int'l Group | 1.1959 | 0.0447 |
| 603368.SH | Liuzhou Pharmaceutical | 0.9483 | 0.1648 |
| 002462.SZ | Cachet | 1.0301 | 0.0592 |
| 000963.SZ | Huadong Medicine | 0.6067 | 0.1459 |
| 002589.SZ | Realcan Pharmaceutical | 1.2720 | 0.1275 |
| 000705.SZ | Zhejiang Zhenyuan | 1.2863 | 0.2564 |
| 600056.SH | China Meheco | 0.8868 | 0.2450 |
| 002758.SZ | Huatong Pharmaceutical | 1.7090 | 0.3106 |
| 6000329.SH | Zhongxin Pharmaceutical | 1.2191 | 0.3021 |

Using the formula:

Average value of Beta coefficient $\beta_{ui}$ without financial leverage × (1+ (1-corporate income tax rate)) × target debt-to-equity ratio (D/E) of the appraised entity

to make adjustment and obtain the β coefficient for the forecast year as follows:

| October to December of 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| 0.2981 | 0.2981 | 0.3420 | 0.3420 | 0.3420 | 0.3420 |

*(3) Determination of the risk premium of market Rpm*

With reference to the internationally used method of estimating the average market rate of return, we have used the two calculation methods of arithmetic mean and geometric mean to calculate the average market rate of return.

A. Selection of data:

a. Determination of index for measuring the stock markets: Selecting the CSI 300 index as the index to measure the volatility of the stock market;

b. Selection of terms for calculation: Considering that China's stock markets have gradually become formal only after 1997, the time interval of 1998-12-31 to 2016-12-31 is chosen for calculation;

c. Determination of index constituent stocks: As the constituent stocks of the CSI 300 Index change from year to year, the constituent stocks of Shanghai and Shenzhen 300 at the end of each year are used in the calculation;

d. Collection of data: The closing prices of the trading of complex trading at the end of each year are chosen as the data for calculation. The prices have effectively reflected the gains arising from bonus payment and dividend distribution during each year.

B. Arithmetic mean calculation method:

Suppose the annual rate of return is Ri, then:

$$R_i = \frac{P_i - P_{i-1}}{P_i} \qquad (i=1,2,3,\ldots,10)$$

Where: Ri is the rate of return for i year

Pi is the closing price (ex-rights) at the end of i year

Suppose the average income from year 1 to year n is An, then:

$$A_n = \frac{\sum_{i=1}^{n} R_i}{N}$$

Where: $A_n$ is the arithmetic mean of the yields from year 1 to year n, n = 1, 2, 3, ..., 10

C. Geometric mean calculation method:

Suppose the geometric mean from year 1 to year i is $C_i$, then

$$C_i = \sqrt[(i-1)]{\frac{P_i}{P_1}} - 1 \qquad (i=2,3,\ldots,n)$$

Where: $P_i$ is the closing price（post ex-rights）at the end of year i

Since the geometric mean is a better representation of the growth rate of return, the $C_n$ calculated using the geometric mean is used as the market average return rate.

After calculation, 10.14% is taken as the average market rate of return.

Therefore, the risk premium of market Rpm = Rm-Rf = 10.14%-4.31%=5.83%。

*(4) Entity-specific risk return Rc*

Individual risk return for the appraised entity is determined by conducting SWOT analysis of the appraised entity to list and carry out comprehensive analysis of the major internal strengths and weaknesses as well as external opportunities and threats of the appraise entity. Specific analysis is as follows:

A. Strengths: The appraised entity has been established for a long time with a long operating history and high creditworthiness. As a regional leader, the appraised entity makes an in-depth development of its operation network with Guangdong as the core, while it expands itself through mergers and acquisitions in the eastern, southern, northwestern and southwestern regions of China to form a business network covering the whole country with Guangdong as the center. Its subsidiaries have a wide coverage of cities and provincial capitals including Hunan; Hubei; Fujian; Sichuan; Shaanxi; Guangxi and Hainan. With early access to the market, the appraised entity has a wide range of high-end products in its distributed products, with a strong appeal to suppliers, a sound logistics and distribution system and comprehensive after-sales services. The appraised entity has supported the pharmaceutical distribution industry to enhance the development of the whole industry, gaining much praises and supports as well as assuming social responsibilities.

B. Weakness: The appraised entity has not formed a customer-centric thinking in terms of logistics and distribution, and is temporarily unable to fulfil the requirement for on-demand delivery. Its distribution efficiency has not yet caught up with its business requirement. Currently, the entity has experienced a relatively great pressure on logistics and distribution, high costs of logistics and distribution, and low coverage distribution points in remote areas, and is currently operating using a centralised delivery every once a week. With the development of business, its logistics distribution is frequent and it is required to improved its internal efficiency and update its ERP system to accommodate the actual development of the entity.

C. Opportunities: Since 2014 when medical reforms have entered a crucial stage, pharmacy hosting for hospitals have been widely adopted and favoured. Since 2016, with the promulgation of promotion circulars by many local governments, a number of domestic pharmaceutical enterprises have started setting up pharmacy hosting business in succession. Leveraging the experience and technology in areas of pharmacy logistics, pharmacy storage and pharmacy modernisation management, pharmaceutical enterprises help hospitals enhance the management standard, informatisation and intelligence level of pharmacies; and reduce inventory, reduce cost and reduce the labor intensity of pharmacists to liberate them from heavy manual labor so that they can devote more time and energy to the medication counseling service centers for patients; also, through intelligent and information technology, full traceability of drugs can be achieved to enhance drug prescription security protection. The HIHPA hospitals wholesale (meaning pharmacy hosting business), a new business segment of the appraised entity under development, has currently more than 100 projects under investment and construction. The appraised entity, having competitive strengths including comprehensive service experience, chained brands and B2C operating qualification, powerful informatisation and industrialisation professional system as well as strong technological capabilities and patents, can quickly compete for market shares of pharmacy hosting business.

D. Threats: The "two-invoice system" will prompt major adjustments to the current pattern of drug distribution. For commerce doing clinical product distribution business, excess business in the middle, including over-the-counter business and secondary business and below, will be reduced, and only primary business will be left. The change in business environment can be summarised in one sentence: Only the fittest survive in the market. With further enhanced business concentration, large-scale pharmaceutical business will become larger; market competition will be intensifying, and the ability to adapt to policy changes by industry leaders including China National Pharmaceutical Group Corporation* (中國醫藥集團總公司), China Resources Pharmaceutical Commercial Group Company Limited* (華潤醫藥商業集團有限公司), Shanghai Pharmaceutical Group Company Limited* (上海醫藥集團股份有限公司) and Jointown Pharmaceutical Group Company Limited* (九州通醫藥集團股份有限公司), the appraised entity's competitors, is a factor that poses certain threats to the future decision-making of the appraised entity.

Therefore, combining the above analysis and taking into account the fact that the appraised entity is mainly involved in pharmaceutical distribution business which is subject to relatively large influence of macroeconomic policies and state policies, the individual risk return of 4% is obtained for the appraised entity.

In summary, $Rt = Rf + \beta \times Rpm + Rc$

$= 4.3053\% + \beta \times 5.83\% + 4\%$

Based on the different β coefficients of the appraised entity in the target forecast years, the Rt for the forecast year is calculated as follows:

| October to December of 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| 10.05% | 10.05% | 10.30% | 10.30% | 10.30% | 10.30% |

2. ***Cost of debt capital***

In this calculation, the appraised entity has interest-bearing liabilities with debt costs as follows:

| October to December of 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| 4.26% | 4.26% | 4.23% | 4.23% | 4.23% | 4.23% |

3. ***Weighted average cost of capital***

$$WACC = \frac{E}{D+E} \times K_e + \frac{D}{D+E} \times (1-t) \times K_d = \frac{\frac{E}{D}}{1+\frac{E}{D}} \times K_e + \frac{1}{1+\frac{E}{D}} \times (1-t) \times K_d$$

Where: E: Market value of equity
D: Market value of debt
$K_e$: Cost of equity capital
$K_{d:}$ Cost of debt capital
t: Income tax rate of the appraised entity.

