



廣州白雲山醫葯集團股份有限公司
GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS CO., LTD.
(Stock code: 874)



Annual Report 2017



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IMPORTANT NOTICE

- I. The Board, the Supervisory Committee and the Directors, supervisors and senior management collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this annual report and confirm that there are no false information, misleading statements or material omissions in this annual report.
- II. The Directors were present at the 7th meeting of the seventh session of the Board, among whom, Mr. Ni Yidong (executive director), was unable to attend the meeting due to business reason and had appointed Ms. Cheng Ning (executive director) to attend the meeting and vote on his behalf. Mr. Jiang Wenqi (independent non-executive director) and Mr. Chu Xiaoping (independent non-executive director) attended the meeting by telephone.
- III. The financial report of the Group and the Company for the year ended 31 December 2017 was prepared in accordance with the China Accounting Standards for Business Enterprises, which are audited by BDO China Shu Lun Pan CPAs LLP which had issued unqualified auditors' reports thereon.
- IV. Mr. Li Chuyuan (chairperson of the Board), Mr. Li Hong (general manager) and Mr. Wang Jiansheng (deputy director of the finance department) declared that they warrant the truthfulness, accuracy and completeness of the financial report contained in this annual report.
- V. Profit distribution plan or plan of carrying over reserved funds to equity shares during the Reporting Period as considered by the Board.

As audited and confirmed by BDO China Shu Lun Pan Certified Public Accountants LLP: the net profit of the Group attributable to the shareholders of the Company of 2017 amounted to RMB2,061,651,929.01. Based on the net profit of the Company of RMB1,027,277,744.36 in 2017, a 10% statutory surplus reserve in the amount of RMB102,727,774.44 was provided, with the addition of the undistributed profit carried over from last year in the amount of RMB3,555,086,769.64, and after reducing the cash dividends of 2016 by RMB455,221,465.72, the actual distributable profits amounted to RMB4,024,415,273.84.

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Based on the actual circumstances of the Company, it is proposed that based on the share capital of 1,625,790,949 shares as at the end of 2017, a cash dividend of RMB3.81(inclusive of tax) for every 10 shares and an aggregate of RMB619,426,351.57 be distributed. The undistributed portion shall be transferred to the next distribution. There will not be any capitalization of capital reserve for 2017.

The profit distribution plan will be submitted to the 2017 Annual General Meeting for approval.

- VI. Forward-looking statements such as plans for the future and development strategy contained in this annual report do not constitute any actual commitment of the Company to investors. Investors are advised to pay attention to any investment risk.
- VII. There was no non-operational appropriation of the funds of the Company by its connected parties.
- VIII. The Company had not provided any external guarantee in violation of the decision-making procedures stipulated by the Company or relevant authorities.
- IX. This annual report is prepared in both English and Chinese. In the event of discrepancy in interpretation, the Chinese version shall prevail.

Definitions

In this annual report, unless the context otherwise requires, the following terms have the meaning as follows:

Company/the Company/GYBYS	Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited
PRC or China	the People's Republic of China
Reporting Period/Year/ the current year	the 12 months ended 31 December 2017
After the Reporting Period	the period after the end of the Reporting Period up to the date of this annual report, being 1 January 2018 to 15 March 2018
Group	the Company and its subsidiaries
Board	the board of directors of the Company
Supervisory Committee	the supervisory committee of the Company
CSRC	China Securities Regulatory Commission
SSE	The Shanghai Stock Exchange
HKEx	The Stock Exchange of Hong Kong Limited
Depository Corporation	the Shanghai branch of China Securities Depository and Clearing Corporation Limited
Articles of Association	the articles of association of the Company
Listing Rules of HKEx	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Listing Rules of SSE	the Listing Rules of the Shanghai Stock Exchange
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Model Code	The Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules of HKEx
GPHL	Guangzhou Pharmaceutical Holdings Limited (廣州醫藥集團有限公司)

Definitions

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

Definitions

Nuo Cheng	Guangzhou Promise Biological Products Co., Ltd. (廣州諾誠生物製品股份有限公司)
Baiyunshan	Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (廣州白雲山製藥股份有限公司)
Baiyunshan General Factory	Guangzhou Baiyunshan Pharmaceutical General Factory (廣州白雲山醫藥集團股份有限公司廣州白雲山製藥總廠)
Chemical Pharmaceutical Factory	Guangzhou Baiyunshan Chemical Pharmaceutical Factory (廣州白雲山醫藥集團股份有限公司廣州白雲山化學製藥廠)
He Ji Gong	Guangzhou Baiyunshan Pharmaceutical Co., Ltd. Baiyunshan He Ji Gong Pharmaceutical Factory (廣州白雲山醫藥集團股份有限公司白雲山何濟公製藥廠)
Tian Xin	Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. (廣州白雲山天心製藥股份有限公司)
Guang Hua	Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd., (廣州白雲山光華製藥股份有限公司)
Ming Xing	Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. (廣州白雲山明興製藥有限公司)
HWBYS	Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited (廣州白雲山和記黃埔中藥有限公司)
Baxter Qiao Guang	Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. (廣州百特僑光醫療用品有限公司)
Pharmaceutical Technology	Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd. (廣州白雲山醫藥科技發展有限公司)
Baiyunshan Great Health Hotel	Guangzhou GPLH Baiyunshan Great Health Hotel Co., Ltd. (廣州廣藥白雲山大健康酒店有限公司)
Weiling	Baiyuanshan Weiling Pharmaceutical Co., Ltd. (白雲山威靈藥業有限公司)
Wei Yi Co., Ltd.	Guangzhou Baiyunshan Wei Yi Medical Investment Management Co., Ltd. (廣州白雲山維醫醫療投資管理有限公司)

Definitions

Baxter Healthcare	Baxter Healthcare (Guang Zhou) Co., Ltd. (廣州百特醫療用品有限公司)
Bozhou Baiyunshan	Bozhou Baiyunshan Pharmaceutical Co., Ltd. (亳州白雲山製藥有限公司)
Guangyao General Institute	Guangzhou Pharmaceutical Research General Institute (廣州醫藥研究總院有限公司)
Guangyao Haima	Guangzhou Haima Pharmaceutical Advertising Co., Ltd. (廣州醫藥海馬品牌整合傳播有限公司)
Baiyunshan Pharmaceutical Marketing	Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd. (廣州白雲山醫藥銷售有限公司)
Baiyunshan Medical and Healthcare Industry Company	Guangzhou Baiyunshan Medical and Healthcare Industry Investment Co., Ltd. (廣州白雲山醫療健康產業投資有限公司)
WLJ Investment	Guangzhou WLJ Investment Co., Ltd. (廣州王老吉投資有限公司)
Medical Instrument Investment Company	Guangzhou Baiyunshan Medical Instrument Investment Company (廣州白雲山醫療器械投資公司)
Guangzhou Baiyunshan Hospital	Guangzhou Baiyunshan Hospital Co., Ltd. (廣州白雲山醫院有限公司)
WLJ Catering	Guangzhou WLJ Catering Management Development Co., Ltd. (廣州王老吉餐飲管理發展有限公司)
Yi Gan	Guangzhou Guangyao Yigan Biological Products Co., Ltd. (廣州廣藥益甘生物製品股份有限公司)
Hua Cheng	Guangzhou Hua Cheng Pharmaceutical Company Limited (廣州花城藥業有限公司)
Xing Zhu	Guangzhou Baiyunshan Xing Zhu Pharmaceutical Co., Ltd (廣州白雲山星珠藥業公司)
Golden Eagle Fund	Golden Eagle Fund Management Co., Ltd. (金鷹基金管理有限公司)
Chongqing Pharmaceutical	Chongqing Pharmaceutical (Group) Company Limited (重慶醫藥(集團)股份有限公司)
Chuangmei Medicines	Chuangmei Pharmaceutical Company Limited (創美藥業股份有限公司)
Yi Xin Tang	Yunnan hongxiang Yi Xin Tang pharmaceutical (Group) Company Limited (雲南鴻翔一心堂藥業(集團)股份有限公司)

Definitions

Essential Drugs List	National Essential Drugs List. It is the basis for medical institutions to prepare and use drugs. The drugs in the Essential Drugs List are those adapted to the basic medical and health needs, and are featured by appropriate dosage and form as well as reasonable price and supply and availability are guaranteed to the public.
OTC	Over-the-counter drugs, namely the drugs that can be bought without prescriptions by physicians or other medical professionals after regulated or approved by the State Public Health Administrative department.
GDP	the English abbreviation of Gross Domestic Product. It refers to the market value of all final products and labor produced by all permanent units in a country (within national borders) in a given period. GDP is the core indicator of the national economic accounting, and it is also an important indicator to measure the overall economic conditions of a country or region.
GMP	the English abbreviation of Good Manufacturing Practice, and it is a set of mandatory standards applicable to the pharmaceutical industry, which requires the pharmaceutical companies to ensure the quality of medicines in the production process shall conform to the national standards in accordance with the GMP requirements.
GAP	the English abbreviation of Good Agricultural Practice for Chinese Crude Drugs (Trial). It refers to the management system for the development of this specification with a view to standardize the Chinese crude drugs production, and to ensure its quality as well as to promote the standardization and modernization of the Chinese crude drugs.
Drug Registration	The drug supervision and administration department conducts systematic evaluation of the safety, effectiveness and quality control of the drugs proposed for sale in accordance with legal procedures, and determines if it agrees to perform the approval processes of drug clinical studies, production of drugs or importing of drugs, which include the approval of the content in the evidence documents of application for change of drug approval and the appendix.
Medical Insurance Catalogue	a Catalogue of the List of Pharmaceutical Products under the National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance of the PRC (國家基本醫療保險、工傷保險和生育保險藥品目錄) (referred to as "Pharmaceutical List"), being the standard payable drugs fees for the basic medical insurance, work-related injury insurance and maternity insurance fund.

Definitions

Provincial Medical Insurance Catalogue	a Catalogue of the List of Pharmaceutical Products under the National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance at the provincial level of the PRC (省級基本醫療保險、工傷保險和生育保險藥品目錄).
OEM	Original Equipment Manufacture
CFDA	China Food and Drug Administration (國家食品藥品監督管理總局)
GZ SOA Development	Guangzhou State-owned Asset Development Holdings Limited (廣州國資發展控股有限公司)
GZ Chengfa	Guangzhou China Life Urban Development Industry Investment Enterprise (Limited Partnership) (廣州國壽城市發展產業投資企業(有限合夥))
Yunfeng Investment	Shanghai Yunfeng Xinchuang equity investment center (limited partnership) (上海雲鋒新創股權投資中心(有限合夥))
Placement Prosperous Age Exclusive Account No.66	Fund of Huitianfu – Citic Bank – Guangzhou Baiyunshan Pharmaceutical Holdings Group (匯添富基金－中信銀行－廣州白雲山醫藥集團)
Equity Interest Transfer Agreement	the Equity Interest Transfer Agreement on the Company jointly entered into the Equity Interest Transfer Contract and the Joint Venture Operating Contract with GP Corp. and Alliance BMP Limited
The Material Assets Reorganization in 2013	In 2013, the Group completed the major asset reorganization with the purchase of shares of Baiyunshan and the purchase of GPL assets

Company Profile and Financial Highlights

1. COMPANY PROFILE

- | | | |
|-----|---|--|
| (1) | Legal Chinese Name:
Chinese Name Abbreviation:
English Name:

English Name Abbreviation:
Legal Representative: | 廣州白雲山醫藥集團股份有限公司
廣藥白雲山
Guangzhou Baiyunshan Pharmaceutical Holdings
Company Limited
GYBYS
Li Chuyuan |
| (2) | Secretary to the Board:
Representative of securities affairs:
Address:

Telephone:
Fax:
E-mail: | Huang Xuezheng
Huang Ruimei
45 Sha Mian North Street, Liwan District,
Guangzhou City, Guangdong Province, the PRC
(8620) 6628 1218/6628 1219
(8620) 6628 1229
huangxz@gybys.com.cn/huangrm@gybys.com.cn |
| (3) | Registered address and office:

Postal code:
Internet website:
E-mail:
Principal place of business in Hong Kong: | 45 Sha Mian North Street, Liwan District,
Guangzhou City, Guangdong Province, the PRC
510130
http://www.gybys.com.cn
sec@gybys.com.cn
Room 2005, 20th Floor, Tower Two Lippo Center,
89 Queensway, Hong Kong |
| (4) | Designated newspapers for information
disclosure:

Internet website designated by the CSRC
for publishing the annual report:
Internet website of the HKEx for publishing
the annual report:
Place for inspection of the annual report: | Mainland China: Shanghai Securities News (上
海證券報), Securities Times (證券時報), China
Securities Journal (中國證券報), Securities Daily
(證券日報)
http://www.sse.com.cn
http://www.hkex.com.hk
The Secretariat of the Company |
| (5) | Stock exchanges, name and codes of the
Company's shares: | A Shares: The Shanghai Stock Exchange
Stock Code: 600332
Stock Abbreviation: BAIYUNSHAN
H Shares: The Stock Exchange of Hong Kong
Limited
Stock Code: 0874
Stock Abbreviation: BAIYUNSHAN PH |

Company Profile and Financial Highlights

1. COMPANY PROFILE *(Continued)*

(6) Other information:	
First registration date:	1 September 1997
First place of registration:	45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC
Registration date for subsequent change:	31 July 2017
Place of registration for subsequent change:	45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC
Unified social credit code	914401063320680X7
Auditors and its address:	BDO China Shu Lun Pan CPAs LLP 4 Floor, Nan Jing East Road No. 61, Shanghai
Names of the accountants of the auditors firm whose signatures are given:	Zhang Ning, Zhang Xi

Company Profile and Financial Highlights

2. PRINCIPAL FINANCIAL DATA AND FINANCIAL INDICATORS AS AT THE END OF THE REPORTING PERIOD

(1) PRINCIPAL FINANCIAL DATA

Principal financial data	2017	2016	Year on year increase/ (decrease) (%)	2015	2014		2013	
					After restatement	Before restatement	After restatement	Before restatement
Income from operations (RMB'000)	20,954,225	20,035,681	4.58	19,124,658	18,818,232	18,799,881	17,628,142	17,608,193
Net profit attributable to the shareholders of the Company (RMB'000)	2,061,652	1,508,033	36.71	1,300,351	1,194,141	1,192,472	979,376	980,045
Net profit attributable to the shareholders of the Company after deducting non-recurring items (RMB'000)	1,935,560	1,071,111	80.71	1,128,765	1,092,530	1,112,771	873,052	891,802
Net cash flow from operating activities (RMB'000)	1,833,691	2,544,672	(27.94)	1,941,956	1,751,690	1,761,382	1,341,176	1,339,140
Total profit (RMB'000)	2,492,976	1,945,053	28.17	1,628,122	1,468,061	1,467,177	1,228,521	1,229,190

Principal financial data	As at 31 December 2017	As at 31 December 2016	Year on year increase/ (decrease) (%)	As at 31 December 2015	As at 31 December 2014		As at 31 December 2013	
					After restatement	Before restatement	After restatement	Before restatement
Net assets attributable to the shareholders of the Company (RMB'000)	18,871,521	17,345,080	8.80	8,450,814	7,705,137	7,739,301	6,795,505	6,831,768
Total assets (RMB'000)	28,314,713	25,897,170	9.34	15,870,577	14,266,903	14,210,784	12,321,777	12,249,123
Total liabilities (RMB'000)	9,051,560	8,243,380	9.80	7,186,644	6,344,908	6,251,805	5,335,803	5,226,886
Equity attributable to the shareholders of the Company per share (RMB)	11.61	10.67	8.80	6.55	5.97	5.99	5.26	5.29
Total equity (RMB'000)	1,625,791	1,625,791	-	1,291,079	1,291,341	1,291,341	1,291,341	1,291,341

Company Profile and Financial Highlights

2. PRINCIPAL FINANCIAL DATA AND FINANCIAL INDICATORS AS AT THE END OF THE REPORTING PERIOD (Continued)

(2) PRINCIPAL FINANCIAL INDICATORS

Principal financial indicators	2017	2016	Year on year increase/ (decrease) (%)	2015	2014		2013	
					After restatement	Before restatement	After restatement	Before restatement
Basic earnings per share (RMB)	1.268	1.075	17.95	1.007	0.925	0.923	0.767	0.768
Diluted earnings per share (RMB)	1.268	1.075	17.95	1.007	0.925	0.923	0.767	0.768
Basic earnings per share after deducting non-recurring items (RMB)	1.191	0.764	55.90	0.874	0.846	0.862	0.684	0.699
Weighted average return on net assets ratio (%)	11.34	12.75	A decrease of 1.41 percentage points	15.91	16.48	16.38	15.70	15.71
Ratio of weighted return on net assets after deducting non-operating items (%)	10.64	9.06	An increase of 1.59 percentage points	13.81	15.08	15.29	13.99	14.30
Return on total equity attributable to shareholders of the Company (%)	10.92	8.69	An increase of 2.23 percentage points	15.39	15.50	15.41	14.41	14.35
Ratio on total equity attributable to shareholders of the Company to total assets (%)	66.65	66.98	A decrease of 0.33 percentage point	53.25	54.01	54.46	55.15	55.77
Gearing ratio (%)	31.97	31.83	An increase of 0.14 percentage point	45.28	44.47	43.99	43.30	42.67

Notes: (A) The above financial data and indicators are computed based on the consolidated financial statements.