The weighted average cost of capital is the overall return rate required by the provider of debt capital and equity capital of the appraised entity. The calculation of the weighted average cost of capital depends on the target capital structure of the appraised entity. Therefore, by using the net book assets, we have obtained the ratio of the actual equity interest of the appraised entity and its debts actually booked at the Valuation date as the market debt-to-equity ratio (D/E).

Based on the above market debt-to-equity (D/E), cost of equity capital and cost of debt capital, we have calculated the weighted average cost of capital (WACC) for each forecast year of the appraised entity as follows:

| October to December of 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| 8.48% | 8.48% | 8.49% | 8.49% | 8.49% | 8.49% |

*(11) Conclusion of valuation by the income approach*

After valuation by the income approach, the appraised value of total equity of shareholders of Guangzhou Pharmaceuticals Corporation as at September 30, 2017 was RMB4,624,709,500.

(II) Summary of valuation using the market-based approach is explained as follows:

The market-based approach was applied to evaluate the total equity of the shareholders of Guangzhou Pharmaceuticals Corporation, which was at RMB4,682,650,800. The main valuation process is summarised as follows:

Because of the openness of the indicator data of the selected comparable companies, the listed company comparison approach has a relatively good operability. The basic conditions for its application are: the requirement of a relatively active capital and stock market; comparable companies and their indicators, parameters comparable to the valuation target and other information can be duly obtained. Domestic pharmaceutical distribution companies have strict regulation and adequate information disclosures. At present, A shares comprise 13 pharmaceutical wholesale listed companies with the existence of many comparable listed companies. The operating and financial information of comparable companies can be duly and reliably obtained. Therefore, the listed company comparison approach may be adopted for the valuation.

The listed company comparison approach, which is generally based on the conditions of the market where the valuation object is located, selects certain indicators such as P/B and P/E for comparison with comparable listed companies and obtains the P/B and P/E of the valuation object by adjusting the differences that affect the indicator factors through a comparison of the indicator-related factors between the valuation object and the comparable listed companies, based on which the equity value of the target company is calculated.

1. ***Listed Company Selection Principle***

The quasi-comparable companies for the valuation were selected based on total assets, net assets, operating income and net profit. The quasi-comparable companies are required to meet the following conditions:

(1) Asset difference rate: -100% ≤total assets of Guangzhou Pharmaceuticals as at the benchmark date ≤100%；

(2) Net assets attributable to the parent company difference rate:-100% ≤net assets attributable to the parent of Guangzhou Pharmaceuticals as at the benchmark date ≤100%；

(3) Operating income difference rate: -100% ≤operating income of Guangzhou Pharmaceuticals as at the benchmark date ≤100%；

(4) Net profit attributable to the parent difference rate: -80% ≤net profit of Guangzhou Pharmaceuticals as at the benchmark date ≤80%。

2. ***The value ratios of comparable listed companies will be compared, modified and adjusted by reference to that of the appraised entity in terms of the following factors and are seen as common practice for adjusting the adjustment factors.***

(1) Adjustments for operating conditions, which include profitability, operational capability, solvency and potential growth, etc.

(2) Adjustments for expected growth rate

(3) Adjustments for other factors, i.e. adjustments for business innovation capability

3. ***Listed Company Adjustment Factors***

| Type of Indicator | Relevant Indicators |
|---|---|
| Asset size indicator | Total assets as at the benchmark date |
| | Net assets attributable to the parent as at the benchmark date |
| | Tangible assets as at the benchmark date |
| | Total invested capital as at the benchmark date |
| Profitability indicator | ROE/COE for the recent three years |
| | Average sales gross profit margin for the recent three years |
| | Average return on net assets for the recent three years |
| | Average return on total assets for the recent three years |
| Operational capability indicator | Average pharmaceutical wholesale income for the recent three years as a percentage of operating income |
| | Average receivable turnover for the recent three years |
| | Average payable turnover for the recent three years |
| | Average operating capital turnover for the recent three years |
| | Industry status, ranking |
| Risk control capability indicator | Interest coverage ratio for the recent three years |
| | Gearing ratio for the recent three years |

| | |
|---|---|
| Potential growth indicator | Income compound growth rate for the recent three years |
| | Net profit attributable to the parent compound growth rate for the recent three years |
| Business innovation capability indicator | Pharmacy hosting business |
| | Electronic pharmacy business |

The adjustment mechanism for the adjustment factors was carried out using the scoring method. The sources of information used to determine the adjustment factors and the adjustment extent/adjustment magnitude were the annual audit reports and the latest third quarterly reports of the target company and the comparable listed companies.

4. ***Basis for the Selection of P/B and P/E***

The companies valued were those of the pharmaceutical wholesale industry. Their income size can reflect the impacts of the sales size and market share. However, since P/S cannot reflect the differences in sales costs, it has some limitations. Therefore, it was not suitable to use P/S for the valuation. Meanwhile, companies in the pharmaceutical wholesale industry also belong to light-asset companies with a small proportion of non-out-of-pocket costs such as depreciation and amortisation. It was also not suitable to use EV/EBITDA. Relatively, it is easy to obtain and calculate the P/E and P/B indicators. Therefore, P/E and P/B were chosen for the value ratios.

5. ***List of Comparable Listed Companies and Details of the Analysis of their P/B and P/E***

The comparable listed companies are 600713.SH Nanjing Pharmaceutical, 603368.SH Liuzhou Pharmaceutical, 002462.SZ Cachet Pharmaceutical and 600329.SH Zhongxin Pharmaceutical, respectively

The details of the analysis are as follows:

*(1) Determination of Adjustment Factors*

| Type of Indicator | Relevant Indicator | Guangzhou Pharmaceutical | Nanjing Pharmaceutical | Liuzhou Pharmaceutical | Cachet Pharmaceutical | Zhongxin Pharmaceutical |
|---|---|---|---|---|---|---|
| Basic information | Content of indicator | Guangzhou Pharmaceutical has 21 member enterprises. It is an entity for the storage of medicine reserves in Guangzhou, an entity for the supply of emergency medicines in Guangdong Province and an entity for the distribution of specialised medical devices for athletes in Guangzhou Asian Games. The company ranked no.5 in terms of income from principal operations among pharmaceutical wholesale enterprises in China in 2016. | Nanjing Pharmaceutical currently has 26 share-participating and holding companies and its market covers Jiangsu, Anhui and Fujian and part of Yunnan, Hubei and Sichuan (with its market share ranking among the top three in Jiangsu, Anhui and Fujian provinces), covering nearly 70 cities and serving more than 46,000 customers (including approximately 17,000 medical institution customers). The company ranked no.6 in terms of income from principal operations among pharmaceutical wholesale enterprises in China in 2016. | Liuzhou Pharmaceutical is a regional pharmaceutical distribution company with 11 subsidiaries. At present, the company has maintained a good cooperative relationship with all Grade III Class A general hospitals and over 90% of Grade II Class A general hospitals in Guangxi, and has established a relatively complete sales network and after-sales service system in 14 prefecture-level cities in Guangxi, which has basically achieved the full coverage of medium and high end hospitals within the autonomous region. The company ranked no.23 in terms of income from principal operations among pharmaceutical wholesale enterprises in China in 2016. | As the largest enterprise in terms of the size of directly operated pharmacies in Beijing, Cachet Pharmaceutical has achieved a relatively significant industry status and competitive edge in Beijing. It is one of the two community medical drug distributors in Beijing which is engaged in the business of distributing drugs to a total of 235 community medical units under the jurisdiction of Beijing, Haidian, Shijingshan and Mentougou District 3, with its sales network covering more than 90% of medical entities in Beijing. The company ranked no.18 in terms of income from principal operations among pharmaceutical wholesale enterprises in China in 2016. | Tianjin Zhongxin Pharmaceutical Group Corporation Limited consists of 16 wholly-owned branches, subsidiaries and 4 holding companies, 9 wholly-owned medical insurance pharmacies, and is a pharmaceutical business enterprise integrating channel distribution, direct sales and retail with sales networks distributed over Tianjin and radiating to North China. The company ranked no.25 in terms of income from principal operations among pharmaceutical wholesale enterprises in China in 2016. |
| Asset size indicator | Total assets as at the benchmark date | 1,823,564.54 | 1,613,487.94 | 725,377.14 | 863,591.95 | 595,620.03 |
| | Net assets attributable to the parent as at the benchmark date | 268,973.41 | 268,221.96 | 635,557.58 | 213,847.77 | 365,896.94 |
| | Tangible assets as at the benchmark date | 253,561.07 | 248,777.46 | 340,010.36 | 135,684.69 | 363,523.92 |
| | Total invested capital as at the benchmark date | 747,978.27 | 372,920.84 | 519,106.82 | 359,719.91 | 426,613.58 |

| Type of Indicator | Relevant Indicator | Guangzhou Pharmaceutical | Nanjing Pharmaceutical | Liuzhou Pharmaceutical | Cachet Pharmaceutical | Zhongxin Pharmaceutical |
|---|---|---|---|---|---|---|
| Profitability indicator | ROE/COE for the recent three years | 85.01% | 42.02% | 127.05% | 90.94% | 91.86% |
| | Average sales gross profit margin for the recent three years | 5.56% | 5.88% | 9.06% | 11.59% | 32.26% |
| | Average return on net assets for the recent three years | 9.04% | 6.04% | 12.35% | 11.20% | 12.33% |
| | Average return on total assets for the recent three years | 3.94% | 3.68% | 6.75% | 7.86% | 9.66% |
| Operational capability indicator | Average pharmaceutical wholesale income for the recent three years as a percentage of operating income | 97.78% | 96.66% | 97.54% | 96.44% | 92.64% |
| | Average receivable turnover for the recent three years | 4.07 | 3.45 | 2.62 | 2.66 | 4.23 |
| | Average payable turnover for the recent three years | 4.32 | 4.97 | 2.91 | 4.29 | 8.28 |
| | Average operating capital turnover for the recent three years | 12.38 | 15.46 | 4.46 | 6.66 | 4.22 |
| | Industry status, ranking | 5.00 | 6.00 | 23.00 | 18.00 | 25.00 |
| Risk control capability indicator | Interest coverage ratio for the recent three years | 2.13 | 2.25 | 33.47 | 8.04 | 7.59 |
| | Gearing ratio for the recent three years | 0.83 | 0.79 | 0.58 | 0.62 | 0.38 |
| Potential growth indicator | Income compound growth rate for the recent three years | 11.92% | 10.15% | 22.56% | 47.07% | -9.01% |
| | Net profit attributable to the parent compound growth rate for the recent three years | 9.76% | 57.59% | 41.25% | 37.41% | 8.74% |
| Business innovation capability indicator | Pharmacy hosting business | Yes | Yes | Yes | Yes | Yes |
| | Electronic pharmacy business | Yes | Yes | No | Yes | No |

*(2) Explanation of the Setting of Contrast Factors*

First, the indicators of the capability analytical segments were rated. The scoring principle was 100 for Guangzhou Pharmaceutical and the indicator intervals were divided at regular distances with Guangzhou Pharmaceutical as the centre. Each indicator interval corresponded to a score. There was a difference of 4 marks between two adjacent indicator intervals. Indicators underperforming the target company had less than 100 marks while indicators outperforming the target company had more than 100 marks. Based on a difference of 4 marks for each indicator interval, the scorings are set out as follows:

| Type of Indicator | Relevant Indicators | Guangzhou Pharmaceutical | Nanjing Pharmaceutical | Liuzhou Pharmaceutical | Cachet Pharmaceutical | Zhongxin Pharmaceutical |
|---|---|---|---|---|---|---|
| Asset size indicator | Total assets as at the benchmark date | 100 | 100 | 96 | 96 | 96 |
| | Net assets attributable to the parent as at the benchmark date | 100 | 100 | 108 | 100 | 104 |
| | Tangible assets as at the benchmark date | 100 | 100 | 104 | 96 | 104 |
| | Total invested capital as at the benchmark date | 100 | 92 | 96 | 92 | 96 |
| Profitability indicator | ROE/COE for the recent three years | 100 | 92 | 108 | 100 | 100 |
| | Average sales gross profit margin for the recent three years | 100 | 100 | 104 | 104 | 108 |
| | Average return on net assets for the recent three years | 100 | 96 | 104 | 104 | 104 |
| | Average return on total assets for the recent three years | 100 | 100 | 108 | 108 | 108 |
| Operational capability indicator | Average pharmaceutical wholesale income for the recent three years as a percentage of operating income | 100 | 100 | 100 | 100 | 100 |
| | Average receivable turnover for the recent three years | 100 | 104 | 108 | 108 | 100 |
| | Average payable turnover for the recent three years | 100 | 100 | 96 | 100 | 104 |
| | Average operating capital turnover for the recent three years | 100 | 104 | 96 | 96 | 96 |
| | Industry status, ranking | 100 | 100 | 96 | 96 | 96 |
| Risk control capability indicator | Interest coverage ratio for the recent three years | 100 | 100 | 112 | 108 | 108 |
| | Gearing ratio for the recent three years | 100 | 104 | 108 | 108 | 112 |
| Potential growth indicator | Income compound growth rate for the recent three years | 100 | 100 | 108 | 112 | 92 |
| | Net profit attributable to the parent compound growth rate for the recent three years | 100 | 112 | 112 | 112 | 100 |
| Business innovation capability indicator | Pharmacy hosting business | 100 | 100 | 100 | 100 | 100 |
| | Electronic pharmacy business | 100 | 100 | 96 | 96 | 92 |

Since P/B is the value ratio measured based on the net assets of the enterprise, in order to avoid repeated adjustments, the profitability indicator, the operational capability indicator, the risk control capability indicator, the potential growth indicator and the business innovation capability indicator were selected for adjustment in connection with P/B for the valuation. Specifically, the score value of Guangzhou Pharmaceutical/the score values of comparable companies were adopted to obtain the adjustment coefficient of each indicator which was given the corresponding weighting. The sums of indicator weightings in each segment of the above five segments was 100% in all cases so as to obtain the adjustment coefficient of each segment. Finally, the value derived from the multiplication of the adjustment coefficient of each segment was the adjustment coefficient of the company, i.e. the adjustment coefficient of P/B.