(B) Gearing ratio = Total liabilities/Total assets * 100%.

(C) In August 2016, the Company completed the non-public offering of Renminbi-denominated ordinary shares (A shares) to raise funds, with an increase in share capital of RMB334 million. In 2016, the earnings per share was calculated based on the weighted average number of shares. The Company did not experience any change in its share capital during the Reporting Period.

(4) In August 2016, the Company completed the non-public offering of Renminbi-denominated ordinary shares (A shares) to raise funds, with an increase in net assets attributable to ordinary shareholders of the Company of RMB7.863 billion. In 2016, the return on net assets was calculated based on the weighted average net assets. The Company did not have any matters related to new share offering or debt to equity in 2017.

Company Profile and Financial Highlights

3. PRINCIPAL FINANCIAL DATA OF 2017 ON QUARTERLY BASIS

	The first quarter (January – March) (RMB'000)	The second quarter (April – June) (RMB'000)	The third quarter (July – September) (RMB'000)	The fourth quarter (October – December) (RMB'000)
Income from operations	5,287,931	5,827,407	4,851,593	4,987,293
Net profit attributable to the shareholders of the Company	484,662	673,478	327,511	576,001
Net profit attributable to the shareholders of the Company after deducting non-recurring items	461,835	665,274	317,867	490,584
Net cash flow from operating activities	225,970	639,028	946,425	22,268

Company Profile and Financial Highlights

4. NON-RECURRING ITEMS AND THEIR AMOUNTS

Items	Amount in 2017 (RMB'000)	Notes	Amount in	Amount in
			2016 (RMB'000) (After restatement)	2015 (RMB'000) (After restatement)
Gain/(Loss) on disposal of non-current assets	(1,669)		15,244	(1,285)
Tax reduction or refund of ultra vires approval or without formal approval documents	–		–	12
Government subsidies recognized as gain/(loss)	171,549	This is the amount of government subsidies received by the Company's subsidiaries which was transferred to non-operating income in the Reporting Period.	496,824	307,220
Gain/(Loss) on changes in fair value arising from trading financial assets and trading financial liabilities held (excluding the valid hedging business related to normal operating activities of the Company) as well as the investment gains received from disposal of trading financial assets, trading financial liabilities and financial assets available for sale	(1,151)		(1,087)	1,814
Write-off of provision for impairment of accounts receivable undergoing independent impairment test	4,040		3,110	671
Gain/Loss from entrusted loans	–		–	(1,743)
Other non-operating income and expenses excluding the above items	(26,099)		(33,640)	(88,140)
Income tax effect	(21,209)		(40,659)	(45,633)
Effect on minority interest (after tax)	631		(2,871)	(1,329)
Total	126,092		436,921	171,587

Company Profile and Financial Highlights

5. CHANGES IN SHAREHOLDERS' EQUITY IN 2017 (CONSOLIDATED)

Items	Share capital (RMB'000)	Capital reserve (RMB'000)	Other comprehensive income (RMB'000)	Surplus reserve (RMB'000)	Undistributed profits (RMB'000)	Total shareholders' equity attributable to the parent company (RMB'000)
Opening balance	1,625,791	9,875,173	9,788	1,052,034	4,782,294	17,345,080
Additions	–	5	21	102,728	2,061,652	2,164,406
Deductions	–	–	80,015	–	557,950	637,965
Closing balance	1,625,791	9,875,178	(70,206)	1,154,762	6,285,996	18,871,521

6. ITEMS RELATED TO FAIR VALUE MEASUREMENT

Items	Balance at the beginning of the Reporting Period (RMB'000)	Balance at the end of the Reporting Period (RMB'000)	Changes during the Reporting Period (RMB'000)	Impact on the profit for the Reporting Period (RMB'000)
Available for sale financial assets	25,932	886,903	860,971	13,230
Financial assets base on fair value to confirm profit or loss	6,026	4,875	(1,151)	(950)
Total	31,958	891,778	859,820	12,280

Company's Business Profile

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

(1) Main Business and Products

Since its establishment, the Company has been committed to the healthcare industry. After years of development, the Company has continuously to grow in both of its scale and efficiency. Currently, the Group is principally engaged in: (1) research, development, manufacturing and sales of Chinese patent medicine, western medicine, chemical raw materials, natural medicine, biological medicine and chemical raw materials intermediates; (2) wholesale, retail and import and export business of Western medicine, Chinese medicine and medical equipment; (3) the research and development, production and sales of great health product; and (4) the health industry investment in medical care, health management, health maintenance and elderly care etc..

(i) Great Southern TCM (pharmaceutical manufacturing business)

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

- 1) The Group is an epitome of the southern TCM. The Company has 12 China time honored brand enterprises such as Zhong Yi, Chen Li Ji, Qi Xing, Jing Xiu Tang, Pan Gao Shou, etc. (including subsidiaries and joint ventures), among which, 10 of them are century old time-honored enterprises. The Company and its joint ventures has 3 protected Chinese traditional medicine of national grade, and 54 exclusively made Chinese traditional medicine. Main products include Xiao Ke Pill, Hua Tuo Zai Zao Pill, compound Salvia Milltiorrhiz slice, Ban Lan Gen Granule, Qing Kai Ling series, An Gong Niu Huang Pill, Zi Shen Yu Tai Pill, Shu Jin Jian Yao Pill, Xiao Chai Hu Granule, Baoji series, Xia Sang Ju Granule, Zhui Feng Tou Gu Pill etc. The Group boasts clear brand and variety advantages in proprietary Chinese medicines in southern China and even countrywide.
- 2) The Group has a complete antibiotic production chain ranging from raw material medicine to preparation and male medicine, with products covering commonly used antibiotic varieties. The Group integrated the antibiotic brands with the famous trademark "Kang Zhi Ba", striving to create a market image as the number one brand of oral antibacterial anti-inflammatory. The Group's chemical medicine includes Cefathiamidine, Cefixime, Amoxicillin and Sildenafil Citrate Tablets ("Jin Ge"), etc..

Company's Business Profile

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

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

(ii) Great Health Industry

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

(iii) Great Commerce (Pharmaceutical distribution business)

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

(iv) Great Medical Care

The Group leveraged Baiyunshan Medical and Healthcare Industry Company as the main investment vehicle and used various means, including new establishment, joint venture and co-operation to focus on the development of three areas, i.e. medical service, health maintenance and modern elderly care.

Currently, the Great Medical Care segment is at the stage of investment expansion. In the healthcare service field, Guangzhou Baiyunshan Hospital has grown from a community hospital into a comprehensive Class II healthcare service institution, featured by rehabilitation as the focus, supplemented by orthopedics and urology integrating medical treatment and convalesce. In the health and preservation field, the Tibetan-style Health Preservation Castle in Nyingchi of Tibet invested by the Company has been constructed, whose operating model is to be refined and improved. In the medical device field, the Group has contributed to the setup of a joint venture, Guangzhou Zhongcheng Medical Device Company (廣州眾成醫療器械公司), and is pushing forward its presence in and development of the medical device industry. The Company is negotiating a partnership with domestic and overseas large medical and healthcare institutions in respect of several projects.

Company's Business Profile

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

(2) Operating Model

(i) Great Southern TCM

1) Procurement Model

After completion of the major assets reorganization, the Group integrated the procurement system of its subsidiaries, and established a centralized procurement platform with Pharmaceutical Import & Export and Cai Zhi Lin forming the core. The intensively centralized procurement of raw and auxiliary materials, Chinese herbal medicine, packaging materials and machinery equipment, improved the ability of negotiation on prices and risk resistance and effectively reduced the procurement cost.

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

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

Company's Business Profile

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

(2) Operating Model *(Continued)*

(i) Great Southern TCM *(Continued)*

2) Production Model

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

3) Sales Model

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

① The sales mode for national essential drugs

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

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

Company's Business Profile

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

(2) Operating Model *(Continued)*

(i) Great Southern TCM *(Continued)*

3) Sales Model *(Continued)*

② The sales mode for non-national essential drugs

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

(a) Pharmaceutical industry sales sub-platform

The Company established the pharmaceutical industry sales sub-platform in the mode of "industrial operation + commercial platform", which integrated with the Group's pharmaceutical industry marketing resources to improve sales level of pharmaceutical industry enterprises, creating overall pharmaceutical marketing advantages. During the Reporting Period, the Group established the OTC integrated marketing platform with HWBYS as the subject, deepened in-depth cooperation with retail drug stores, especially the Top 100 Chains, and leveraged Baiyunshan Pharmaceutical Marketing Company as platform for further integrating the sales resources of part of its pharmaceutical manufacturing companies.

(b) E-commerce sales sub-platform

E-commerce sales sub-platform as a platform for promoting brands and new products is complementary to the existing sales systems. It is also one of the sales channels that the Company will focus on developing.

Currently, the Company's Guangyao Baiyunshan flagship store has set up e-commerce terminal sales platforms in Tmall and Jingdong, etc.; Guangyao Jian Min Network has become the appointed drug store for medical insurance network that can make payment online without medical insurance card, integrating Jian Min conventional stores, Jian Min experimental stores, each retail store with online marketing, to build Mega Retail of e-commerce with full efforts.

Company's Business Profile

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

(2) Operating Model *(Continued)*

(ii) Great Health Industry

1) Purchasing Mode

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

2) Production Mode

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

3) Sales Mode

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

Company's Business Profile

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

(2) Operating Model *(Continued)*

(iii) Great Commerce

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

GP Corp., a joint venture of the Company, is a leading medicine circulation enterprise in Southern China, with good business reputation, huge sales network, a wide range of sales channels and stronger pharmaceutical distribution capacity. The Group and its joint ventures have "Cai Zhi Lin", "Jian Min" and other well-known pharmaceutical retail chain and 68 medicine retail outlets, with strong terminal strength.

As at 31 December 2017, the Group and its joint ventures had 68 retail chain pharmacy outlets, including 31 "Cai Zhi Lin" pharmacy outlets which specialized in traditional Chinese medicines, 36 "Jian Min" pharmacy outlets which specialized in western medicine, medical apparatus and instruments, and one pharmacy named Ying Bang.

The main performance driving factors:

During the Reporting Period, the Group's revenue amounted to RMB20,954,225,000, representing an increase of 4.58% compared with the corresponding period last year. The revenue growth was mainly attributable to the Group's efforts in actively promoting the business development of the four segments of "Great Southern TCM, Great Health, Great Commerce and Great Medical Care" during the Reporting Period, vigorously building product brands and corporate brands, and striving to improve quality and effectiveness.

(3) Current circumstances of the development of the industry

In recent years, with the increasingly intensified efforts in medicine bidding and medical insurance cost control, as well as the slowdown in GDP growth and the near completion of full coverage at medical insurance, the growth rate of the pharmaceutical industry has declined. The total industrial output value of medicines in 2017 was RMB2,818.6 billion, representing an increase of 12.50%; total profit amounted to RMB331.4 billion, representing an increase of 17.80%.

Company's Business Profile

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

(4) Periodic Characteristics

The pharmaceutical manufacturing and trading operations of the Group have no prominent seasonality. The Great Health Segment, with its main product, namely Wang Lao Ji herbal tea, has certain seasonality as product demands relates to weather, and sales will increase significantly in hot weather. Meanwhile, the Group has been expanding sales channels in the giftware market, contributing to a larger sales of Wang Lao Ji Herbal Tea in major festivals, including the Mid-Autumn Day and the Spring Festival.

(5) Position of the Company in the Industry

The Group is one of the largest pharmaceutical manufacturing companies in the PRC. After years of meticulous development and rapid expansion, the Group basically achieved the whole industrial chain layout of biomedicine and health industry and health industry and formed the four business segments of Great Southern TCM, Great Health, Great Commerce and Great Medical Care and the three new types of operation of e-commerce, capital finance and medical equipment.

2. DESCRIPTION OF THE GROUP REGARDING THE MAJOR CHANGES OF THE MATERIAL ASSETS DURING THE REPORTING PERIOD

- (1) The closing balance of financial assets available for sale of the Group was RMB1,038,860,000, representing an increase of 216.83%, mainly because:
 - (a) In July 2015, the Company contributed an amount of RMB150 million to subscribe for 10,000,000 shares in the non-public offering of Chongqing Pharmaceutical. In July 2017, a total of 10,000,000 shares held by the Company in Chongqing Pharmaceutical participated in the material asset restructuring of Chongqing Jianfeng Chemical Co., Ltd., currently named C.Q. Pharmaceutical Holding, where C.Q. Pharmaceutical Holding was transferred the shares of Chongqing Pharmaceutical held by the Company by means of issuance of shares as the consideration. Upon completion of such material asset restructuring, the Company holds 25,992,330 A shares in C.Q. Pharmaceutical Holding, representing 1.50% of the total share capital of that company.
 - (b) In December 2017, the Company, as a strategic investor, invested RMB799,999,996.68 to participate in the subscription of not more than 41,928,721 A shares in the non-public offering of Yi Xin Tang, and currently held a 7.38% stake of Yi Xin Tang.

Company's Business Profile

3. CORE COMPETITION CAPACITY ANALYSIS DURING THE REPORTING PERIOD

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

- (i) The Group possesses rich product and brand resources:
- 1) Products: The Group has formed complete series in areas such as diabetes, cardiovascular and cerebrovascular diseases, anti-bacteria and anti-infection, cooling and detox, parenteral nutrition, coughing, bone-setting and pain relief, rheumatism and bone pain, gynaecological and paediatric medication, and nurturing and health. The Group has more than 30 forms and nearly 2,000 specifications and over 100 exclusive products.
 - 2) Brands: Currently, the Group and its joint venture have trademarks of 9 nationally renowned brands, 21 renowned brands in Guangdong Province and 26 renowned brands in Guangzhou City. Among which, the brand awareness and reputation of "BYS" have a greater impact and appeal among consumers in the country, and is one of the most valuable pharmaceutical brands in the country. After completion of the major assets reorganization and non-public offering of A Share comprising the absorption and merger of Baiyunshan through share swap and the asset acquisition through issuance of shares to GPLH, the Group promoted the grand brand strategy on the basis of integrating brand resources, implementing the changes in brand marketing model from developing individual brands to grouping brands under one umbrella with collective strategy and gradually formed the four distinctive business segments of "Great Southern TCM", "Great Health", "Great Commerce" and "Great Medical Care" and the three new types of operation of "e-commerce", "capital finance" and "medical equipment", which extended the coverage of brand value from traditional medical products to Great health products.
- (ii) Long history in Chinese traditional medicine and cultural soft power. The Group has 12 long lasting enterprises in Chinese pharmaceutical industry, among which Chen Li Ji, Zhong Yi, Pan Gao Shou, Jing Xiu Tang, Cai Zhi Lin, Wang Lao Ji, Xing Qun, Qi Xing, Ming Xing and Guang Hua have been established for over a hundred years. Also, the Group has 6 items admitted as the nation's Intangible Cultural Heritage, namely "Xia Sang Ju" (夏桑菊) of Xing Qun, "Da Shen Kou Yan Qing" (大神口焮清) of BYS, Wang Lao Ji Herbal Tea, the traditional Chinese medicine culture of each of Chen Li Ji and Pan Gao Shou as well as the "Production Technology of Bao Zi Tang Bao Ying Dan" (保滋堂保嬰丹製作技藝) of Zhong Yi. The Group had established the Chen Li Ji Museum (陳李濟博物館), "Chen Li Ji Health Preservation Research Institute" (陳李濟健康養生研究院), "Lingnan Experience Centre of Chinese Medicine Culture" (嶺南中醫藥文化體驗館), Shen Nong Cottage (神農草堂), Cai Zhi Lin Museum (采芝林博物館) and Wang Lao Ji Herbal Tea Museum had established a number of platforms for the promotion of the "Grand Southern TCM" culture and demonstration of the long history and splendid culture of Chinese medicine and rebuilding the famous brands of Chinese medicine.