Similarly, since P/E is the value ratio measured based on the net assets of an enterprise, in order to avoid repeated adjustments, the asset size indicator, the operational capability indicator, the risk control capability indicator, the potential growth indicator and the business innovation capability indicator were selected for adjustment in connection with P/E for the valuation. Specifically, the score value of Guangzhou Pharmaceutical/ the score values of the comparable companies were adopted to obtain the adjustment coefficient of each indicator which was given the corresponding weighting. The sum of indicator weightings in each segment of the above five segments was 100% in all cases so as to obtain the adjustment coefficient of each segment. Finally, the value derived from the multiplication of the adjustment coefficient of each segment was the adjustment coefficient of the company, i.e. the adjustment coefficient of P/E.

*(3) The Determination of the Adjustment Coefficient*

A. The Determination of the P/B Adjustment Coefficient

According to the above description of the adjustment factors and the method for determining the adjustment coefficient, the indicator adjustment coefficients of the affecting factors are detailed in the following table:

| **Type of Indicator** | **Guangzhou Pharmaceutical** | **Nanjing Pharmaceutical** | **Liuzhou Pharmaceutical** | **Cachet Pharmaceutical** | **Zhongxin Pharmaceutical** |
|---|---|---|---|---|---|
| Profitability indicator | 1.00 | 1.1364 | 0.8065 | 0.8621 | 0.8333 |
| Operational capability indicator | 1.00 | 0.9259 | 1.0417 | 1.0000 | 1.0417 |
| Risk control capability indicator | 1.00 | 0.9615 | 0.8333 | 0.8621 | 0.8333 |
| Potential growth indicator | 1.00 | 0.8929 | 0.8333 | 0.8065 | 1.0870 |
| Business innovation capability indicator | 1.00 | 1.0000 | 1.0417 | 1.0000 | 1.0417 |
| Adjustment coefficient | 1.00 | 0.9033 | 0.6077 | 0.5993 | 0.8190 |

B. The Determination of the P/E Adjustment Coefficient

| Type of Indicator | Guangzhou Pharmaceutical | Nanjing Pharmaceutical | Liuzhou Pharmaceutical | Cachet Pharmaceutical | Zhongxin Pharmaceutical |
|---|---|---|---|---|---|
| Asset size indicator | 1.00 | 1.0870 | 0.9615 | 1.1905 | 1.0000 |
| Operational capability indicator | 1.00 | 0.9259 | 1.0417 | 1.0000 | 1.0417 |
| Risk control capability indicator | 1.00 | 0.9615 | 0.8333 | 0.8621 | 0.8333 |
| Potential growth indicator | 1.00 | 0.8929 | 0.8333 | 0.8065 | 1.0870 |
| Business innovation capability indicator | 1.00 | 1.0000 | 1.0417 | 1.0000 | 1.0417 |
| Adjustment coefficient | 1.00 | 0.8640 | 0.7245 | 0.8276 | 0.9829 |

*(4) The Determination of the Value Ratios of Comparable Listed Companies as at the Valuation Date*

A. The Determination of P/B

The P/B of comparable companies was determined based on the average trading price for 20 trading days before the Valuation Date and the net assets per share as at the benchmark date of the comparable listed pharmaceutical wholesale companies, which is expressed using the formula as follows:

P/B of comparable companies = Σ(trading amount for 20 trading days before the benchmark date/ trading volume for 20 trading days before the benchmark date)/net assets per share as at the benchmark date

The investment real estate, other non-operating assets and liabilities of the four comparable companies as at the benchmark date were excluded, the net assets attributable to the parent was adjusted and the net assets attributable to the parent of the four comparable companies as at the benchmark date after excluding the non-operating assets and liabilities was calculated based on the total equity, as specified below:

| Stock Code | Stock Abbreviation | Net assets attributable to the parent as at the benchmark date (RMB10,000) | Investment real estate as at the benchmark date (RMB10,000) | Non-operating assets as at the benchmark date (RMB10,000) | Non-operating liabilities as at the benchmark date (RMB10,000) | Net assets attributable to the parent as at the benchmark date after excluding the non-operating assets and liabilities (RMB10,000) | Total number of shares as at the benchmark date (10,000 shares) | Net assets per share attributable to the parent as at the benchmark date after excluding the non-operating assets and liabilities (RMB) |
|---|---|---|---|---|---|---|---|---|
| 600713.SH | Nanjing Pharmaceutical | 270,911.83 | 5,293.60 | 22,974.37 | 20,284.50 | 262,928.36 | 89,742.56 | 2.93 |
| 603368.SH | Liuzhou Pharmaceutical | 337,999.21 | 24.39 | 802.74 | 6,010.91 | 343,182.99 | 18,505.25 | 18.55 |
| 002462.SZ | Cachet Pharmaceutical | 214,393.70 | 765.83 | — | 219.90 | 213,847.77 | 25,052.63 | 8.54 |
| 600329.SH | Zhongxin Pharmaceutical | 437,750.75 | 2,545.16 | 67,888.88 | 11,375.65 | 378,692.37 | 76,887.31 | 4.93 |

Source: wind information system

The P/B of the four comparable companies is specified as below:

| Stock Code | Stock Abbreviation | Trading amount for 20 trading days before the benchmark date (RMB10,000) | Trading volume for 20 trading days before the benchmark date (10,000 shares) | Weighted average share price as at the benchmark date (RMB) | Net assets per share attributable to the parent as at the benchmark date after excluding the non-operating assets and liabilities (RMB) | PB of the comparable companies |
|---|---|---|---|---|---|---|
| 600713.SH | Nanjing Pharmaceutical | 49,160.41 | 6,908.02 | 7.12 | 2.93 | 2.43 |
| 603368.SH | Liuzhou Pharmaceutical | 76,530.16 | 1,389.34 | 55.08 | 18.55 | 2.97 |
| 002462.SZ | Cachet Pharmaceutical | 81,841.87 | 2,282.84 | 35.85 | 8.54 | 4.20 |
| 600329.SH | Zhongxin Pharmaceutical | 84,096.17 | 4,805.79 | 17.50 | 4.93 | 3.55 |

*Source:* wind information system

B. The Determination of P/E

The P/B of the comparable companies was determined based on the average trading price for 20 trading days before the Valuation Date and the net assets per share as at the benchmark date of the comparable listed pharmaceutical wholesale companies, which is expressed using the formula as follows:

P/E of comparable companies=Σ(trading amount for 20 trading days before the benchmark date/ trading volume for 20 trading days before the benchmark date)/net assets per share as at the benchmark date

The non-operating profit and loss of the four comparable companies as at the benchmark date were excluded, the net profit attributable to the parent was adjusted and the net profit attributable to the parent of the four comparable companies as at the benchmark date after excluding the non-operating profit and loss was calculated based on the total equity, as specified below:

| Stock Code | Stock Abbreviation | Net profit attributable to the parent as at the benchmark date (RMB10,000) | Other non-operating profit as at the benchmark date (RMB10,000) | Net profit attributable to the parent as at the benchmark date after excluding the non-operating profit (RMB10,000) | Total number of shares as at the benchmark date (10,000 shares) | Net profit per share attributable to the parent as at the benchmark date after excluding the non-operating profit (RMB) |
|---|---|---|---|---|---|---|
| 600713.SH | Nanjing Pharmaceutical | 22,512.61 | 1,118.32 | 21,394.29 | 89,742.56 | 0.24 |
| 603368.SH | Liuzhou Pharmaceutical | 38,083.53 | 771.77 | 37,311.76 | 18,505.25 | 2.02 |
| 002462.SZ | Cachet Pharmaceutical | 25,332.10 | 267.49 | 25,064.61 | 25,052.63 | 1.00 |
| 600329.SH | Zhongxin Pharmaceutical | 43,265.49 | 1,208.71 | 42,056.79 | 76,887.31 | 0.55 |