Company's Business Profile

3. CORE COMPETITION CAPACITY ANALYSIS DURING THE REPORTING PERIOD *(Continued)*

- (iii) The Group has a relatively complete production chain system, including the existing major pharmaceutical assets. Through the internal and external forward integration and backward integration, the Group has formed a thorough raw materials, research and development, production, circulation and terminal production chain. In respect of the supply of Chinese herbs, the Group and its joint ventures have more than 69 GAP herbs bases nationwide, which effectively ensure the quality and supply of Chinese herbs and controls the production costs. In respect of research and development of products, the Group continues to build a comprehensive technological innovation system. The Group has built an extensive collaborative network with renowned scientific research institutions, both domestic and abroad to create a synergy effect between both sides for highly effective utilization of favourable resources from various parties, promoting development through the support of technology.

- (iv) The Group has a large-scale pharmaceutical wholesale distribution and delivery network and a broad and stable customer base in China, and the Company is one of the first pharmaceutical trading enterprises in Guangdong Province that obtained the GSP certificate. The Group and its joint ventures have 68 retail chain pharmacy outlets. The Group has also established the largest pharmaceutical retail network and medicine logistics center in southern China. With the advantages of its strong market position and marketing network, the Group has established a long-term and reliable business relationship with hundreds of thousands of customers in 31 provinces, cities and autonomous regions across the country, including medium-and-large-sized hospitals, pharmaceutical wholesalers, distributors and retailers. The Group also has the industry leading digital integration and operation informatisation management system. GP Corp., a joint venture of the Company, became the first batch of enterprises in the country which passed the digital integration and operation informatisation management system and assessment system.

Company's Business Profile

3. CORE COMPETITION CAPACITY ANALYSIS DURING THE REPORTING PERIOD *(Continued)*

- (v) The Group has an ever-improving technological innovation system. The Group has continuously strengthening the construction of platforms for many years, improving the scientific research innovation system. As at the date of this report, the Group and its joint ventures have 6 state level research and development institutions, 1 national level corporate technical center, 1 postdoctoral workstation, 10 provincial level corporate technical centers, 14 provincial level engineering technical centers, 12 municipal level engineering technical centers, 14 municipal level engineering technical research and development centers, 5 provincial level key laboratories and 4 municipal level key laboratories. The Group has research and development of Chinese medicine and Chinese NHPs, Chinese medicine engineering technology including automatic control and online testing, Chinese preparation medicine, supercritical CO₂ extraction, reversal extraction, separation of macroporous resin adsorption, quality control for finger printing of Chinese medicine, synthesis and technology of cephalosporins antibiotic APIs and core technology in national leading position such as sterile powder production technology and preparation agent technology.

During the Reporting Period, the Group newly added (1) 2 provincial level engineering centers, i.e. "Guangdong Engineering Research Center for Modern Traditional Chinese Medicine" jointly established by Jinan University and Zhong Yi, and "Guangdong Engineering Research Center for Innovation Pharmaceutical Manufacturing Technology and Process Control" jointly established by Chemical Pharmaceutical Factory in cooperation with South China University of Technology; (2) 4 provincial level corporate technical centers, i.e. Guang Hua, Guangzhou Han Fang, Wang Lao Ji and Ming Xing, which obtained the accreditation from provincial level corporate technical centers.

- (vi) The Group has a forward-thinking, high quality, reasonably structured and extremely innovative team of talents. In recent years, the Group has insisted on attracting talents with competitive work environment and remuneration package, nurturing them with its excellent corporate culture and motivating them with promising corporate visions. Currently, the Group has a strong high-level talent team with 2 Nobel Prize winners, 10 domestic academicians, 7 foreign academicians, 2 State Council Special Allowance experts in-service, 24 chief experts (scientists), 54 doctors and post doctors. The Group also has nearly 6,202 technology personnels, 1,411 of which have intermediate professional title or above.

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

Discussion and Analysis of Operation

1. MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, in accordance with the development concept of “year of quality and benefits”, the Group actively coped with the opportunities and challenges brought by the new normalization of economy and the medical industry policies, always adhered to emphasizing on improving its development quality and efficiency, proactively promoted the business development of the four principal sectors, i.e. Great Southern TCM, Great Health, Great Commerce and Great Medical Care, focused on improving the quality of the product, operation, service and talent, vigorously created product brand and enterprise brand, strived to improve the quality benefits, and has achieved sustained and steady development of business performance.

In 2017, the Group’s revenue amounted to RMB20,954,225,000, increased by 4.58% year-on-year; the total profit was RMB2,492,976,000, increased by 28.17% year-on-year; and the net profit attributable to shareholders of the Company was RMB2,061,652,000, increased by 36.71% year-on-year.

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

The first is to polish up China’s well-known trademarks and time-honored brands, intensify the promotion efforts on its brands and products and enhance the quality benefits of Great Southern TCM. (1) Strengthened the efforts on channel construction and brand promotion of the products with huge potentials, also followed up on key products with sluggish growth, re-formulated marketing programs and enhanced the product marketing capability. During the Reporting Period, Sildenafil Citrate Tablet (“Jin Ge”), Amoxicillin series, Xiao Chai Hu Granule of Guang Hua, Zi Shen Yu Tai Pill of Zhong Yi and Hua Tuo Zai Zao Pill of Qi Xing recorded a sales growth, of which, sales revenue of Jin Ge increased by over 40% year on year. (2) Seized the opportunity of the implementation of Traditional Chinese Medicine Law and the PRC’s vigorous development of traditional Chinese medicine to propose the concept of developing “fashionable Chinese medicine”, strive to drive the transformation and development of traditional Chinese medicine segment through advanced technology and fashionable marketing, driving a satisfactory growth in the sales revenue of a large variety of Chinese patent medicine. During the Reporting Period, sales revenue of Zi Shen Yu Tai Pill of Zhong Yi and Shu Jin Jian Yao Pill of Chen Li Ji increased by approximately 50% year on year. (3) Continued to implement the resource integration strategy and further consolidated Great Southern TCM resource. During the Reporting Period, Qi Xing successfully obtained the approval document for holders of marketing licenses, which effectively solved the problem of redundant development arising from the overall relocation of the enterprise, and provided favorable conditions for subsequently strengthening resources integration. In addition, it promoted the marketing integration of Baiyunshan General Factory, Guang Hua and Jing Xiu Tang at a steady pace; strengthened resource sharing of national Top 100 chain stores, leveraged on 15 the delivery network and logistic advantages of Great Commerce and coordinated the closer cooperation of Great Southern TCM and Great Commerce to realize their mutual promotion and development.

Discussion and Analysis of Operation

1. MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The second is to make Wang Lao Ji brand stronger and enhance the quality benefits of Great Health. In accordance with the "Triangle" strategy of "fashion, science and technology, culture", the Group has constantly consolidated and improved the market position of Wang Lao Ji in herbal tea industry to facilitate its development in the Great Health industry. (1) On the basis of refined channel construction, the Group further expanded the coverage of traditional channel by establishing strong foundation for the market. (2) Promoted the modernization of science and technology, by leveraging on the project of "Medical herb DNA barcoding system for species identification", Wang Lao Ji was granted the second prize of National Science and Technology Progress Award, and became the first brand to receive the honor in the herbal tea industry. In addition, WLJ Great Health was identified as the national high-tech enterprise and Wang Lao Ji Herbal Tea plant beverage as a new high-tech product in Guangdong Province. (3) Vigorously advanced the international construction of Wang Lao Ji brand. During the Reporting Period, Wang Lao Ji Herbal Tea became the exclusive official drink for Fortune Global Forum to further enhance its internationalization and influence. (4) Promoted the diversity of singular product. During the Reporting Period, WLJ Great Health successively launched two new products i.e. Black Herbal Tea and Dazhai Walnut Drink targeting the young market, and upgraded its sugar-free and low-sugar canned Wang Lao Ji and the classic PET targeting the high-end market, which were newly launched in the fourth quarter of 2016, to attract consumers with new fashionable packaging. In addition, Wang Lao Ji Catering established 4 freshly brewed herbaltea concept stores in Zhujiang New Town to try to tap into the market of "new-style tea". (5) Promoted the differentiation of capacity layout, and carried out the capacity layout by way of self-built base and establishing asset-light base. During the Reporting Period, Wang Lao Ji Yunnan Chuxiong Light Asset Innovative Industry Base, as the first innovative industry base settled in the minority autonomous prefecture, was put into operation in May 2017, while the Wang La Ji Herbal Tea Liquid Extraction Base in Meizhou officially commenced construction in December 2017.

The third is to optimize service brand and enhance the quality benefits of Great Commerce. (1) Optimized the modern medicine logistics extension services. During the Reporting Period, the Group and the joint ventures of the Company proactively promoted the modern medicine logistics extension services project, and established a service system with automation, intelligence and informatization in response to the industry policies to constantly enhance the modern logistic management capability of the hospitals while proactively expanding the Chinese medicine distribution of the hospitals and logistic extension services of the TCM pharmacies. (2) Optimized retail service and actively explored innovative retail model. During the Reporting Period, the Company reached a strategic cooperation with Yixintang, pursuant to which, the Company contributed approximately RMB800 million for subscription of its nonpublicly issued A share. GP Corp., a joint venture of the Company, changed its 16 retail operation concept to focus on customers, and 10 new-concept Jian Min stores with "product + service" were set up. Cai Zhi Lin, a wholly-owned subsidiary of the Company, adopted an innovative retail model together with the full operation of the traditional Chinese medicine intelligent decoction center to launch the "Internet +" businesses such as uploading the traditional Chinese medicine prescription through WeChat and providing decoction and delivery service to customers and traditional Chinese medicine new concept formula granule, which brought a new growth in the retail business. (3) Optimized the wholesale business and rigorously advanced the descending of the terminal network, which, together with the marginal effect arising from service extension, enhanced the terminal occupation rate and the coverage rate. (4) Optimized pharmaceutical e-commerce services. During the Reporting Period, the Group reached strategic cooperation with the internet platforms to strive to provide diversified services of "Internet + Medicine". In addition, the Group and its joint ventures strengthened the business development of its own e-commerce platform to drive the sales growth of e-commerce.

Discussion and Analysis of Operation

1. MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The fourth is to specialize the BYS medical brand to enhance the quality benefits of Great Medical Care. (1) Upgraded and built Guangzhou Baiyunshan Hospital and vigorously developed the medical service industry. (2) Actively developed the medical device industry through industry incubation and constantly consolidated the foundation for medical care and medical device development under the guidance of the project. During the Reporting Period, Medical Instrument Investment Company, a subsidiary controlled by the Company, and Shanghai Xiecheng Investment Management Co., Ltd. and Guangzhou Aozida Medical Instrument Technology Co., Ltd. jointly established Guangzhou Zhongcheng Medical Device Development Co., Ltd. to promote the implementation of the projects in the park by building Guangzhou Baiyunshan International Medical Instrument Innovative Park as the operation platform.

The fifth is to optimize the scientific research and product quality, and enhance the quality benefits of Great Science and Technology. (1) Set “quality” as the core, enhanced the overall quality management level, improved quality management and strengthened quality control on each process in the course of production. (2) Set “integration” as the main line, strengthened the construction of the innovation system, strengthened the overall assessment of scientific research, and made a further new step forward scientific research. (3) Promoted independent innovation by means of “talent attraction + incentive”. (4) Set “cooperation” as the starting point, promoted the establishment of major science and technology innovation projects, sped up the carrying out of consistency assessment and facilitated the construction of biological sample testing center project of Guangyao General Institute. During the Reporting Period, Baidi Company, one of the controlled subsidiaries of the Company, and Nanfang Hospital jointly carried out a development and application project of novel anti-tumor vaccines, and entered into a strategic cooperation framework agreement with Wuxi Biologics to carry out the development of new biological drugs such as innovative tumor immune antibodies, bispecific antibody drugs and innovative ADC antibody drugs. In addition, the Group actively conducted the consistency assessment study on the generic drug.

Discussion and Analysis of Operation

1. MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

During the Reporting Period, the Group and its joint ventures newly added 2 provincial level engineering centers and 4 provincial level corporate technical centers. In addition, the topic on the “industrialization of new injection lipid excipients and common key technological research and development of application, as well as the international registration” participated by Guangzhou Han Fang was elected for one of the National Science and Technology Major Projects. HWBYS obtained “2016 National Demonstration Academician Expert Works”. The “Guangdong Engineering Research Center for Modern Traditional Chinese Medicine” of Zhong Yi was accredited by Guangdong Provincial Department of Science and Technology. The “Guangdong Engineering Research Center for Innovation Pharmaceutical Manufacturing Technology and Process Control” of Chemical Pharmaceutical Factory was accredited by Guangdong Provincial Department of Science and Technology. Guang Hua, Guangzhou Han Fang, Wang Lao Ji and Ming Xing obtained the accreditation from provincial level corporate technical centers. The “Technology Improvement and Application Research of Technique Quality Control of TCM Sub-Melting Double Gastrointestinal Pill” of Chen Li Ji was granted the third prize of Guangdong Province Science and Technology Award. “Basic Research and Application on the Glucolipid Metabolism Pathology and the Comprehensive Prevention and Control for Non-alcoholic Fatty Liver Disease” of HWBYS was granted the first prize of Science and Technology Award by Chinese Association of the Integration of Traditional and Western Medicine. “Use of Isatis Root Polysaccharide in Preparation of Anti-influenza Virus Drug” of HWBYS and “A Blood-tonifying and Iron-supplementing Drug and its Preparation Method” of Chen Li Ji won the 19th China Patent Excellence Award. “A Method for Examining Galangal and Quercetin Content in Persimmon Leaves” of HWBYS won the Guangzhou Patent Excellence Award. The Phytogenic Antineoplastic Vinorelbine Tartrate of Guangzhou Han Fang received the Certification of Suitability to the Monographs of the European Pharmacopoeia Certification issued by European Directorate for the Quality Control of Medicines (EDQM).

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

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD

(1) Analysis of principal operations

Analysis of change in certain items in income statement and cash flow statement.

Items	The Reporting Period (RMB'000)	The corresponding period of 2016 (RMB'000)	Increase/ (Decrease) over the same period of 2016 (%)
Revenue	20,954,225	20,035,681	4.58
Include: income from principal operations	20,789,416	19,875,179	4.60
Cost of sales	13,063,229	13,412,063	(2.60)
Include: cost from principal operations	13,023,398	13,372,298	(2.61)
Selling and distribution expenses	4,285,949	3,823,589	12.09
General and administrative expenses	1,579,583	1,439,734	9.71
Financial expenses	(210,571)	(96,520)	(118.16)
Profit before tax	2,492,976	1,945,053	28.17
Net profit attributable to shareholders of the Company	2,061,652	1,508,033	36.71
Net cash flow from operating activities	1,833,691	2,544,672	(27.94)
Net cash flow from investing activities	(2,440,644)	(489,158)	(398.95)
Net cash flow from financing activities	(484,274)	6,724,722	(107.20)
Research and development expenses	373,288	330,368	12.99

Notes:

- (a) The financial expenses for the Reporting Period decreased as compared with the same period of last year, mainly due to improvement in the Group's fund management, reduction in bank borrowings, increase in interest income and reduction in financial costs as a result of the Group's reasonable fund allocation, increase in capital efficiency as well as optimization in types of deposits.
- (b) Net cash flow from investing activities for the Reporting Period decreased as compared with same period of last year, mainly due to the increase in the Group's purchase of structured deposits and wealth management products year-on-year and the Company's fund for subscription of the non-public A shares of Yi Xin Tang.
- (c) Net cash flow from financing activities for the Reporting Period decreased as compared with the same period of last year, mainly because the Company received proceeds from the non-public offering of Renminbi-denominated ordinary shares (A shares) for the year 2016 and the Company replaced its bank loans with entrusted loans through internal fund transfer during the Reporting Period.
- (d) The increase in net profit attributable to shareholders of the Company for the Reporting Period as compared to the same period last year was mainly due to the increase in operating profit, financial income and investment income of joint ventures of the Group during the year.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

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

(i) Analysis of revenue and cost

In 2017, the main factors leading to changes in the revenue of the Group: the Group actively coped with the opportunities and challenges brought by the new normal of economy and the medical industry policies, always adhered to emphasizing on improving its development quality and efficiency, proactively promoted the business development of the four principal sectors, i.e. Great Southern TCM, Great Health, Great Commerce and Great Medical Care, focused on improving the quality of the product, operation, service and talent, vigorously created product brand and enterprise brand, strived to improve the quality benefits, and has achieved sustained and steady development of business performance.

1) Industry, product and regional analysis of the operation result

Operations	Results of principal operations by industry				Profit margin of principal operations	
	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
	Income from principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2016 (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2016 (%)	Profit margin of principal operations (%)	Increase/(Decrease) over the same period of 2016 (percentage point)
Great Southern TCM	7,795,967	12.88	4,256,275	9.30	45.40	An increase of 1.78 percentage points
Great Health	8,573,656	10.35	4,694,133	2.02	45.25	An increase of 4.47 percentage points
Great Commerce	4,328,826	(15.92)	4,002,443	(17.29)	7.54	An increase of 1.54 percentage points
Other	90,967	78.26	70,547	85.62	22.45	A decrease of 3.07 percentage points
Total	20,789,416	4.60	13,023,398	(2.61)	37.36	An increase of 4.64 percentage points

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(1) Analysis of principal operations (Continued)

(i) Analysis of revenue and cost (Continued)

1) Industry, product and regional analysis of the operation result (Continued)

Types of products	Results of principal operations by products					
	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
	Income from principal operations (RMB'000)	Increase/(Decrease) over the same period of 2016 (%)	Cost of principal operations (RMB'000)	Increase/(Decrease) over the same period of 2016 (%)	Profit margin of principal operations (%)	Increase/(Decrease) over the same period of 2016 (percentage point)
Chinese patent medicine	3,913,564	21.61	2,295,620	30.15	41.34	A decrease of 3.85 percentage points
Chemical medicine	3,882,403	5.26	1,960,655	(7.96)	49.50	An increase of 7.25 percentage points
Total of Great Southern TCM	7,795,967	12.88	4,256,275	9.30	45.40	An increase of 1.79 percentage points

Regions	Results of principal operations by regions					
	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
	Income from principal operations (RMB'000)	Increase/(Decrease) over the same period of 2016 (%)	Cost of principal operations (RMB'000)	Increase/(Decrease) over the same period of 2016 (%)	Profit margin of principal operations (%)	Increase/(Decrease) over the same period of 2016 (percentage point)
Southern China	11,487,792	6.18	7,599,785	(0.60)	33.84	An increase of 4.51 percentage points
Eastern China	3,642,067	2.20	2,083,507	(9.06)	42.79	An increase of 7.08 percentage points
Northern China	2,098,028	(7.28)	1,132,840	(13.55)	46.00	An increase of 3.91 percentage points
North-Eastern China	387,188	15.49	218,362	5.61	43.60	An increase of 5.27 percentage points
South-Western China	2,468,998	12.49	1,598,859	6.90	35.24	An increase of 3.38 percentage points
North-Western China	654,256	3.86	340,151	(4.27)	48.01	An increase of 4.42 percentage points
Exports	51,087	(26.08)	49,894	(26.02)	2.33	A decrease of 0.09 percentage point

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

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(1) Analysis of principal operations (Continued)

(i) Analysis of revenue and cost (Continued)

2) Analysis on quantities of production and sales

Main products	Production	Sales	Inventory	Production increase/ (decrease) over 2016 (%)	Sales increase/ (decrease) over 2016 (%)	Inventory increase/ (decrease) over 2016 (%)
Sildenafil Citrate Tablet (thousand tablets)	43,093.95	39,635.01	7,326.76	49.97	52.25	86.14
Xiao Ke Pill (thousand bottles)	41,090.72	39,604.47	5,021.31	1.41	(11.53)	25.87
Cefixime series (thousand boxes)	353,794.28	340,040.02	38,977.06	4.28	0.21	48.62
Cephathiamidine for Injection (thousand ampoules)	36,436.89	39,441.09	1,261.46	(44.71)	(36.31)	(72.59)
Xiao Chai Hu Granule (thousand packs)	31,411.86	31,747.93	5,206.76	1.35	4.32	(6.86)
Shu Jin Jian Yao Pill (thousand bottles)	31,252.37	33,371.56	4,664.51	23.00	30.05	(32.18)
Hua Tuo Zai Zao Pill (thousand bottles)	8,882.28	8,186.32	1,705.83	63.03	63.09	56.77
Amoxicillin series (thousand boxes)	927,208.79	1,134,112.93	106,105.99	(20.40)	(6.29)	(66.57)
Xia Sang Ju Granule 10g (thousand packs)	321,322.31	31,5387.62	45,171.26	(8.00)	(4.17)	14.00
Zi Shen Yu Tai Pill (thousand bottles)	5,902.65	6,647.85	819.18	(51.20)	(37.77)	(48.21)

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

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

(i) Analysis of revenue and cost *(Continued)*

2) Analysis on quantities of production and sales *(Continued)*

Description on changes on production, sales and inventory as at the end of the Reporting Period of products:

- a. Production volume of Sildenafil Citrate Tablet increased by 49.97% year on year, mainly due to: the launch of newly developed products, the increase in sales demand and the expansion of mass production; the sales volume increased by 52.25% year on year, mainly due to the fact that: we vigorously developed new products, expanded the market, implemented promotional tools, which drove the growth in terminal sales; inventory increased by 86.14% year on year as at the end of the period, mainly due to the increase in inventory year on year with increasing market demand.
- b. Inventory of Cefixime series as at the end of period increased by 48.62% year on year, mainly due to: the fact that the new workshop obtained GMP accreditation in December 2017 with more production volume for inspection, resulting in a significant growth in inventory year on year.
- c. Production volume, sales volume and inventory as at the end of period of cephalosporanamidine for injection decreased by 44.71%, 36.31% and 72.59% year on year, respectively, mainly due to: the fact that in accordance with the 2017 Revision of National Reimbursement Insurance Drug List, more restrictions on application of part of drugs are imposed, of which, Cefathiamidine is required to provide drug sensitive test results, resulting in the decrease in its production volume, sales and inventory.
- d. Inventory of Shu Jin Jian Yao Pill increased by 30.05% year on year, mainly due to: the increase in the management of advertising and promotion and the improvement in advertising and promotion of terminal drugstores, which leading to the growth of sales; inventory as at the end of the period decreased by 32.18% year on year, mainly due to: decrease in inventory with increasing sales volume.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

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

(i) Analysis of revenue and cost *(Continued)*

2) Analysis on quantities of production and sales *(Continued)*

- e. Production volume of Hua Tuo Zai Zao Pill increased by 63.03% year on year, mainly due to: the increased production volume as a result of the addition of a pellet production line and steady supply of raw materials; the sales volume increased by 63.09% year on year, mainly due to increase in the sales volume of chain store business; inventory as at the end of period increased by 56.77% year on year, mainly due to: increase in inventory year on year with increasing market demand.
- f. Inventory of Amoxicillin series at the end of period decreased by 66.57% year on year, mainly due to: a lot of similar products in market and decrease in both of competitiveness and sales volume as a result of the restriction on antibiotic; and
- g. Production volume and sales volume of Zi Shen Yu Tai Pill decreased by 51.20%, 37.77% and 48.21% year on year, respectively, mainly due to: the fact that the specification of the product was gradually changed to 30g from 60g, the unit price increased thereafter, which resulting in the decrease in demand; inventory as at the end of period decreased by 48.21% year on year, mainly due to: the corresponding decrease in stocks after the specification of the product changing to 30g from 60g.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(1) Analysis of principal operations (Continued)

(i) Analysis of revenue and cost (Continued)

3) Analysis of cost

Principal Operation	Components	Principal operations by industry				
		2017	Percentage of the proportion of operation	2016	Percentage of the proportion of operation	Percentage of Changes in the proportion
		Amount (RMB'000)	cost (%)	Amount (RMB'000)	cost (%)	(%)
Great Southern TCM	Raw materials	2,870,432	67.44	2,604,306	66.88	10.22
	Fuel	110,663	2.60	107,864	2.77	2.60
	Labor costs	285,170	6.70	284,262	7.30	0.32
	Others	990,010	23.26	897,566	23.05	10.30
Great Health	Raw materials	3,710,242	79.04	3,567,190	77.53	4.01
	Fuel	7,980	0.17	7,822	0.17	2.02
	Labor costs	8,919	0.19	9,202	0.20	(3.08)
	Others	966,992	20.60	1,016,831	22.10	(4.90)
Great Commerce	Procurement costs	4,002,443	100.00	4,839,249	100.00	(17.29)
Others	Other costs	70,547	100.00	38,006	100.00	85.62

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

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

(i) Analysis of revenue and cost *(Continued)*

4) Major suppliers and sale

During the year, sales by the Group to the five largest customers amounted to RMB2,402,240,000 (2016: RMB2,592,605,000), representing approximately 11.56% of the total sales (2016: 13.04%) of the Group. The sales to the largest customer amounted to RMB 1,019,758,000 (2016: RMB1,217,867,000), representing 4.91% (2016: 6.13%) of the total sales of the Group. The sales to the 5 largest customers included RMB1,791,169,000 being sale to related parties, representing 8.62% of the total sales of the Group for the year.

During the year, purchases by the Group from the five largest suppliers amounted to RMB1,912,706,000 (2016: RMB2,267,462,000), representing approximately 18.75% of the total purchases (2016: 21.14%) of the Group for the year. The purchases from the largest suppliers amounted to RMB872,215,000 (2016: RMB772,868,000), representing 8.55% (2016: 7.20%) of the total purchases of the Group for the year. The purchases from the 5 largest suppliers included RMB1,158,392,000 being purchases from related parties, representing 11.36% of the total purchases of the Group for the year.

For the relationship between the Group and the customers and suppliers please refer to 2017 Social Responsibility Report of the Company (the full text of which had been disclosed on the website of the SSE and the HKEx).

To the knowledge of the Directors, none of the Directors, their associates or shareholders who held more than 5% or more of the Company's total issued share capital had any interest in any of the 5 largest suppliers mentioned above.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

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

(ii) Expenses

During the Reporting Period, the Group's selling and distribution expenses was approximately RMB4,285,949,000 (2016: RMB3,823,589,000) representing an increase of 12.09% as compared with last year, this was mainly attributed to the fact that in order to increase sales income during the Reporting Period, the Group actively carried out marketing and increased market investment, which resulted in an increase in related expenses such as sales service fee..

During the Reporting Period, the Group's general and administrative expenses was approximately RMB1,579,583,000 (2016: RMB1,439,734,000) representing a growth of 9.71% as compared with last year, mainly due to the Group's continuous expansion of business and increase in employee remuneration and R&D costs.

During the Reporting Period, the Group's financial expense was approximately RMB-210,517,000 representing a decrease of 118.16% as compared with last year, mainly due to improvement in the Group's fund management, reduction in bank borrowings, increase in interest income and reduction in financial costs as a result of the Group's reasonable fund allocation, increase in capital efficiency as well as optimization in types of deposits.

During the Reporting Period, the Group's income tax expenses was approximately RMB374,221,000 with a decrease of 3.15% as compared with last year mainly due to changes in the corporate income tax rate of some of the subsidiaries of the Group that resulted in a corresponding change in deferred income tax, which increased the income tax expense in 2016. There was less impact of such factor during the Reporting Period.

(iii) Research and development expenses

Cost of research and development expenses in the current year (RMB'000)	373,288
Capitalization of research and development expenses in the current year (RMB'000)	–
Total research and development expenses (RMB'000)	373,288
Ratio of research and development expenses to income from operations	1.78
Ratio of research and development expenses to income from principal operations of the Great Southern TCM (%)	4.79
Total research and development expenses accounted for the proportion of net assets (%)	1.94
Number of the research and development personnel of the Company	699
Percentage of total number of the research and development personnel in the total number of personnel of the Company (%)	3.18
Percentage of the research and development of capitalization (%)	–

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

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

(iv) Cash flow

Items	The Reporting Period (RMB'000)	The corresponding period of 2016 (RMB'000)	Increase/ (Decrease) as compared with the same period of 2016 (%)	Reasons
Net cash flow from operating activities	1,833,691	2,544,672	(27.94)	This is mainly due to the increase in the Group's cash flows from daily operating activities, and the decrease in compensation for land relocation and government grants received by the Group year-on-year during the Reporting Period.
Net cash flow from investing activities	(2,440,644)	(489,158)	(398.95)	This is mainly due to the increase in the Group's purchase of structured deposits and wealth management products year-on-year during the Reporting Period and the Company's funding for subscription of the non-public A Shares of Yi Xin Tang.
Net cash flow from financing activities	(484,274)	6,724,722	(107.20)	This is due to that the Company received proceeds from the non-public offering of Renminbi-denominated ordinary shares (A shares) for the year 2016 and the Company replaced its bank loans with entrusted loans through internal fund transfer during the Reporting Period.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(2) Description of the significant change on profit resulting from non-principal operation

Applicable Not applicable

(3) Analysis on Financial Conditions

(i) Liquidity

As at 31 December 2017, the current ratio of the Group was 2.60 (31 December 2016: 2.63), and its quick ratio was 2.15 (31 December 2016: 2.25). Accounts receivable turnover rate was 20.46 times, representing an increase of 1.35% as compared with the corresponding period of 2016. Inventory turnover rate was 3.98 times, representing a decrease of 19.88% as compared with the corresponding period of 2016.

(ii) Financial resources

As at 31 December 2017, cash and cash equivalents of the Group amounted to RMB11,495,535,000 (31 December 2016: RMB12,586,470,000), of which approximately 99.91% and 0.09% were denominated in Renminbi and foreign currencies, such as Hong Kong dollar, respectively.

As at 31 December 2017, the Group had bank borrowings of RMB42,807,000 (31 December 2016: RMB58,718,000), including short-term borrowings of RMB11,500,000 (31 December 2016: RMB25,216,000), current portion of noncurrent liabilities of RMB31,307,000 (31 December 2016: RMB0), and long-term borrowings of RMB0 (31 December 2016: RMB33,502,000).

(iii) Capital structure

As at 31 December 2017, the Group's current liabilities amounted to RMB8,268,854,000 (31 December 2016: RMB7,422,448,000), representing an increase of 11.40% as compared with the corresponding period of 2016, and its long-term liabilities was RMB782,705,000 (31 December 2016: RMB820,932,000), with a decrease of 4.66% as compared with the corresponding period of 2016. The shareholders' equity attributable to the shareholders of the Company amounted to RMB18,871,521,000 (31 December 2016: RMB17,345,080,000), with an increase of 8.80% as compared with the corresponding period of 2016.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

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

(iv) Capital expenditure

The Group expects that the capital expenditure for 2018 to be approximately RMB1,099 million (2017: RMB318 million), which would be mainly applied in the construction of production sites, equipment replacement and information system. The Group will raise funds to meet the capital requirements of capital expenditure by resorting to its internal funds, bank loans, etc..