Source: wind information system

The P/E of the four comparable companies is specified as below:

| Stock Code | Stock Abbreviation | Trading amount for 20 trading days before the benchmark date (RMB10,000) | Trading volume for 20 trading days before the benchmark date (10,000 shares) | Weighted average share price as at the benchmark date (RMB) | Net profit per share attributable to the parent as at the benchmark date after excluding the non-operating profit (RMB) | PE of the comparable companies |
|---|---|---|---|---|---|---|
| 600713.SH | Nanjing Pharmaceutical | 49,160.41 | 6,908.02 | 7.12 | 0.24 | 29.85 |
| 603368.SH | Liuzhou Pharmaceutical | 76,530.16 | 1,389.34 | 55.08 | 2.02 | 27.32 |
| 002462.SZ | Cachet Pharmaceutical | 81,841.87 | 2,282.84 | 35.85 | 1.00 | 35.83 |
| 600329.SH | Zhongxin Pharmaceutical | 84,096.17 | 4,805.79 | 17.50 | 0.55 | 31.99 |

The process for obtaining the appraised value of the target group:

A. The Determination of P/B

After the P/B indicator of the comparable companies was adjusted, the P/B of the Target Company was calculated by weighting the four comparable companies based on a certain weighting. The calculation results are as follows:

| Stock Code | Stock Abbreviation | PB of the comparable companies | Adjusted coefficient | Adjusted PB | Weighting | Weighted average PB of the appraised entity |
|---|---|---|---|---|---|---|
| 600713.SH | Nanjing Pharmaceutical | 2.43 | 0.90 | 2.19 | 0.25 | 2.36 |
| 603368.SH | Liuzhou Pharmaceutical | 2.97 | 0.61 | 1.80 | 0.25 | |
| 002462.SZ | Cachet Pharmaceutical | 4.20 | 0.60 | 2.52 | 0.25 | |
| 600329.SH | Zhongxin Pharmaceutical | 3.55 | 0.82 | 2.91 | 0.25 | |

B. The Determination of P/E

After the P/E indicator of the comparable companies was adjusted, the P/E of the target company was calculated by weighting the four comparable companies based on a certain weighting. The calculation results are as follows:

| Stock Code | Stock Abbreviation | PE of the comparable companies | Adjusted coefficient | Adjusted PB | Weighting | Weighted average PE of the appraised entity |
|---|---|---|---|---|---|---|
| 600713.SH | Nanjing Pharmaceutical | 29.85 | 0.86 | 25.79 | 0.25 | 26.67 |
| 603368.SH | Liuzhou Pharmaceutical | 27.32 | 0.72 | 19.42 | 0.25 | |
| 002462.SZ | Cachet Pharmaceutical | 35.83 | 0.83 | 29.66 | 0.25 | |
| 600329.SH | Zhongxin Pharmaceutical | 31.99 | 0.98 | 31.44 | 0.25 | |

*(5) Liquidity Discount*

Since the comparable companies selected this time are all listed companies, their shares are highly liquidated and the valuation object is a non-listed company, the lack of liquidity discount needs to be taken into consideration. Market liquidity refers to the ability of dealing in securities in a particular market quickly at low trading costs without disruption. By reference to the approach adopted internationally for conducting quantitative studies on market liquidity discount, we estimated the market liquidity discount for the valuation using new issue pricing taking into account the domestic actual situation. The appraisers carried out the calculation by obtaining the offering prices of new shares of newly listed companies from 2010 to June 2014 and the trading prices the first trading day, 5 trading days, 10 trading days, 20 trading days, 3 months, 6 months and 1 year after their listing, with their liquidity discounts calculated as follows:

| Item | First day of listing | 5 days after listing | 10 days after listing | 20 days after listing | 3 months after listing | 6 months after listing | 1 year after listing |
|---|---|---|---|---|---|---|---|
| Liquidity discount | 31.88% | 29.91% | 30.54% | 29.57% | 23.24% | 23.16% | 20.71% |

The average value of the liquidity discounts obtained as per the above table is 27%.

*(6) Conclusions Drawn from the Valuation Using the Listed Company Comparison Approach*

a) Based on P/B

The paid-up capital of Guangzhou Pharmaceutical is RMB700 million. The total book assets after excluding investment real estate and non-operating assets are RMB18,235,588,500. The total liabilities after excluding non-operating liabilities are RMB15,299,971,100. The net book asset value is RMB2,935,617,400 (on a consolidated basis). The net assets attributable to the parent company is RMB2,689,677,200. The net book assets per share as at the benchmark date was RMB3.84 per share. Therefore, the equity value per share of Guangzhou Pharmaceutical is as follows:

Equity value of Guangzhou Pharmaceutical=net assets per share × P/B of the Target Company × (1-liquidity discount) x total number of shares+value of investment real estate, non-operating assets and liabilities= 3.84 × 2.36 × (1-27%) × 70,000.00+5,670.77= RMB4,683,490,400

b) Based on P/E

The paid-up capital of Guangzhou Pharmaceutical is RMB700 million. Net profit after excluding non-operating profit and loss is RMB254,725,100. Net profit attributable to the parent company is RMB237,597,000. The net book profit per share as at the benchmark date was RMB0.34 per share. Therefore, the equity value per share of Guangzhou Pharmaceutical is as follows:

Equity value of Guangzhou Pharmaceutical=net profit per share × P/E of the Target Company × (1-liquidity discount) x total number of shares+value of investment real estate, non-operating assets and liabilities= 0.34 × 26.67 × (1-27%) × 70,000.00+5,670.77=RMB4,682,650,800

c) Explanation of the Selection of the Valuation Results

The amount of the difference between the valuation results using P/B and P/E is RMB839,600, representing a difference rate of 0.02%.

Since Guangzhou Pharmaceutical is a pharmaceutical wholesale company, which belongs to a mature industry with relatively stable earnings and weak cyclicality, investors tend to focus on the growth of profits and cash flows. Accordingly, P/E was ultimately selected as the value ratio for the market-based approach in the valuation. Therefore, the value of the total equity of the shareholders of Guangzhou Pharmaceutical appraised using the market-based approach-listed company comparison approach is RMB4,682,650,800 and the value per share is RMB6.69.

The income-based approach was applied to evaluate the total equity of the shareholders of Guangzhou Pharmaceuticals Corporation, which was at RMB4,624,709,500, representing an appreciation of RMB1,887,672,500 and an appreciation rate of 68.97% as compared to the net book assets. The market-based approach was applied to evaluate the total equity of the shareholders of Guangzhou Pharmaceuticals Corporation, which was at RMB4,682,650,800, representing an appreciation of RMB1,945,613,700 and an appreciation rate of 71.08% as compared to the net book assets. The difference in the valuation conclusions between the income-based approach and the asset-based approach valuation is RMB 57,941,300, representing a difference rate of 1.25%. The market-based approach determines the value of an enterprise in terms of its business performance and overall market performance, while the income-based approach predicts its value based on the profitability, and these two complement each other. As the valuation results of these two different approaches come closer to each other, they can be mutually validated. In view of the fact that the valuation is for the purpose of acquisition of equity, the valuation report has adopted the result of the income-based approach as the valuation conclusion. Therefore, **the total equity of the shareholders of Guangzhou Pharmaceutical Company Limited was evaluated at RMB4,624,709,500, namely the amount in Renminbi in words: four billion six hundred and twenty four million seven hundred and nine thousand five hundred.**

*The following is the text of a report received from the Company's independent reporting accountants, KPMG Huazhen LLP, for inclusion in this circular.*

KPMG

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE CALCULATION OF DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE VALUATION OF GUANGZHOU PHARMACEUTICALS CORPORATION**