(v) Assets and liabilities

Item	As at 31 December 2017 (RMB'000)	% of the total assets (%)	As at 31 December 2016 (RMB'000)	% of the total assets (%)	Increase/ (Decrease) over 2016 (%)	Reasons for changes
Advances to suppliers	256,572	0.91	414,074	1.60	(38.04)	This was mainly due to the decrease in purchasing raw materials, etc. by advance payment as the Group enhanced the management of advances to suppliers during Reporting Period.
Dividends receivable	552,939	1.95	52,939	0.20	944.49	Dividends from joint ventures which have not been received by the Company as at 31 December 2017.
Inventories	3,700,223	13.07	2,781,496	10.74	33.03	This was mainly attributed to the fact that WLJ Great Health, a subsidiary of the Company, responded to the sales peak during the Spring Festival by stocking upon goods and other pharmaceutical subsidiaries increased their production volume and reserves such as commodity stocks and raw materials to meet the demand for drug sales as at 31 December 2017.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(3) Analysis on Financial Conditions (Continued)

(v) Assets and liabilities (Continued)

Item	As at 31 December 2017 (RMB'000)	% of the total assets (%)	As at 31 December 2016 (RMB'000)	% of the total assets (%)	Increase/ (Decrease) over 2016 (%)	Reasons for changes
Other current assets	2,266,983	8.01	520,191	2.01	335.80	Structured deposits purchased by the Group using the proceeds raised and self-owned funds, increase in principal guaranteed wealth management products and reclassification of tax refund and tax credit available at year end as at 31 December 2017.
Available-for-sale financial assets	1,038,860	3.67	327,889	1.27	216.83	The A shares issued through non-public offering by Yi Xin Tang and subscribed by the Company during the year and revaluation of the fair value of shares with selling restrictions according to accounting standards for business enterprises.
Development costs	800	0.00	3,017	0.01	(73.48)	Reversal of expenses due to changes occurred in some research and development projects of the Group as at 31 December 2017.
Other non-current assets	0	0.00	35,970	0.14	(100.00)	The procedure for the transfer of ownership in respect of assets purchased by the Group was completed at 31 December 2017.
Short-term borrowings	11,500	0.04	25,215	0.10	(54.39)	Repayment of bank borrowings by the Group and reduction in discounted notes receivable which are not mature as at 31 December 2017.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

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

(v) Assets and liabilities *(Continued)*

Item	As at 31 December 2017 (RMB'000)	% of the total assets (%)	As at 31 December 2016 (RMB'000)	% of the total assets (%)	Increase/ (Decrease) over 2016 (%)	Reasons for changes
Taxes payable	206,462	0.73	384,192	1.48	(46.26)	A decrease in enterprise income tax payable by some enterprises under the Company at the end of the period caused by tax adjustment and other factors as at 31 December 2017.
Current portion of non-current liabilities	31,307	0.11	0	0.00	100.00	Long-term borrowings due within one year of subsidiaries of the Company presented under the current item as at 31 December 2017.
Long-term borrowings	0	0.00	33,502	0.13	(100.00)	Reclassification of long-term borrowings due within one year of subsidiaries of the Company to items presented under non-current liabilities due within one year as at 31 December 2017.
Deferred tax liabilities	114,788	0.41	76,581	0.30	49.89	Increase in time differences in enterprise income tax due to fair value changes in available-for-sale financial assets of the Company as at 31 December 2017.
Other non-current liabilities	50,225	0.18	0	0.00	100.00	Performance obligations confirmed in accordance with the agreement and the articles of association as a result of the acquisition of equity interests by subsidiaries of the Company as at 31 December 2017.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(3) Analysis on Financial Conditions (Continued)

(v) Assets and liabilities (Continued)

Item	As at 31 December 2017		As at 31 December 2016		Increase/ (Decrease) over 2016	Reasons for changes
	(RMB'000)	% of the total assets (%)	(RMB'000)	% of the total assets (%)		
Other comprehensive income	(70,207)	(0.25)	9,788	0.04	(817.27)	Fair value changes in available-for-sale financial assets held by the Company as at 31 December 2017.
Undistributed profits	6,285,996	22.20	4,782,294	18.47	31.44	Primarily the increase in net profit for the year attributable to the parent company.

(vi) Exposure to fluctuations in exchange rates

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

(vii) Main cash resources and applications

As at 31 December 2017, cash and cash equivalents of the Group amounted to RMB11,495,535,000 with a decrease of RMB1,090,935,000 as compared with the beginning of 2017. The net cash inflow derived from operating activities amounted to RMB1,833,691,000 with a decrease of RMB710,981,000 as compared with 2016, mainly due to the Group's cash inflow from daily operating activities and a year-on-year decrease in the amount received as compensation for requisition and relocation and government subsidies during the Reporting Period.

(viii) Contingent liabilities

As at 31 December 2017, the Group had no material contingent liabilities.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

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

(ix) Charge on the Group's assets

As at 31 December 2017, Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, acquired the overdraft amounted to HK\$300,000, letter of credit and 90 days credit total amounted to HK\$100,000,000 from Bank of China (Hong Kong) Co., Ltd., secured by the original value amounted to HK\$8,893,000, and net value amounted to HK\$6,355,000 of the buildings of fixed assets and the original value amounted to HK\$6,843,000 and net value amounted to HK\$3,762,000 of investment properties, and the issued but undue L/C amounted to EUR162,000, USD650,000, JPY15,325,000.

(x) Bank loans, overdraft and other borrowings

As at 31 December 2017, the bank loans of the Group amounted to RMB42,807,000 (31 December 2016: RMB58,718,000), with a decrease of RMB15,911,000 as compared with the beginning of 2017. The above bank loans included short-term loans of RMB11,500,000 and current portion of non-current liabilities of RMB31,307,000.

(xi) Gearing ratio

As at 31 December 2017, the Group's gearing ratio (total liabilities/total assets × 100%) was 31.97% (31 December 2016: 31.83%).

(xii) Material investment

As of 31 December 2017, except for those disclosed in (2) in the section III "Company's Business Profile" of this annual report, the Group did not have any other material additional investment.

(xiii) The major assets at the end of the Reporting Period were limited

Applicable Not applicable

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information

(i) Basic information of the industry and main medicine (products)

1) Basic information of the industry

Applicable Not applicable

The Group's pharmaceutical manufacturing products mainly covers the Chinese patent medicine and chemical medicine and other subdivided industries. General information of subdivided industries is as follows:

① Chinese patent medicine

In recent years, national pharmaceutical policies are introduced frequently. The State Council issued the Outline of the Strategic Plan for the Development of Traditional Chinese Medicine (2016-2030), the 13th Five-year Plan for the Development of Traditional Chinese Medicine and the Outline of the Healthy China Plan (2016-2030), and the National People's Congress promulgated the Traditional Chinese Medicine Law of the People's Republic of China, which became effective on 1 July 2017. The promulgation of a series of strategic policies has laid a good foundation for the sustainable development of the pharmaceutical industry. On the other hand, with the continuous promotion of the new medical reform policies, and the implementation and continuous promotion of two-invoice system, zero medicine mark-up, control on medical insurance fees, consistency assessment of generic drugs, medical insurance directory update, deepening reform of review and approval system and other policies, the supply side reform of the pharmaceutical industry will be further deepened and the industry concentration will be further enhanced. In general, the traditional Chinese medicine industry will embrace new opportunities and challenges for development.

The Group is the epitome of south traditional Chinese medicine (TCM) with obvious Chinese patent drug brands, varieties and other resource advantage in South China and throughout the country.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

1) Basic information of the industry *(Continued)*

② Chemical medicine

The “supply side reform” of the pharmaceutical industry has raised its curtain. During the promotion of supply side reform of the pharmaceutical industry, policies and regulations like new drug registration management, clinical trial self-examination, priority review system, drug listing license holder system, generic drug consistency assessment and medical insurance directory adjustment will affect the chemical industry’s income and profit. Many heavily homogenized production enterprises will face industry reshuffle, and innovative and high value-added generic drugs will embrace national policy support and become the main source of income and profit of the pharmaceutical enterprises.

The Group has a complete industry chain from pharmaceutical ingredients to prepared antibiotics, and has a product profile covering general anti-bacteria and inflammation diminishing series, and integrated and created the market image of the leading brand with well known Trademark “Kang Zhi Ba”, domestic anti-bacteria and inflammation diminishing drugs for oral administration.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

2) Policies related to the industry

A) Changes of policies and regulations in R&D, quality control and other aspects, and resulting effects and countermeasures

① Deepening reform of review and approval system

In 2017, the General Office of the Communist Party of China Central Committee and the General Office of the State Council issued the Opinion on Deepening Reform of Review and Approval System and Encouraging Innovation of Drugs and Medical Instruments (《關於深化審評審批制度改革鼓勵藥品醫療器械創新的意見》) (the “Opinion”), which has deployed work from six aspects including reforming the management of clinical trials, accelerating review and approval for market launch, promoting drug innovation and generic drug development, strengthen the management of life cycle of drugs and medical instruments, improving technical support capacity and strengthening the organization and implementation. The Opinion further stimulated the enthusiasm of pharmaceutical enterprises in the research and development of new drugs. In particular, the measures such as accelerating review and approval for market launch, promoting drug innovation and generic drug development will directly benefit companies with strong research and development capabilities.

Countermeasures: The Group will continue to pay close attention to the relevant policies of review and approval system reform, play the main role of innovation, increase investment in research and development and strengthen research and development of new products.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

2) Policies related to the industry *(Continued)*

A) Changes of policies and regulations in R&D, quality control and other aspects, and resulting effects and countermeasures *(Continued)*

② Systematic upgrading of quality management

In 2017, the China Food and Drug Administration issued the Amendment to the Drug Administration Law of the PRC (Draft for Consultation) (the "Consultation Paper") to solicit opinions from the public. The Consultation Paper proposed the abolition of GMP and GSP certifications and modified the raw medicines and auxiliary materials to be approved together with drugs. The thought on regulatory approval is changing from "strict entry and tolerant exit" to "tolerant entry and strict exit". At the same time, the abolition of certifications and the drug marketing license holder system promote each other, which will make contributions to encourage the research and development and production of drugs.

Countermeasures: The Group will continue to pay attention to the issuance of relevant implementation measures and steps and adopt early strategic deployment and related work.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

2) Policies related to the industry *(Continued)*

B) Changes of policies and regulations in industry regulation and reform, and resulting effects and countermeasures

① Comprehensive removal of the price markups on medicine

In 2017, 7 agencies including the National Health and Family Planning Commission jointly issued the “Notice on the Full Implementation of Comprehensive Reform in Public Hospitals”, which set a “timetable” and drew a “roadmap” for the comprehensive removal of the price markups on medicine. According to the National Health and Family Planning Commission, all public hospitals in the PRC have removed the price markups on medicine in 2017, and the comprehensive reform of public hospitals has been extended to many cities and districts. In the short term, the comprehensive removal of the price markups on medicine will speed up the development of logistics extension services of modern hospitals, and in the medium to long term, it will make prescription outflows and outpatient prescriptions circulation inevitable.

Countermeasures: The Group will further leverage its experience in logistics extension services in modern hospitals to undertake more business and expand scale advantages and pay attention to cost control so as to respond to possible changes in policies at any time.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

2) Policies related to the industry *(Continued)*

B) Changes of policies and regulations in industry regulation and reform, and resulting effects and countermeasures *(Continued)*

② “Two-invoice system”

In 2017, the Medical Reform Office of the State Council (國務院醫改辦) together with 8 ministries, including the National Health and Family Planning Commission, issued the “Notice on the Opinions on the Implementation of the Two-invoice System in Drug Procurement by Public Medical Institutions (for Trial Implementation)” 《關於在公立醫療機構藥品採購中推行兩票制的實施意見(試行)的通知》. The Notice clearly stipulates that public medical institutions should gradually implement the two-invoice system in drug procurement and encourages other medical institutions to implement two-invoice system in drug procurement so that the system can be fully launched in 2018. All localities and all relevant departments should actively create favorable conditions for the two-invoice system, and break the barriers of interests and eliminate local protection to speed up the clean-up and repeal of unreasonable policies and regulations in business registration, drug procurement, cross-regional operation, distributor selection and chain operations that hinder the healthy development of the pharmaceutical distribution industry.

Countermeasures: The Group will consciously standardize its norms and make full use of the opportunity of the “two-invoice system” to promote the gradual improvement of the pharmaceutical business distribution and accelerate the sinking of resources and allocate more resources to basic-tier market.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

2) Policies related to the industry *(Continued)*

C) Changes in environmental protection policies and their impact and corresponding measures

In 2017, the State Council issued the Notice on the Attribution of Environmental Protection Tax Revenue, and the Environmental Protection Tax Law of the PRC became effective on 1 January 2018. Article 2 of the Environmental Protection Tax Law of the PRC stipulates that enterprises, public institutions and other producers or operations that discharge taxable pollutants directly to the environment in the territory of the PRC and other sea areas under the jurisdiction of the PRC shall be the payers of environmental protection tax and shall pay the environmental protection tax according to law. The State Council has decided that all environmental protection tax should be used as local revenue.

Countermeasures: The Group will conscientiously implement the environmental protection tax policy, further increase energy conservation and emission reduction efforts and adjust its industrial structure to promote the transformation and upgrading of products.

3) Basic information of principal medicine (products)

Applicable Not applicable

Basic information of principal medicine (products) partition in subdivided industry and in therapeutic area

Applicable Not applicable

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(i) Basic information of the industry and main medicine (products) (Continued)

3) Basic information of principal medicine (products) (Continued)

Product name	Subdivided sub-industry	Therapeutic area	Indications/Functions	Term of invention patent	Classification of drug registration	Whether protected traditional medicine	Whether prescription drugs	Whether new product during the Reporting Period	Unit	Production quantity during the Reporting Period	Sales during the Reporting Period
Sildenafil Citrate Tablet	Chemical medicinal preparations	Drugs for men	The product is indicated for treatment of erectile dysfunction (ED).	From 29 April 2002 to 28 April 2020	Generic medicine	No	Yes	No	Thousand tables	43,093.95	39,635.01
Xiao Ke Pill	Chinese patent medicine	Drugs used in internal	Diabetes caused by deficiency of both qi and yin, type-II diabetes.	From 31 March 2006 to 31 March 2026	Traditional Chinese medicine	No	Yes	No	Thousand bottles	41,090.72	39,604.47
Cefixime series	Chemical medicinal preparations	Antimicrobial drugs	The product is indicated for bacterial infectious diseases caused by streptococcus (except enterococcus) sensitive to Cefixime.	From 16 July 2009 to 15 July 2029	Generic medicine	No	Yes	No	Thousand tables	353,794.28	340,040.02
Cephathiamidine for injection	Chemical medicinal preparations	Antimicrobial drugs	The product is indicated for infections of respiratory system, hepatobiliary system, the five sense organs and urinary tract, endocarditis and septicemia caused by sensitive bacteria.	From 19 May 2003 to 18 May 2023	Innovative medicine	No	Yes	No	Thousand ampoules	36,436.89	39,441.09
Xiao Chai Hu Granule	Chinese patent medicine	Drugs used in internal medicine department	Relieving exterior syndrome, dispelling heat and soothing the liver and regulating stomach.	From 18 October 2011 to 17 October 2031	Traditional Chinese medicine	No	No	No	Thousand packs	31,411.86	31,747.93
Shu Jin Jianyao Pill	Chinese patent medicine	Drugs used in internal medicine department	Tonifying the liver and kidney, strengthening the tendons & bones, expelling wind-damp, dredging collaterals, and relieving pain.	From 30 May 2012 to 29 March 2030	Traditional Chinese medicine	No	No	No	Thousand bottles	31,252.37	33,371.56

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(i) Basic information of the industry and main medicine (products) (Continued)

3) Basic information of principal medicine (products) (Continued)

Product name	Subdivided sub-industry	Therapeutic area	Indications/Functions	Term of invention patent	Classification of drug registration	Whether protected traditional medicine	Whether prescription drugs	Whether new product during the Reporting Period		Production quantity during the Reporting Period	Sales during the Reporting Period
								Reporting Period	Unit		
Hua Tuo Zai Zao Pill	Chinese patent medicine	Drugs used in internal medicine department	Promoting blood circulation, removing blood stasis and phlegm, dredging collaterals, facilitating qi circulation, and relieving pain.	No	Traditional Chinese medicine	No	Yes	No	Thousand boxes	8,882.28	8,186.32
Amoxicill series	Chemical medicinal preparations	Antimicrobial drugs	The product is indicated for infection caused by sensitive bacteria (none-β-lactamase-producing strains).	No	Category VI chemical drug	No	Yes	No	Thousand granules	927,208.79	1,134,112.93
Xia Sang Ju Granule 10g	Chinese patent medicine	Drugs used in internal	Clearing liver, improving vision, dispelling wind and heat, alleviating Bi-syndrome induced by dampness, and removing sore-toxin.	From 27 June 2008 to 27 June 2028	Chinese patent medicine	No	No	No	Thousand packs	321,322.31	315,387.62
Zi Shen Yu Tai Pill	Chinese patent medicine	Drugs used in internal	Tonifying kidney and spleen, benefiting qi, strengthening primordial qi, nourishing the blood, preventing abortion and building strong body.	From 27 August 2004 to 27 August 2024	Traditional Chinese medicine	No	Yes	No	Thousand boxes	5,902.65	6,647.85

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(i) Basic information of the industry and main medicine (products) (Continued)

3) Basic information of principal medicine (products) (Continued)

Product name	Subdivided sub-industry	Therapeutic area	Indications/Functions	Term of invention patent	Classification of drug registration	Whether protected traditional medicine	Whether prescription drugs	Whether new product during the Reporting Period	Unit	Production quantity during the Reporting Period	Sales during the Reporting Period
Paracetamol Caffeine and Aspirin Powder	Chemical medicinal preparations	Drugs for easing pain, clearing heat, and resisting inflammation, wind-damp and gout	The product is indicated for treatment of fever caused by common cold or influenza, and alleviation of mild to moderate pain.	No	Category VI chemical drug	No	No	No	Thousand boxes	22,983	21,664
Cefditron	Chemical medicinal preparations	Antimicrobial drugs	Treating the infection caused by Cefdinir-sensitive strains such as Staphylococcus, Streptococcus, Streptococcus pneumoniae, Peptostreptococcus, Propionibacterium acnes, Neisseria gonorrhoeae, Moraxella catarrhalis, Escherichia coli, Klebsiella, Proteus mirabilis, Providencia, Haemophilus influenzae.	From 12 August 1985 to 23 June 1995	Imported drugs	No	Yes	No	Ten thousand granules	4,001.14	4,803.65
Ke Teling series	Chinese patent medicine	Drugs used in internal	Relieving cough and asthma, eliminating phlegm, and diminishing inflammation. Used for treatment of cough and cough associated with chronic bronchitis.	None	Generic medicine	No	No	No	Thousand granules	2,434,188.00	2,229,672.80

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(i) Basic information of the industry and main medicine (products) (Continued)

3) Basic information of principal medicine (products) (Continued)

Product name	Subdivided sub-industry	Therapeutic area	Indications/Functions	Term of invention patent	Classification of drug registration	Whether protected traditional medicine	Whether prescription drugs	Whether new product during the Reporting Period	Production quantity during the Reporting Period	Sales during the Reporting Period	
Cefprozil	Chemical medicinal preparations	Antimicrobial drugs	Upper respiratory tract infection, lower respiratory tract infection, infection of skin and its soft tissues.	From 20 December 2010 to 19 December 2030	Generic medicine	No	Yes	No	Thousand tablets	91,004.88	84,745.48
An Gong Niu Huang Pill	Chinese patent medicine	Drugs used in internal	Clearing heat, removing toxicity, relieving convulsion and inducing resuscitation.	None	Traditional Chinese medicine	No	Yes	No	Thousand granules	2,517.13	2,977.56
Cefixime	respiratory infections, urinary tract infections, biliary tract infections, ect	Cefixime	respiratory infections, urinary tract infections, biliary tract infections, ect	From February 2014 to February 2034	Category IV chemical drug	No	Yes	No	Thousand kilo	115.21	101.13

Note: The above table set out the top 10 products by revenue during the Reporting Period.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(i) Basic information of the industry and main medicine (products) (Continued)

4) Admission, new entrance and logout of the main medicine (products) in relation to the Essential Drug List and the Medical Insurance Catalogue

Applicable Not applicable

As at the end of the Reporting Period, a total of 736 varieties and 411 product specifications of the Group and the joint ventures were included into the National Essential Drugs List, and 459 varieties were included in the national Basic Medical Insurance, Industrial Injury Insurance and Maternity Insurance Drug List. In addition, there were 479 varieties included into the provincial Basic Medical Insurance, Industrial Injury Insurance and Maternity Insurance Drug List.