**TO THE BOARD OF DIRECTORS OF**
**GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS CO., LTD.**

We refer to the discounted future cash flows on which the valuation ("**the Valuation**") dated 21 December 2017 prepared by Guo Zhong Lian Assets Evaluation, Land & Real Estate Appraisal, Co., Ltd. in respect of the appraisal of the fair value of Guangzhou Pharmaceuticals Corporation ("**the Target Company**") as at 30 September 2017 is based. The Valuation is prepared based on the discounted future cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

**Directors' Responsibilities for the Discounted Future Cash Flows**

The directors of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (the "**Directors**") are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants ("**IESBA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The firm applies International Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the International Auditing and Assurance Standards Board ("**IAASB**") and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountants' Responsibilities**

Our responsibility is to report, as required by paragraph 14.62(2) of the Listing Rules, on the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

**Basis of opinion**

We conducted our engagement in accordance with the International Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the IAASB. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation. We performed procedures on the arithmetical calculations and the compilations of the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors. Our work is substantially less in scope than an audit conducted in accordance with International Standards on Auditing issued by the IAASB. Accordingly, we do not express an audit opinion.

**Opinion**

In our opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

**Other matters**

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of the Target Company or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Further, since the discounted future cash flows relates to the future, actual results are likely to be different from the discounted future cash flows because events and circumstances frequently do not occur as expected, and the differences may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

**KPMG Huazhen LLP**
Beijing, China
22 December 2017

*The following is the full text of the letter from Celestial Capital Limited in respect of the Target Group Valuation for incorporation in this circular.*

Celestial Capital Limited
21/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

22 December 2017

The Board of Directors
**Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited**
45 Sha Mian North Street,
Liwan District,
Guangzhou City,
Guangdong Province,
The PRC

Dear Sirs,

**Re: Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (the "Company") Very substantial acquisition in relation to the proposed acquisition of 30% of the equity interest in Guangzhou Pharmaceuticals Corporation and grant of put options to the Vendor to sell 20% of the equity interest in Guangzhou Pharmaceuticals Corporation**

We refer to the discounted future cash flows of the Target Group (the "**Target Group Discounted Future Cash Flows**") underlying the Target Group Valuation prepared by the Independent Valuer as mentioned in the Company's announcement dated 22 December 2017 (the "**Announcement**"). Capitalized terms used in this letter, unless otherwise defined, shall have the same meanings as those defined in the Announcement.

The Independent Valuer has applied the discounted cash flow method under income-based approach and based on certain assumptions in preparing the Target Group Valuation. Accordingly, the Target Group Valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules, and the requirements under Rule 14.62 of the Listing Rules are therefore applicable. This letter is issued by us in the capacity of the Company's financial adviser in compliance with the requirement under Rule 14.62(3) of the Listing Rules. We are not reporting on the arithmetical calculations of the Target Group Discounted Future Cash Flows nor the Target Group Valuation.

We have reviewed the Target Group Discounted Future Cash Flows upon which the Target Group Valuation has been made and for which you as the Directors are solely responsible, and have discussed with the respective management of the Company and the Target Company, as well as the Independent Valuer, in respect of the bases and assumptions upon which the Target Group Valuation were based.

We have also considered the assurance report (the "**Report**") dated 22 December 2017 from KPMG Huazhen LLP ("**KPMG**") solely addressed to and for the benefit of you as the Directors and note that KPMG has performed procedures regarding its responsibility to report, as required by Rule 14.62(2) of the Listing Rules, on the calculations of the Target Group Discounted Future Cash Flows used for the Target Group Valuation. We also note that the Target Group Discounted Future Cash Flows do not involve the adoption of accounting policies. The Report is included in Appendix I to the Announcement.

The Target Group Discounted Future Cash Flows upon which the Target Group Valuation has been made have been prepared using a set of assumptions that include hypothetical assumptions about future events and other assumptions that may or may not necessarily be expected to occur and, as such, the Target Group Discounted Future Cash Flows may not be appropriate for purposes other than for deriving the Target Group Valuation. Even if the events anticipated under the hypothetical assumptions occur, actual results are still likely to differ from the Target Group Discounted Future Cash Flows since such anticipated events frequently may or may not occur as expected and the variation may be material.

We have not independently verified the computations leading to the Independent Valuer's determination of the fair value of the Target Group. We have had no role or involvement and have not provided and will not provide any assessment of the fair value of the Target Group. Our work does not constitute any valuation of the fair value of the Target Group. Therefore we accept no responsibility therefor, and express no views, whether expressly or implicitly, thereon.

On the basis of the foregoing and in the absence of unforeseeable circumstances, and without giving any opinion on the reasonableness of the Target Group Discounted Future Cash Flows and of the Target Group Valuation, we are satisfied that the Target Group Discounted Future Cash Flows upon which the Target Group Valuation has been made, and for which you as Directors are solely responsible, have been made by you as Directors after due and careful enquiry. However, we express no opinion on how closely the actual cash flow and profit eventually will correspond with the Target Group Discounted Future Cash Flows.

Our work in connection with the Target Group Discounted Future Cash Flows and the Target Group Valuation has been undertaken solely for the compliance of Rule 14.62(3) of the Listing Rules and for no other purpose. This letter may not be used or disclosed, referred or communicated (in whole or in part) to any party for any other purpose whatsoever, except with our prior written approval. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

Yours faithfully,
For and on behalf of
**Celestial Capital Limited**
**Daphne Ng**
*Managing Director*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN SECURITIES

As at the Latest Practicable Date, the interests and short positions of the Directors, supervisors and chief executives of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules to be notified to the Company and the Hong Kong Stock Exchange, were as follows:

| Director | Capacity | Class of Shares | Number of shares (long position) | Approximate percentage of the issued A Shares | Approximate percentage of total issued Shares |
|---|---|---|---|---|---|
| Li Chuyuan | Beneficial Owner | A Shares | 100,000 | 0.0071% | 0.0062% |
| Chen Mao | Beneficial Owner | A Shares | 50,000 | 0.0036% | 0.0031% |
| Liu Juyan | Beneficial Owner | A Shares | 13,000 | 0.0009% | 0.0008% |
| Cheng Ning | Beneficial Owner | A Shares | 21,500 | 0.0015% | 0.0013% |
| Wu Changhai | Beneficial Owner | A Shares | 13,000 | 0.0009% | 0.0008% |

| Supervisors | Capacity | Class of Shares | Number of shares (long position) | Approximate percentage of the issued A shares | Approximate percentage of total issued Shares |
|---|---|---|---|---|---|
| Xian Jiaxiong | Beneficial Owner | A Shares | 11,000 | 0.0008% | 0.0007% |
| Li Jinyun | Beneficial Owner | A Shares | 10,000 | 0.0007% | 0.0006% |
| Gao Yanzhu | Beneficial Owner | A Shares | 5,000 | 0.0004% | 0.0003% |

| Chief executives | Capacity | Class of Shares | Number of shares (long position) | Approximate percentage of the issued A Shares | Approximate percentage of total issued Shares |
|---|---|---|---|---|---|
| Li Hong (Note 1) | Beneficial Owner | A Shares | 10,000 | 0.0007% | 0.0006% |
| Zhang Chunbo (Note 2) | Beneficial Owner | A Shares | 10,000 | 0.0007% | 0.0006% |

*Notes:*

1. Li Hong is the general manager of the Company.

2. Zhang Chunbo is the vice general manager of the Company.

3. The shares held by the Directors, supervisors and chief executives as set out in the above are held under the employee stock ownership scheme of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, supervisors nor chief executives of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code to be notified to the Company and the Hong Kong Stock Exchange.

## 3. SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at the Latest Practicable Date and so far as was known to the Directors, or chief executives of the Company, no person (other than the Directors, supervisors and chief executives of the Company) had interests or short positions in the Shares and underlying shares or debentures of the Enlarged Group which would be required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, and/or, who was, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Enlarged Group.

| Substantial shareholder | Capacity | Class of shares | Number of shares (long position) | Approximate percentage of issued A/H Shares | Approximate percentage of total issued Shares |
|---|---|---|---|---|---|
| GPHL | Beneficial Owner | A Shares | 732,305,103 | 52.09% (A Shares) | 45.04% |

| Substantial shareholder | Capacity | Class of shares | Number of shares (long position) | Approximate percentage of issued A/H Shares | Approximate percentage of total issued Shares |
|---|---|---|---|---|---|
| Guangzhou State-owned Asset Development Holdings Limited* (廣州國資發展控股有限公司) | Beneficial Owner | A Shares | 87,976,539 | 6.26% (A Shares) | 5.41 % |
| 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)) | Beneficial Owner | A Shares | 73,313,783 | 5.21% (A Shares) | 4.51% |
| Platinum Investment Management Limited | Investment manager | H Shares | 11,410,000 | 5.19% (H Shares) | 0.7% |

Set out below is the information on the Directors who are also the directors or employees of GPHL:

| Directors | Position(s) in GPHL |
|---|---|
| Mr. Li Chuyuan | Chairman and director |
| Mr. Chen Mao | Vice chairman, director and general manager |
| Ms. Liu Juyan | Deputy general manager and chief engineer |
| Ms. Cheng Ning | Deputy general manager and director of finance |
| Mr. Ni Yidong | Deputy general manager |

Save as disclosed above, as at the Latest Practicable Date and as far as was known to the Directors, no person (other than a Director, supervisor or chief executive of the Company) had interests or short positions in the Shares and underlying shares of the Company which were required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital.

## 4. COMPETING BUSINESS

As at the Latest Practicable Date and so far as the Directors were aware, none of the Directors or supervisors nor their respective close associates had any interests in other business which competes or may compete, either directly or indirectly, with the business of the Enlarged Group.

## 5. INTEREST IN ASSETS

As at the Latest Practicable Date and so far as the Directors were aware, none of the Directors, supervisors or chief executives of the Company had any direct or indirect interest in any assets which had been, since 31 December 2016 (being the date to which the latest published audited financial statements of the Company were made up) and up to the Latest Practicable Date, acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

## 6. INTEREST IN CONTRACT OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors, supervisors or chief executives of the Company was materially interested in any subsisting contract or arrangement, which was significant in relation to the businesses of the Enlarged Group as a whole.

## 7. MATERIAL LITIGATIONS

As at the Latest Practicable Date, neither the Company nor any other member of the Enlarged Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

## 8. MATERIAL CONTRACTS

The following contracts are contracts that are or may be material, not being contracts entered into in the ordinary course of business, and has been entered into by the Enlarged Group within the two years preceding the date of this circular:

(i) the Equity Interest Transfer Agreement; and

(ii) the Joint Venture Contract.

Save as disclosed above, the Directors are not aware of any contracts that are or may be material, not being contracts entered into in the ordinary course of business, and had been entered into by any member of the Enlarged Group within the two years immediately preceding the date of this circular.

## 9. EXPERTS' QUALIFICATIONS AND CONSENTS

The following are the qualifications of the experts who have been named in this circular and/or have given opinions, letters or advice contained in this circular:

| Name | Qualification |
|---|---|
| Guo Zhong Lian Assets Evaluation, Land & Real Estate Appraisal Company Limited | Independent professional valuer |
| KPMG Huazhen LLP | Certified Public Accountants of the PRC, which is approved by the relevant PRC authorities to act as auditors or a reporting accountants for a PRC established company listed in Hong Kong |
| BDO CHINA SHU LUN PAN CPAs LLP ("**BDO**") | Certified Public Accountants of the PRC, which is approved by the relevant PRC authorities to act as auditors or a reporting accountants for a PRC established company listed in Hong Kong |
| Celestial Capital Limited | A corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |

As at the Latest Practicable Date, (a) none of the above experts had any shareholding, directly or indirectly, in the Company or any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group and (b) did not have any direct or indirect interest in any assets which have been acquired, or disposed of by, or leased to any member of the Group, or were proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up.

Each of the Independent Valuer, KPMG Huazhen LLP, BDO and Celestial Capital has given, and has not withdrawn, their respective written consents to the publication of this circular with the inclusion of their respective report and/or opinion and all references to their respective names in the form and context in which they are included.

## 10. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Enlarged Group which did not expire or was not determinable by the relevant member of the Enlarged Group within one year without payment of compensation (other than statutory compensation).

## 11. MISCELLANEOUS

(a) The registered office of the Company is located at 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC.

(b) The secretary of the Company is Ms. Lee Mei Yi. Ms. Lee is an associate member of both the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries and has over 15 years of experience in corporate secretarial area.

(c) The Company's H Share Registrar in Hong Kong is Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

## 12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. on any business day (except Saturdays, Sundays and public holidays) at the Company's principal place of business in Hong Kong at Room 2005, 20th Floor, Tower Two Lippo Center, 89 Queensway, Hong Kong from the date of this circular up to and including the date of the EGM:

(a) the articles of association of the Company;

(b) this circular;

(c) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" of this circular;

(d) the accountants' report on the Target Group from KPMG Huazhen LLP, the text of which is set out in Appendix II to this circular;

(e) the report on the unaudited pro forma financial information of the Enlarged Group from BDO, the text of which is set out in Appendix IV to this circular;

(f) the valuation report of the Target Company from the Independent Valuer, the text of which is set out in Appendix V(A) to this circular;

(g) the assurance report issued by KPMG Huazhen LLP in respect of the Target Group Valuation, the text of which is set out in Appendix VI to this circular;

(h) the comfort letter issued by Celestial Capital Limited in respect of the Target Group Valuation, the text of which is set out in Appendix VII to this circular;

(i) the annual reports of the Company for each of the years ended 31 December 2014, 2015 and 2016;

(j) the interim report of the Company for the six months ended 30 June 2017;

(k) the third quarterly report of the Company for the nine months ended 30 September 2017;

(l) a copy of each of the material contracts referred to in the paragraph headed "8. MATERIAL CONTRACTS" in this appendix; and

(m) the written consents referred to in the paragraph headed "9. EXPERTS' QUALIFICATIONS AND CONSENTS" in this appendix.

廣州白雲山医药集团股份有限公司
GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS CO., LTD.

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

**(H Share Stock Code: 0874)**

# NOTICE OF THE FIRST EXTRAORDINARY GENERAL MEETING IN 2018

## IMPORTANT NOTICE

- Date and time of the first extraordinary general meeting in 2018 (the "EGM") to be held on-site: 29 March 2018 (Thursday) at 10:00 a.m.

- Registration date of the EGM: 26 February 2018 (Monday)

- Venue of the EGM: Conference Room of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (the "Company"), 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the People's Republic of China (the "PRC")

- Manner of the voting at the EGM: the manner of voting at the EGM will be both on-site and by way of network voting (applicable to A shares)

## I. INFORMATION REGARDING THE CONVENING OF THE EGM

1. The resolution on convening the EGM was considered and passed at the 5th meeting of the seventh session of the board of directors of the Company (the "Board").

2. Date and time of the EGM: 29 March 2018 (Thursday) at 10:00 a.m.

3. Place at which the EGM will be held: Conference Room of the Company, 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC.