During the Reporting Period, the Group had no admission, new entrance and logout of the main products in relation to the Essential Drug List and the Medical Insurance Catalogue.

As at the end of the Reporting Period, main products included in the Essential Drugs List are as follows:

Name of enterprise	Product name	Registered classification	Indications/Functions	New entrance/ logout of the catalogue/list	New entrance/ logout
Chen Li Ji	Kun Xian Capsule	Qifeng desiccant agent	Tonifying kidney to smooth collaterals, removing wind pathogen to alleviate dampness. Advisable for rheumatoid arthritis due to accumulation of wind and dampness combined with kidney deficiency.	Medical Insurance Catalogue	New entrance
Jing Xiu Tang	Paracetamol	Category IV chemical drug	For fever caused by common cold or influenza in children. Also for mild to moderate pain, such as headache, joint pain, migraine, toothache, muscle pain, neuralgia.	Medical Insurance Catalogue	New entrance

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

4) Admission, new entrance and logout of the main medicine (products) in relation to the Essential Drug List and the Medical Insurance Catalogue *(Continued)*

Name of enterprise	Product name	Registered classification	Indications/Functions	New entrance/ logout of the catalogue/list	New entrance/ logout
Ming Xing	Pemetrexed Disodium for Injection	Anti metabolite drug	For inoperable malignant pleural mesothelioma.	Medical Insurance Catalogue	New entrance
	Aspirin enter-coated tablet	Inhibitors of platelet aggregation, excluding heparin	Reduce morbidity risks of suspected AIM patients, prevent deep venous thrombosis and pulmonary embolism, and reduce the morbidity risk of myocardial infarction of cardiovascular risk factors in potential patients.	Medical Insurance Catalogue	New entrance
	Nicorandil Tablets	Vasodilator for heart disease	For angina pectoris.	Medical Insurance Catalogue	New entrance
	Cimetidine Injection	Anti metabolite drug	For gastrointestinal ulcer.	Medical Insurance Catalogue	Logout
	Asparaginase for Injection	Other antineoplastic drug	For the treatment of acute lymphatic leukemia (abbreviated as ALL), acute myelocytic leukemia, acute monocytic leukemia, chronic lymphocytic leukemia, Hodgkin disease, Non Hodgkin's disease lymphoma and melanoma etc.	Essential Drugs List	New entrance

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(i) Basic information of the industry and main medicine (products) (Continued)

4) Admission, new entrance and logout of the main medicine (products) in relation to the Essential Drug List and the Medical Insurance Catalogue (Continued)

Name of enterprise	Product name	Registered classification	Indications/Functions	New entrance/ logout of the catalogue/list	New entrance/ logout
	Diethylstilbestrol Tablets	Estrogens	For the supplement of estrogen deficiency in the body, such as atrophic vaginitis, female gonadal dysplasia, menopause syndrome, senile kraurosis vulvae and vaginitis, post-ovariectomy and primary ovarian absence; breast cancer, menopause and male advanced breast cancer, patients not suitable for operation treatment; advance prostatic cancer patients not suitable for operation treatment; prevention of postpartum lactation and back milk.	Essential Drugs List	New entrance
	Prazosin Hydrochloride Tablets	Peripheral anti adrenergic drug	For mild to moderate hypertension.	Essential Drugs List	New entrance
	Metformin Hydrochloride Tablet	Biguanide oral hypoglycemic drug	For type 2 diabetes for which diet control with metformin tablets as primary treatment and physical exercise produce no curative effect, especially for obese type 2 diabetes; this product can reduce the dosage of insulin and prevent the onset of hypoglycemia when being used with insulin; and have synergy effect when being used with sulfonylurea hypoglycemic agents.	Essential Drugs List	Logout

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(i) Basic information of the industry and main medicine (products) (Continued)

4) Admission, new entrance and logout of the main medicine (products) in relation to the Essential Drug List and the Medical Insurance Catalogue (Continued)

Name of enterprise	Product name	Registered classification	Indications/Functions	New entrance/ logout of the catalogue/list	New entrance/ logout
Wang Lao Ji	Bao Ji Oral Liquid	Category-VI traditional Chinese medicine	Relieving exterior syndrome, eliminating dampness, and regulating the middle warmer. The product is indicated for cold caused by summer-heat and damp, with symptoms such as fever, headache, bellyache, diarrhea, nausea, vomit and gastrointestinal discomfort; It is also indicated for motion sickness.	Essential Drugs List	New entrance
	Tankejing Tablet	Traditional Chinese medicine	Inducing resuscitation and smoothing vital energy, relieving cough and eliminating phlegm. Used for cough, phlegm, shortness of breath and asthma caused by bronchitis and pharyngitis.	Medical Insurance Catalogue	Logout
	Tankejing Powders	Traditional Chinese medicine	Inducing resuscitation and smoothing vital energy, relieving cough and eliminating phlegm. Used for cough, phlegm, shortness of breath and asthma caused by bronchitis and pharyngitis.	Medical Insurance Catalogue	Logout
	Xiao Er Qi Xing Cha Granule	Traditional Chinese medicine	Promoting appetite to remove food retention and clearing away heat to tranquilize mind. For children with heat produced by dietary stagnation, indigestion, poor appetite, irritable and easily be frightened, restless sleep at night, difficult defecation and scanty and dark urine.	Medical Insurance Catalogue	New entrance

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(i) Basic information of the industry and main medicine (products) (Continued)

4) Admission, new entrance and logout of the main medicine (products) in relation to the Essential Drug List and the Medical Insurance Catalogue (Continued)

Name of enterprise	Product name	Registered classification	Indications/Functions	New entrance/ logout of the catalogue/list	New entrance/ logout
He Ji Gong	Paracetamol	Chemical drugs	For fever caused by common cold or influenza in children. Also for mild to moderate pain, such as headache, joint pain, migraine, toothache, muscle pain, neuralgia.	Medical Insurance Catalogue	New entrance
	Compound Dexamethasone Acetate Cream	Chemical drugs	The product is indicated for local pruritus, neurodermatitis, contact dermatitis, seborrhoeic dermatitis and chronic eczema.	Provincial Medical Insurance Catalogue	Logout
	Ganmaoling Granules	Chinese patent medicine	Antipyretic, analgesic. The product is indicated for headache, fever, nasal congestion, runny nose and pharyngalgia caused by cold.	Provincial Medical Insurance Catalogue	New entrance
	Salicylic Acid and Phenol Plasters	Chemical drugs	For corn.	Provincial Medical Insurance Catalogue	Logout
	Povidone Iodine Solution	Chemical drugs	For purulent dermatitis, fungal skin infections, small and mild burns and scalds, also for disinfecting a small area of skin and mucous membrane wound.	Provincial Medical Insurance Catalogue	Logout
	Povidone Iodine Cream	Chemical drugs	For purulent dermatitis, fungal skin infections, small and mild burns and scalds (minor burns, I° or light II°), also for disinfecting a small area of skin and mucous membrane wound.	Provincial Medical Insurance Catalogue	New entrance
	Compound Dexamethasone Acetate Cream	Chemical drugs	Used for treatment of local itch, neurodermatitis, contact dermatitis, seborrhoeic dermatitis and chronic eczema.	Provincial medical insurance catalogue	New entrance

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

4) Admission, new entrance and logout of the main medicine (products) in relation to the Essential Drug List and the Medical Insurance Catalogue *(Continued)*

Name of enterprise	Product name	Registered classification	Indications/Functions	New entrance/ logout of the catalogue/list	New entrance/ logout
	Xiaoer Ganmo Ling Granule	Chinese patent medicine	Dispelling wind diaphoresis, and clearing heat and detoxifying. Used for treatment of such symptoms as fever, headache, cough, cough, sticky phlegm, swollen sore throat, and influenza for children associated with above symptoms.	Provincial medical insurance catalogue	New entrance
	Xiaoer Ganmo Ling Granule	Chinese patent medicine	Dispelling wind diaphoresis, and clearing heat and detoxifying. Used for treatment of such symptoms as fever, headache, cough, cough, sticky phlegm, swollen sore throat, and influenza for children associated with above symptoms.	Provincial medical insurance catalogue	New entrance
	Compound Neomycin Sulfate Eye Drops	Chemical drugs	Used for the treatment of acute and chronic conjunctivitis, keratitis, iritis and scleritis etc.	Provincial medical insurance catalogue	New entrance
	Xiaoer Ganmo Ling Granule	Chinese patent medicine	Dispelling wind diaphoresis, and clearing heat and detoxifying. Used for treatment of such symptoms as fever, headache, cough, cough, sticky phlegm, swollen sore throat, and influenza for children associated with above symptoms.	Provincial medical insurance catalogue	New entrance
	Compound Neomycin Sulfate Eye Drops	Chemical drugs	Used for the treatment of acute and chronic conjunctivitis, keratitis, iritis and scleritis etc.	Provincial medical insurance catalogue	New entrance

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(i) Basic information of the industry and main medicine (products) (Continued)

4) Admission, new entrance and logout of the main medicine (products) in relation to the Essential Drug List and the Medical Insurance Catalogue (Continued)

Name of enterprise	Product name	Registered classification	Indications/Functions	New entrance/ logout of the catalogue/list	New entrance/ logout
	Xiaoer Ganmo Ling Granule	Chinese patent medicine	Dispelling wind diaphoresis, and clearing heat and detoxifying. Used for treatment of such symptoms as fever, headache, cough, cough, sticky phlegm, swollen sore throat, and influenza for children associated with above symptoms.	Provincial medical insurance catalogue	New entrance
	Polyvidone Iodine solution	Chemical drugs	Used for treatment of suppurative dermatitis, dermatophyte and small area of mild burn and scald, and also for disinfection small areal of skin and mucosal wound.	Provincial medical insurance catalogue	New entrance
	Polyvidone Iodine Cream	Chemical drugs	Used for treatment of suppurative dermatitis, dermatophyte and small area of mild burn and scald Light burn (1° or Superficial II°), and also for disinfection small areal of skin and mucosal wound.	Provincial medical insurance catalogue	New entrance
Tian Xin	Cefradine for Suspension	Chemical drugs	This product is mainly applicable to acute pharyngitis, tonsillitis, otitis media, respiratory infections such as bronchitis and pneumonia, urogenital tract infection and skin soft tissue infection caused by sensitive bacteria.	Medical insurance catalogue	New entrance
HWBYS	Compound Banlangen Granule	Traditional Chinese medicine	Clearing heat and detoxicating, cooling blood. For wind-heat type common cold and sore throat.	Medical insurance catalogue	New entrance

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

4) Admission, new entrance and logout of the main medicine (products) in relation to the Essential Drug List and the Medical Insurance Catalogue *(Continued)*

Name of enterprise	Product name	Registered classification	Indications/Functions	New entrance/ logout of the catalogue/list	New entrance/ logout
Pan Gao Shou	Pinellia Syrup	-	Relieving cough and eliminating phlegm. Used for treatment of cough and excessive phlegm and Bronchitis.	Provincial medical insurance catalogue	New entrance
Baiyunshan General Factory	Cefradine Granule	Chemical drugs	This product is mainly applicable to acute pharyngitis, tonsillitis, otitis media, respiratory infections such as bronchitis and pneumonia, urogenital tract infection and skin soft tissue infection caused by sensitive bacteria.	Medical insurance catalogue	New entrance
	Cefprozil Granule	Category-V chemical drugs	Used for treatment of upper and lower respiratory infection, skin and skin soft tissue infection.	Medical insurance catalogue	New entrance
	Cefaclor for Suspension	Category-VI chemical drugs	This product is mainly applicable to infections in respiratory system, urinary system, Department of ENT, skin and soft tissue caused by sensitive bacteria.	Medical insurance catalogue	New entrance
	Inosine	Chemical drugs	Used for the adjuvant treatment of acute and chronic hepatitis.	Medical insurance catalogue	Logout
	Huo Xin Capsule	Traditional Chinese medicine	Tonifying qi to activate blood and warming meridians to smooth collaterals. Major for chest discomfort and heartache. For coronary heart disease and angina pectoris.	Medical insurance catalogue	New entrance

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(i) Basic information of the industry and main medicine (products) (Continued)

4) Admission, new entrance and logout of the main medicine (products) in relation to the Essential Drug List and the Medical Insurance Catalogue (Continued)

Name of enterprise	Product name	Registered classification	Indications/Functions	New entrance/ logout of the catalogue/list	New entrance/ logout
	She Dan Chuan Bei Soft Capsule	Category-IV traditional chinese medicine	Clearing away the lung-heat, relieving cough and eliminating phlegm. For cough with lung heat cough, excessive phlegm.	Medical insurance catalogue	New entrance
	Rhizoma gastrodiae Tablet	Traditional Chinese medicine	Expelling wind-damp, dredging collaterals, and relieving pain.	Provincial medical insurance catalogue	New entrance
	Ke Te Ling Capsule	Traditional Chinese medicine	Relieving cough and asthma, eliminating phlegm, and diminishing inflammation.	Provincial medical insurance catalogue	New entrance
	Ke Te Ling Tablet	Traditional Chinese medicine	Relieving cough and asthma, eliminating phlegm, and diminishing inflammation.	Provincial medical insurance catalogue	New entrance
	Ampicillin Capsule	Chemical drugs	This product is mainly applicable to infections in respiratory system, urinary system, enteron, ENT, skin and soft tissue caused by sensitive bacteria.	Provincial medical insurance catalogue	New entrance
Guang Hua	Inosine Tablet	Chemical drugs	Used for the adjuvant treatment of acute and chronic hepatitis.	Medical insurance catalogue	Logout

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)



(i) Basic information of the industry and main medicine (products) (Continued)

5) The Company's well-known or Famous Trademark

Applicable Not applicable

The Group and its joint venture currently has 9 famous trademarks of China, 21 famous brands of Guangdong Province, and 26 famous brands of Guangzhou City. Among them, the brand awareness and reputation of "BYS" has greater influence and appeal among the consumers throughout the country, which makes it one of most valuable medicine brands in China.