4. The convener of the meeting: the Board.

5. Manner of voting: the manner of voting at the EGM will be both on-site and by way of network voting (applicable to A shares).

6. The system, commencement date, ending date and voting time of the network voting (applicable to A shares):

   The Company will utilise the network voting system of The Shanghai Stock Exchange. The time for casting votes via the voting platform of the trading system is the trading sessions on the date on which the EGM will be held (29 March 2018) i.e. 9:15 to 9:25, 9:30 to 11:30 and 13:00 to 15:00. The time for casting votes via network voting will be 9:15 to 15:00 on the date on which the EGM will be held.

7. The voting procedure of accounts in respect of margin trading and securities lending, refinancing, buy-back agreement business and investors of the Northbound Trading Link:

   The voting procedure of accounts in respect of margin trading and securities lending, refinancing, buy-back agreement business and investors of the Northbound Trading Link shall be conducted in accordance with, among others, the relevant provisions of the Detailed Rules of the Shanghai Stock Exchange for Online Voting at Shareholders' General Meetings of Listed Companies.

8. Solicitation of shareholders' voting rights: not applicable.

## II. MATTERS TO BE CONSIDERED AT THE EGM

(1) To be considered and approved by way of ordinary resolutions:

1. Resolution on the conformity of the significant transaction with the provisions of the relevant laws, regulations and policies;

   *Note: The significant transaction refers to the transactions contemplated under the equity interest transfer agreement and the joint venture contract entered into between the Company, Alliance BMP Limited and Guangzhou Pharmaceuticals Corporation ("GP Corp.") both dated 21 December 2017, in respect of, among other things, the purchase of 30% equity interest in GP Corp. by the Company from Alliance BMP Limited and the grant of put options to Alliance BMP Limited to sell 20% equity interest in GP Corp.*

2. Resolution on the significant transaction not constituting a connected transaction;

3. Resolution on the conformity of the significant transaction with Rule 4 of the Regulations on standardising several issues concerning the significant transactions of listed companies (《關於規範上市公司重大資產重組若干問題的規定》);

4. Resolution on the implementation of the legal procedures, compliance, and the validity of the submission of legal documents regarding the significant transaction;

5. Resolution on the independence of the valuer, the reasonableness of the appraisal assumptions, the relevance between the appraisal method and the purposes of the appraisal and the opinions on the fairness of the appraised value;

6. Resolution on confirmation of the Audit Report and the Valuation Report for the significant transaction; and

7. Resolution on the current (the same period in which completion of the significant transaction occurs) earnings per share of the Company will not be diluted as a result of completion of the transactions in relation to the significant transaction.

(2) To be considered and approved by way of special resolutions:

8. Resolution on the significant transaction proposal on an item-by-item basis;

8.1 The overall proposal for the significant transaction

8.2 The specific proposal for the significant transaction

8.2.1 The base date for valuation

8.2.2 Transaction manner and counterparties

8.2.3 The valuation of the target assets

8.2.4 Payment of the consideration for the acquisition

8.2.5 Put options

8.2.6 The allocation arrangement of the profit and loss of the target assets from the base date for valuation to completion date

8.2.7 Employees

*Note: After the completion of the transaction, the labour relationship between GP Corp. and its employees and the rights and obligations of each other will not be changed as a result of the significant transaction.*

8.3 Compensation scheme for earnings forecast

*Note: There is no compensation scheme for earnings forecast in the significant transaction.*

8.4 Validity period of the resolutions

9. Resolution on entering into the agreements relevant to the significant transaction;

10. Resolution on the Report on the Material Acquisition of Assets of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and its summary; and

11. Resolution on granting full authority to the Board to deal with matters concerning the significant transaction.

The above resolutions were approved at the 5th meeting of the seventh session of the Board held on 21 December 2017 and the 5th meeting of the seventh session of the supervisory committee of the Company held on 21 December 2017, respectively.

## III. ATTENDEES OF THE EGM AND BOOK CLOSURE PERIOD FOR HOLDERS OF H SHARES

1. Holders of domestic shares (A shares) and overseas listed foreign shares (H shares) whose names appear on the register of members of the Company after the end of the trading hours on 26 February 2018 (Monday) (including those holders of H shares who have submitted verified application documents for the transfer of shares on or before 26 February 2018) are entitled to attend the EGM. The register of members of the Company will be closed from 27 February 2018 (Tuesday) to 29 March 2018 (Thursday) (both days inclusive) during which no transfer of H shares will be effected. In order to determine who are entitled to attend the EGM, all share transfer documents of H shares together with the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, namely Hong Kong Registrars Limited, at Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for share transfer registration no later than 4:00 p.m. on 26 February 2018 (Monday).

2. Any shareholder entitled to attend and vote at the EGM is entitled to appoint one or more proxies (whether or not he/she is a shareholder) to attend and vote at the meeting on his/her behalf. If any shareholder appoints more than one proxy, the proxies can only vote by poll. To be valid, the proxy form and the notarially certified power of attorney and/or other documents of authorisation (if any) must be delivered to the address of the Company's office (for holders of A shares) or the office address of the Company's H share Registrar, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (for holders of H shares) no less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof.

3. Shareholders who intend to attend the EGM in person or by proxy should complete and return the attached reply slip by hand, by mail or by fax in accordance with the instructions printed thereon before 9 March 2018 (Friday).

4. The directors, supervisors and senior management of the Company.

5. The lawyers of the Company.

## IV. REGISTRATION FOR THE EGM

### 1. Methods of registration

To attend the EGM, an individual shareholder should bring along his/her identity card, shareholder account card; a proxy should bring along the proxy form, his/her identity card and the identity card of the appointer and the shareholder account card for registration purpose. The representative of the legal person shareholder who attends the meeting should bring along a copy of the business license, the proxy form signed by the legal entity, the shareholder account card and the identity card of the attendee for registration purpose.

### 2. Place and time of registration

| | |
|---|---|
| Registration date and time: | 09:30 a.m.—11:30 a.m. and 2:00 p.m.— 4:30 p.m. on 9 March 2018 (Friday) |
| Place of registration: | Office of the secretariat to the Board, 2nd Floor, 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC |

## V. OTHERS

| | | |
|---|---|---|
| 1. | Address: | 2nd Floor of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited, 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC |
| | Postal code: | 510130 |
| | Contact person: | Huang Ruimei/Tan Yanli |
| | Tel: | (8620) 6628 1217/6628 1220 |
| | Fax: | (8620) 6628 1229 |
| | Email: | sec@gybys.com.cn |
| 2. | Address of Shanghai Branch of China Securities Depository and Clearing Corporation Limited: | 3/F., China Insurance Building, No. 166 Lujiazui Road East, Shanghai, the PRC |
| | Address of Hong Kong Registrars Limited: | 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong |

3. The EGM is expected to last for a day. Shareholders attending the EGM shall be responsible for their own travelling and accommodation expenses.

4. Reporters attending the EGM shall register before the registration time for the shareholders.

## VI. DOCUMENTS AVAILABLE FOR INSPECTION

1. Resolutions passed at the 5th meeting of the seventh session of the Board and the relevant announcement.

2. Resolutions passed at the 5th meeting of the seventh session of the supervisory committee of the Company and the relevant announcement.

The Board of
**Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited**

Guangzhou, the PRC, 9 February 2018

*As at the date of this notice, the Board comprises Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong and Mr. Wu Changhai as executive directors, and Mr. Chu Xiaoping, Mr. Jiang Wenqi, Mr. Wong Hin Wing and Ms. Wang Weihong as independent non-executive directors.*