The main trademark usage of the Group is as follows:

Well-known/ Famous trademark	Trademark graph	Trademark registration class	Product general name	Classification of drug registration	Indications/Functions	Protected traditional medicine	Prescription drugs
Baiyunshan – Well-known BYS – Wellknown		Category V Medicine for human purposes	Sildenafil Citrate Tablet	Chemical drugs	The product is indicated for treatment of erectile dysfunction (ED).	No	Yes
Zhong Yi – Well-known		Category V Medicine for human purposes	Xiao Ke Pill	Traditional Chinese Medicine	Diabetes caused by deficiency of both qi and yin; type-II diabetes.	No	Yes
Kang Zhi Ba – Well-know	抗之霸 [®]	Category V Medicine for human purposes	Amoxicillin Capsule	Western medicine	For the disease caused by sensitive bacteria.	No	Yes
BYS-Well – know	BYS	Category V Medicine for human purposes	Cephathiamidine for Injection	Western medicine	Antibacterial anti- inflammatory Cough and asthma.	No	Yes
Chen Li Ji – own	陳李濟	Category V Medicine for human purposes	Shu Jin Jian Yao Pill	Category-IX traditional chinese medicine	Tonifying the liver and kidney, strengthening the tendons & bones, expelling winddamp, dredging collaterals, and relieving pain.	No	Yes

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(i) Basic information of the industry and main medicine (products) (Continued)

5) The Company's well-known or Famous Trademark (Continued)

Well-known/ Famous trademark	Trademark graph	Trademark registration class	Product general name	Classification of drug registration	Indications/Functions	Protected traditional medicine	Prescription drugs
Qi Xing – Wellknown		Category V Medicine for human purposes	Hua Tuo Zai Zao Pill	Traditional Chinese Medicine	Promoting blood circulation, removing blood stasis and phlegm, dredging collaterals, facilitating qi circulation, and relieving pain.	No	Yes
Kang Zhi Ba – Well- know		Category V Medicine for human purposes	Amoxicillin Capsule	Western medicine	Anti-bacteria and dephlogisticate.	No	Yes
Shape of Green Leaves – Famous		Category V Medicine for human purposes	Xia Sang Ju Granule	Category-I chinese patent medicine (Drugs used in internal medicine department)	Clearing liver, improving vision, dispelling wind and heat, alleviating Bi-syndrome induced by dampness, and removing sore-toxin.	No	No
Zhong Yi – Wellknown		Category V Medicine for human purposes	Zi Shen Yu Tai Pill	Traditional Chinese medicine, natural medicine	Tonifying kidney and spleen, benefiting qi, strengthening primordial qi, nourishing the blood, preventing abortion and building strong body.	No	Yes
He Ji Gong – Well- known		Category V Medicine for human purposes	Pharacetamol, Caffeine and Aspirin Powder	Chemical Drugs	Analgesia, antipyretic, antiinflammatory, antirheumatic, anti gout.	No	No

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(i) Basic information of the industry and main medicine (products) *(Continued)*

5) The Company's well-known or Famous Trademark *(Continued)*

Well-known/ Famous Trademark	Product General name	Sales of 2017	Income of 2017 (RMB'000)	Gross profit margin in 2017 (%)
Baiyunshan diamond – +BYS – Well-known	Sildenafil	39,635.01	562,660.21	
Zhong Yi-Well-known	Xiao Ke Pill (thousand bottles)	41,090.72	481,061.84	70.79
Baiyunshan diamond – +BYS – Well-known	Cephathiamidine for Injection (thousand bottles/ thousand ampoules)	39,441.09	345,511.45	38.60
Chen Li Ji – Well-known	Shu Jin Jianyao Pill (thousand bottle)	33,371.56	215,965.76	55.58
Qi Xing – Well-known	Hua Tuo Zai Zao Pill (thousand box)	8,186.31	210,909.98	32.23

Note: The top five products of the Company in terms of sales amount, revenue and profit margin in year 2016 among the products which used the above trademarks

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(i) Basic information of the industry and main medicine (products) (Continued)

6) Important medicinal materials involved in major TCM products

Major TCM products of the Group include Xiao Ke Pill, Qing Kai Ling Series, Xia Sang Ju Granule, Xiao Chai Hu Granule, Mi Lian Chuan Bei Pi Pa Confection, Zi Shen Yu Tai Pill, Hua Tuo Zai Zao Pill, Shu Jin Jian Yao Pill and Xin Xue Dan etc. The important medicinal materials involved and supply are as follows:

Therapeutic area	Major TCM products	Important medicinal material varieties	Purchasing modes	Supply and demand of medicinal material varieties and the influence of price fluctuation on cost
Diabetes	Xiao Ke Pill	Mongolian snake gourd Root	Dominated by order plantation, directional purchase, supported by tendering	Supply and demand basically in balance. The market price is stable, cost remained unchanged.
Cooling and detox	Qing Kai Ling	Honeysuckle, isatis root	The procurement is mainly from planting bases, complemented by bidding-based procurement	Supply and demand basically in balance. The market price rose slightly with costs increased.
	Xia Sang Ju Granule	Prunella vulgaris, wild chrysanthemum flower, folium mori	Purchasing by Invitation to Bid	Supply and demand basically in balance. The market price rose slightly with costs increased.
Induce sweat to dispel heat	Xiao Chai Hu Granule	Chinese thorrowax root, Scutellaria baicalensis	Purchasing by Invitation to Bid	Supply and demand basically in balance. The market price rose slightly with costs increased.
Expectorant and antitussive	Mi Lian Chuan Bei Pi Pa Confection	Fritillaria cirrhosa, loguat leaf, Platycodon grandiflorum	Purchasing by Invitation to Bid	Supply and demand basically in balance. The market price is stable, cost remained unchanged.
Gynecological drugs	Zi Shen Yu Tai Pill	Cuscuta chinensis, amomum, rehmannia and so on	Purchasing by Invitation to Bid	Supply and demand basically in balance. The market price rose slightly with costs increased.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(i) Basic information of the industry and main medicine (products) (Continued)

6) Important medicinal materials involved in major TCM products (Continued)

Therapeutic area	Major TCM products	Important medicinal material varieties	Purchasing modes	Supply and demand of medicinal material varieties and the influence of price fluctuation on cost
Blood-activating and stasis-resolving	Hua Tuo Zai Zao Pill	Ligusticum Chuanxiong, tetradium ruticarpum, borneol, etc.	Purchasing by Invitation to Bid	The demand of tetradium ruticarpum exceeds supply, leading to elevated market price and increased cost, while others have basically balanced supply and demand, with stable market price and unchanged cost.
Resistance-strengthening and dampness-eliminating	Shu Jin Jian Yao Pill	Woodwardia, rosa laevigata, caulis Spatholobi, etc.	Purchasing by Invitation to Bid	The demand of rosa laevigata exceeds supply, leading to elevated market price and increased cost, while others have basically balanced supply and demand, with stable market price and unchanged cost.
Strengthening body resistance and eliminating dampness	Zhuang Yao Jian Shen Pill	Woodwardia, kadsura coccinea, flemingia, etc.	Purchasing by Invitation to Bid	Supply and demand basically in balance. The market price is stable, cost remained unchanged.

Major medicinal species involved in above main TCM products are commonly used bulk medicinal materials. The Group purchased medicinal materials intensively from the qualified suppliers through Chinese medicinal materials centralized purchasing platform, based on production needs, by means of bid or directional procurement, to improve the bargaining capacity, and reduce the purchasing cost. In addition, the Group constructed multiple planting bases for medicinal materials to ensure the quality and quantity and control costs.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(ii) Research and development situation of the Company's medicine (products)

1) *The overall situation of research and development*

Applicable Not applicable

For a long time, the Group paid attention to the research and development of science and technology, vigorously promoting scientific and research innovation, carried out the science and technology work through imported project and independent research in respect of development of new drug, secondary development of products, development of food, healthcare food, etc., and achieved certain results.

During the Reporting Period, the Group vigorously promoting scientific and research innovation, enhanced its intellectual property right related affairs and made remarkable achievements, mainly including:

① Products in research

As at the end of the Reporting Period, the Group had 96 products in research, 7 products which had made applications. The main areas included the secondary development of chemical raw medicine, preparations, bio-medicine, and the second development of legend varieties of traditional Chinese medicines.

② Approvals

During the Reporting Period, the number of the Group and its jointly controlled entities applied for a total of 7 approvals for manufacturing and filed 1 applications for clinical research approval, and acquired 13 approvals for medicine manufacturing.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(ii) Research and development situation of the Company's medicine (products) *(Continued)*

1) The overall situation of research and development *(Continued)*

③ Science and Technology Awards

During the Reporting Period, the Group and its jointly controlled entities received a total of 6 awards and honors, including 4 provincial-level science and technology awards and 2 municipal-level science technology award. Details of which are set out below:

Classification Level	Winning enterprises	Winning projects	Awards
Provincial and department level	HWBYS	The usage of isatis root polysaccharide in the production of anti influenza virus drugs	the 19th China Patent Excellence Award
		Basic research and application of the Glycolipid metabolism pathology of non-alcoholic fatty liver disease and its comprehensive prevention and control	First Prize of 2017 Science and Technology Award of the Chinese Association of Integrated Medicine
	Chen Li Ji	An iron-nourishing and blood-enriching drug and its preparation method	the 19th China Patent Excellence Award
Municipal level	HWBYS	Technology improvement and application research of technique quality control of TCM sub-melting double gastrointestinal pill (Bu Pi Yi Chang Pill)	Third Prize of 2016 Guangdong Province Science and Technology Progress Award
		A method of testing the kaempferol and quercetin content of persimmon leaves	Guangzhou City Patent Excellence Award
	Wang Lao Ji	A TCM oral liquid for the treatment of gastrointestinal diseases and its preparation method	Guangzhou City Patent Excellence Award

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(ii) Research and development situation of the Company's medicine (products) *(Continued)*

1) *The overall situation of research and development (Continued)*

④ Patents and Intellectual Property Rights

During the Reporting Period, the Group and its jointly controlled entities had applied for a total of 62 patents, among which, there were 54 patents for invention, 8 utility models; 39 licensed patents, which included 35 patent licenses for invention and 4 utility model patents.

During the Reporting Period, Baiyunshan General Factory passed the benchmark re-certification of the national intellectual property management system; Jing Xiu Tang passed the benchmark certification of the national intellectual property management system; HWBYS was recognized as the 2017 National Model Enterprise of Intellectual Property; Chen Li Ji was recognized as the 2017 National Advanced Enterprise of Intellectual Property; "The Usage of Isatis Root Polysaccharide in the Production of Anti Influenza Virus Drugs" of HWBYS and "An Iron-nourishing and Blood-enriching Drug and its Preparation Method" of Chen Li Ji won the 19th China Patent Excellence Award, respectively; the invention patents of "A Method of Testing the Kaempferol and Quercetin Content of Persimmon leaves" of HWBYS and "A TCM Oral Liquid for the Treatment of Gastrointestinal diseases and its Preparation method" of Wang Lao Ji won the Guangzhou City Patent Excellence Award, respectively.

Accounting policies for research and development:

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at end of the project. The specific criteria for the classification of expenditure on the research phase and expenditure on the development phase is as follows:

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

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(ii) Research and development situation of the Company's medicine (products) *(Continued)*

1) The overall situation of research and development *(Continued)*

④ Patents and Intellectual Property Rights *(Continued)*

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

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

- It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- Management intends to complete the intangible asset, and use or sell it;
- It can be demonstrated how the intangible asset can generate economic benefits;
- Adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset;
- The expenditure attributable to the intangible asset during its development phase can be reliably measured.

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

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(ii) Research and development situation of the Company's medicine (products) (Continued)

2) The investment situation of research and development

Applicable Not applicable

The top 5 varieties of products of research and development of the Group are as follow:

Company name	Products	Amount of the research and development investment (RMB'000)	Amount of the expenditure on research and development investment (RMB'000)	Amount of the capitalization on Research and development investment (RMB'000)	Research and	Research and	Changes of the
					development accounted for the proportion of revenue (%)	development accounted for the proportion of cost (%)	amount as compared with the corresponding period of last year (%)
Zhong Yi	Xiao Ke Pill	8,552.00	8,552.00	0	1.78	2.23	29.92
Baiyunshan General Factory	The redevelopment technology of famous and superior-quality Chinese patent medicine	7,423.40	7,423.40	0	0.32	7.21	2.56
Baiyunshan General Factory	Sildenafil Citrate Tablet	7,419.18	7,419.18	0	0.32	7.21	19.77
Baiyunshan General Factory	The new technology research on improving the safety, effectiveness and quality of the drug preparations	6,265.99	6,265.99	0	0.27	6.09	(5.77)
Baiyunshan General Factory	Rosuvastatin Calcium Tablet	5,019.99	5,019.99	0	0.22	4.88	4.64

Note: In the above table, the proportion of R&D expenses accounting for revenue is the proportion of product R&D expenses accounting for revenue of the enterprise manufacturing the product. The proportion of R&D expenses accounting for operation cost is the proportion of product R&D expenses accounting for operation cost of the enterprise manufacturing the product.

Explanation:

In 2017, according to the government's policy of strengthening the implementation of assessment of consistency in quality and efficacy of generic drugs as well as marketing needs, The Group intensified efforts in carrying out the study on the assessment of consistency of great varieties generics, research and development of special varieties of Great Southern TCM and research and development of Xiao Ke Pill and Zi Shen Yu Tai Pill.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(ii) Research and development situation of the Company's medicine (products) (Continued)

2) The investment situation of research and development (Continued)

Comparison within the same industry

Applicable Not applicable

Comparable company in the same industry	Amount of the research and development investment development (RMB'000)	Research and investment accounted for the proportion of revenue (%)	Research and development investment accounted for the proportion of net assets (%)
Harbin Pharmaceutical Group Co., Ltd.	177,773.50	1.30	2.26
China National Medicines Co., Ltd.	18,345.10	0.14	0.52
Shanghai Pharmaceuticals Holding Co., Ltd.	670,550.00	0.56	2.12
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	1,106,117.80	7.60	4.98
Tongrentang Chinese Medicine-Since	202,183.41	1.67	2.59
Average amount of the research and development investment (RMB'000)			434,993.96
Amount of the research and development investment of the Company during the Reporting Period(RMB'000)			373,287.52
Research and development investment accounted for the proportion of revenue of the Company during the Reporting Period (%)			1.78
Research and development investment accounted for the proportion of net assets of the Company during the Reporting Period (%)			1.94

Notes:

- (A) Full disclosure in the annual reports of the comparable companies for year 2017 is not yet available, the above information came from the annual reports of the comparable companies for year 2016.
- (B) The average R&D investment amount in the industry is the arithmetic average of the five companies in the same industry.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(ii) Research and development situation of the Company's medicine (products) *(Continued)*

2) *The investment situation of research and development (Continued)*

Description on the significant changes of the research and development investment and the reasonability of the proportion of the research and development investment

Applicable Not applicable

During the Reporting Period, the Group's research and development expenses accounted for 1.78% of the revenue. In the face of changing market demand and new drug research and development and registration policy, the Company adjusted research and development strategy actively, strengthened research and analysis and selection of research and development projects initiation, research and development resources investment management, reappraisal of varieties at the stage of research to reduce research and development risks.

The current research and development expenses of the Group can meet the demand for future development.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(ii) Research and development situation of the Company's medicine (products) (Continued)

3) Basic information on the main research and development project

✓ Applicable Not applicable

R&D Program	Basic information of product	R&D (Register) Stage:	Progress status	Accumulated Research Input (RMB'000)	Number of declared manufacturers	Number of approved domestic generic manufacturers
Therapeutic two-plasmid HBV DNA vaccine projects	This vaccine features in improving specific cellular immune, combining with antiviral therapy, and effectively improving HBeAg serological conversion of patients to achieve clinical cure, which is an urgently needed medicine in clinic.	Clinical studies	IIc clinical study has been started.	60,610	None	None
Standardised construction of Xiaoke Pill	Studying the Chinese patent drug of lowering sugar – Xiaoke Pill and carrying out standardization project of Chinese medicines. Upon completion of such projects, formulating 16 certification standards and specifications relating to the industry of cultivation and production of medicinal materials, including Radix Trichosanthis, Rhizoma Dioscoreae, Radix Astragali and Kadsura Longipedunculata, and formulating another 11 corporate internal standards.	Study on the standardization of Chinese patent drug	At present, 8 standards have been drafted and other standards are in the process of development. The construction of relevant supporting bases and production lines has been completed, pending verification and promotion of all standards to commence on schedule.	24,988	None	None

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(ii) Research and development situation of the Company's medicine (products) (Continued)

3) Basic information on the main research and development project (Continued)

R&D Program	Basic information of product	R&D (Register) Stage:	Progress status	Accumulated Research Input (RMB'000)	Number of declared manufacturers	Number of approved domestic generic manufacturers
Clinical research on the application of Zi Shen Yu Tai Pill in vitro fertilization and embryo transfer	Zi Shen Yu Tai Pill are kidney-nourishing, spleen-invigorating, primordial Qi-reinforcing, blood-nourishing, miscarriage-preventing and body-strengthening. It is fit for those who suffer spleen and kidney deficiency and miscarriage due to dysfunction of thoroughfare and conception vessels (to prevent habitual miscarriage and threatened miscarriage).	Assessment and research after marketing	Completed. The results show that Zishen Yutai Pill can significantly increase the rate of planting of IVF-ET patients and significantly improve clinical pregnancy of older women and patients with a history of miscarriage.	12,795.00	None	None
Development of rhizoma anemarrhenae polyphenol Capsule	Rhizoma anemarrhenae polyphenol Capsule belong to category-5 proprietary Chinese medicine and are fit for type-2 diabetes, Yin deficiency and pathogenic dryness-heat.	Clinical research	Pre-clinical research has been completed and the clinical research is in progress.	10,660.00	None	None

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(ii) Research and development situation of the Company's medicine (products) (Continued)

3) Basic information on the main research and development project (Continued)

R&D Program	Basic information of product	R&D (Register) Stage:	Progress status	Accumulated Research Input (RMB'000)	Number of declared manufacturers	Number of approved domestic generic manufacturers
Study on the reevaluation of An Gong Niu Huang Pill after launching	An Gong Niu Huang Pill: treatment of apoplexy and ischemic encephalopathy	Study on the reevaluation after launching	The experimental study and safety evaluation on protective effects of An Gong Niu Huang Pill on rats of atherosclerosis model have been completed, and the study on the effects and mechanism of prevention and control of apoplexy is in the process.	5,420	None	None
Tuckahoe total glycosides	It belongs to category-5 traditional Chinese medicine for treatment of rheumatoid arthritis (RA)	Phase II clinical trial	In accordance with the newly-issued "general principles of clinical research on new traditional Chinese medicine", the reasonable plan for phase II clinical trial has been determined the clinical trial has been made.	5,345	None	None

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(ii) Research and development situation of the Company's medicine (products) *(Continued)*

3) *Basic information on the main research and development project (Continued)*

The impact to the Company by the research and development project

Applicable Not applicable

In 2017, the State promulgated a series of policies and regulations to strengthen the quality of generic drugs and the evaluation of curative effect consistence, to further standardize clinical research for new drugs. Under this macro environment, the Company proactively adjusted the new product research and development as well as the declaration strategy as to comply with policies and regulations change. It focused on the new product research and development in the professional fields and the in-depth development of the market-oriented products in the subsidiary enterprises, and strengthened development of new products including biological medicine, chemical medicine, TCM and secondary development of famous products, and formed the echelon products; thus providing the scientific and technological support for the development of the Company.

New drug development is exposed to high risk and featured by high investment and long cycle. Pharmaceutical products have the characteristics of high technology, high risk, and high added value. The longer period and many links for drugs from previous research to clinical trials and from registration and declaration to the industrialized production cycle are vulnerable to the influence of uncertainty factors. In addition, as the change in national medicines evaluation reform, the approval threshold in the field of chemical medicine and biological medicine enhanced gradually.

Among the projects under research, therapeutic double-plasmid HBV DNA vaccine project has started clinical research at the IIc phase. Currently, rhizoma anemarrhenae polyphenol Capsule, Tuckahoe total glycosides started clinical trial, Zi Shen Yu Tai Pill Assessment and research after marketing. The above projects are exposed to clinical research and technical risks in the future.

The Group will continue to paying attention to changes in the medicines evaluation policies, strengthen the controlling strength on R&D projects, reduce the influence of uncertain factors, improve R&D quality and decrease R&D risks.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(ii) Research and development situation of the Company's medicine (products) *(Continued)*

4) *Situation of the products which had been submitted to supervision department for approval, registration and production during the Reporting Period*

Applicable Not applicable

During the Reporting Period, the Group received a total of 13 approvals in respect of pieces for pharmaceutical products, which will further enrich the Company's product varieties, and increase the Company's products reserves. Moreover, the Company will choose opportunities to launch the product into the market based on changes in the market.

Product name	Registry classification	Indication/Major functions
Jin Ge 25mg	Supplementary application	Sildenafil is suitable for treating erectile dysfunctions
Jin Ge 100mg	Supplementary application	Sildenafil is suitable for treating erectile dysfunctions
Ceftizoxime Sodium for Injection 0.5g	Supplementary application	Lower respiratory tract infection, urinary tract infection, abdominal infection, pelvic infection, septicemia, skin soft tissue infection, bone and joint infection caused by sensitive bacteria, meningitis and simple gonorrhea caused by streptococcus pneumoniae or haemophilus influenzae
Ceftizoxime Sodium for Injection 1.0g	Supplementary application	Lower respiratory tract infection, urinary tract infection, abdominal infection, pelvic infection, septicemia, skin soft tissue infection, bone and joint infection caused by sensitive bacteria, meningitis and simple gonorrhea caused by streptococcus pneumoniae or haemophilus influenzae

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(ii) Research and development situation of the Company's medicine (products) *(Continued)*

4) Situation of the products which had been submitted to supervision department for approval, registration and production during the Reporting Period *(Continued)*

Product name	Registry classification	Indication/Major functions
Cefazolin Sodium for Injection 0.5g	Supplementary application	Suitable for treating tympanitis, bronchitis, pneumonia and other respiratory infections, urinary tract infection, skin soft tissue infection, bone and joint infection, septicemia, infectious endocarditis, hepatobiliary system infection and eye, ear, nose, throat and other infections caused by sensitive bacteria. This product can also be used as a preventive medicine before surgery. This product is not suitable for central nervous system infection, and is less effective for chronic urinary tract infections, especially those with urinary tract dissection anomaly. This product is not suitable for treating gonorrhoea and syphilis
Cefazolin Sodium for Injection 1.0g	Supplementary application	Suitable for treating tympanitis, bronchitis, pneumonia and other respiratory infections, urinary tract infection, skin soft tissue infection, bone and joint infection, septicemia, infectious endocarditis, hepatobiliary system infection and eye, ear, nose, throat and other infections caused by sensitive bacteria. This product can also be used as a preventive medicine before surgery. This product is not suitable for central nervous system infection, and is less effective for chronic urinary tract infections, especially those with urinary tract dissection anomaly. This product is not suitable for treating gonorrhoea and syphilis
Roxithromycin Capsule 150mg	Supplementary application	Suitable for the following infections caused by sensitive strains: (1) upper respiratory tract infection, (2) lower respiratory tract infection, (3) otolaryngological infection, (4) urogenital system infection, (5) Skin and soft tissue infection, (6) pediatric infection; also suitable for infections caused by mycoplasma, chlamydia and legionella

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(ii) Research and development situation of the Company's medicine (products) (Continued)

4) Situation of the products which had been submitted to supervision department for approval, registration and production during the Reporting Period (Continued)

Product name	Registry classification	Indication/Major functions
Mi Lian Chuan Bei Pi Pa Confection	Supplementary application	Breathe/clearing heat, moistening lungs, relieving cough and asthma, regulating qi-flowing for eliminating phlegm. Applicable to cough, phlegm, chest distress, throat hurts and hoarse voice caused by lung dryness.
Huoxiang Zhengqi Grain	Extending the expiration date of drugs	Inducing sweat, dispelling dampness, regulating qi, soothing spleen and stomach. Applicable to wind-cold, indigestion due to weak spleen, headache, chest distress, abdominal swelling and pain, vomiting and diarrhea
San Wei Qing Re Zhi Yang Lotion (250ml)	Extending the expiration date of drugs	Clearing heat and expelling dampness, detoxifying and Dispelling wind and anti-itch. Applicable to painful or itchy vulva caused by stagnation of damp-heat and wind and toxin. Used for treatment of localized dry skin, hypertrophy and unbearable itchy.
Cholesterin (Oral administration)	Excipient	pharmaceutic adjuvant, emulsifier and cream base
Egg Yolk Phosphatidylcholine	Pharmaceutical excipient for injection	pharmaceutic adjuvant, emulsifier, solubilizer and liposome membrane material
Medical Acetaminophen	Medical device	It is suitable for the cold of infants, children and adults.

5) Situation of the cancellation of the research and development project and the products which were not approved during the Reporting Period

Applicable Not applicable

6) Situation of the important research and development project carrying out in the next year

Applicable Not applicable

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(ii) Research and development situation of the Company's medicine (products) (Continued)

7) Substantial R&D subsidy, support, allowance, tax preference for the projects from the government and relevant use by the Company.

In 2017, the Group received a total of RMB76,181,000 project subsidies. The following table lists the subsidies given to major projects:

Name of enterprise	Item name	Supporting type	Amount of subsidy (RMB'000)	Information on utilization
The Company	Incremental subsidy from SASAC of municipal government	Incremental subsidy from SASAC of municipal government	15,657.00	Used
The Company	Provincial subsidy posting research and development	Provincial subsidy posting research and development	2,528.30	Used
The Company	Municipal subsidy posting research and development	Municipal subsidy posting research and development	5,109.60	Used
Baiyunshan General Factory	New GMP certification of oral cephalosporin solid preparations workshop	Guangzhou special technical renovation project	3,500.00	In use
Baiyunshan General Factory	Pre-clinical study on PDE9A inhibitor, LW33 as 1.1 chemical drug for treatment of alzheimer's disease	Special project for applied science and technology research and development in Guangdong province	1,250.00	In use
Baiyunshan General Factory	Secondary development of the famous Chinese patent medicine Ke Te Ling	Special project for secondary development of the famous Chinese patent medicines in Guangdong province	1,500.00	In use
Guangzhou Han Fang	Technical renovation project of the raw excipients production line of fat milk key series	Guangzhou special technical renovation project	1,304.30	In use
Guangyao General Institute	Construction of Guangzhou biological sample testing center conforming to GLP specification	Science and technology plan project of Haizhu district, Guangzhou	2,000.00	In use

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(ii) Research and development situation of the Company's medicine (products) *(Continued)*

7) *Substantial R&D subsidy, support, allowance, tax preference for the projects from the government and relevant use by the Company. (Continued)*

Name of enterprise	Item name	Supporting type	Amount of subsidy (RMB'000)	Information on utilization
Zhong Yi	Modern research and application of An Gong Niu Huang Pill	Guangzhou Science Technology and Innovation Commission – special topic for the external science and technology cooperation under major industry-college-institute collaborative innovation projects	1,200.00	In use
Zhong Yi	Construction of the Chinese patent medicine innovation research institute of Guangzhou Baiyunshan Zhong Yi	Guangzhou Science Technology and Innovation Commission – special project for construction of research and development institutions of enterprises	3,000.00	Subsidy of RMB2 million from Guangzhou Science Technology and Innovation Commission and grant of RMB1 million from development zone science and technology innovation bureaus of Guangzhou. In use

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(iii) Situation of the production and sales of the Company's products

1) Situation of the main business of the Company divided according to the therapeutic areas

✓ Applicable □ Not applicable

Main therapeutic areas	Product name	Operating income (RMB'000)	Operating costs (RMB'000)	Gross profit (RMB'000)	Changes of	Changes of	Changes of
					operating income compared with last year (%)	operating costs compared with last year (%)	gross profit margin compared with last year (%)
Drugs used in internal medicine department	Xiao Ke Pill	481,061.84	140,504.41	70.79	(12.53)	(25.36)	5.02
	Xiao Chai Hu Granule	287,630.97	178,938.15	37.79	6.69	18.41	(4.01)
	Shu Jin Jian Yao Pill 45g	215,965.76	95,927.61	55.58	52.22	34.39	11.86
	Hua Tuo Zai Zao Pill	210,909.98	142,936.10	32.23	101.70	78.73	37.04
	Xia Sang Ju Granule 10g	179,680.18	89,706.33	50.07	(3.00)	7.87	(0.09)
	Ke Teling Series	152,361.94	134,428.88	11.77	75.96	68.35	3.99
	An Gong Niu Huang Pill	105,348.27	42,544.10	59.62	18.98	19.76	(0.26)
Antimicrobial drugs	Zi Shen Yu Tai Pill	171,316.78	48,356.11	71.77	52.68	(33.82)	36.89
	Cefixime series	455,708.19	73,061.81	83.97	23.85	(31.91)	13.13
	Cefathiamidine for Injection	345,511.45	212,144.17	38.60	(7.44)	32.10	(18.38)
	Amoxicillin series	201,961.78	127,212.92	37.01	(6.57)	(4.49)	(1.37)
	Cefditron capsule	157,216.55	76,598.06	51.28	19.32	27.58	(5.80)
	Cephalosporin	115,195.87	49,250.53	57.25	13.71	(19.02)	17.28
Andrology medication	Cefixime	101,655.48	9,989.40	1.73	11.78	5.44	5.91
Drugs for easing pain, clearing heat, and resisting inflammation, wind-damp and gout	Sildenafil Citrate Tablet	562,660.21	41,496.54	-	40.70	29.37	-
	Paracetamol Caffeine Aspirin Powder	158,131	73,157	53.74	2.15	(2.55)	4.35

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(iii) Situation of the production and sales of the Company's products (Continued)

1) Situation of the main business of the Company divided according to the therapeutic areas (Continued)

Explanation:

Applicable Not applicable

During the Reporting Period, the gross profit rate of the principal operation of the Company was 37.36%, among which, the gross profit rate of the Great Southern TCM segment was 45.40%. The large difference in gross profit rate between Great Southern TCM segment and the companies mentioned above was mainly due to the difference in the products structure and large difference in the gross profit rate of principal products.

The gross profit rate of the companies in the industry:

Stock code	Abbreviation	Operation pharmaceutical revenue (RMB'000)	Gross profit rate of industry (%)	Overall gross profit rate (%)
600664	Harbin Pharmaceutical Group Co., Ltd.	14,126,885.95	54.32	26.44
600511	China National Medicines Co., Ltd.	13,386,417.45	21.24	7.42
601607	Shanghai Pharmaceuticals Holding Co., Ltd.	120,764,660.34	52.88	11.79
600196	Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	14,628,820.44	58.57	54.07
600085	Tongrentang Chinese Medicine-Since	12,090,740.12	50.94	45.98

Notes:

- (A) Full disclosure in the annual reports of the comparable companies for 2017 is not yet available, the above information came from the annual reports of the comparable companies for year 2016.
- (B) The companies above had not disclosed the gross profit rate of the medicine divided according to the therapeutic areas in their 2016 annual reports, therefore the Company could not analyze the data according to therapeutic areas.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(iii) Situation of the production and sales of the Company's products (Continued)

2) Analysis of the main sales model of the Company

Applicable Not applicable

For the details of the sales mode of each segment of the Group, please refer to Operation Model, (ii) of COMPANY'S BUSINESS PROFILE in Section III of the this annual report.

3) Situation of the centralized purchase of drugs through bidding

Applicable Not applicable

Name of the main medicine (products)	Specifications	Interval of bidding price	The total actual purchase quantity of medical institutions (RMB)
Xiao Ke Pill	52.5g/bottle	31.84-45.65	9,058.07 thousand bottles
Di Tong Biyan Drop	15ml/bottle	28.50-45.00	6,156.00 thousand bottles
Qing Kai Ling Grain	3gx24 bag/box	30.05-35.47	6,966.00 thousand boxes
Cephathiamidine for Injection	0.5g*10 bottles/box	26.26-28.10	26,739.90 thousand boxes
Ceflon dispersible tablets	0.25 g(in cephalosporium) * 6 tablets	29.39-32.00	10,665.98 thousand boxes
Cefixime	0.19x6 tablets/box	31.73-37.13	11,641.47 thousand boxes
Cefepxyime hydrochloride for injection	1.0g/bottle	22.15-33.80	4,277.38 thousand bottles
Hua Tuo Zai Zao Pill	8g*12 bag/box	35.70-37.18	3,190.53 thousand boxes
Compound zinc iron calcium particles	5g*10 bag/box	17.55	2,036.88 thousand boxes
Cefatini capsules	0.1g*10 capsule/box	80.29-92.50	2,362.80 thousand boxes
Cefatini capsules	0.1g*6 capsule/box	49.08-57.40	2,420.80 thousand boxes
Cefoxime dispersible tablets	0.1 g * 6 tablets/box	42.59-48.17	6,487.02 thousand boxes
Zi Sheng Yu Tai Pill	5g*6 bag/box	83.50-84.00	969.99 thousand boxes
Cefoxime sodium for injection	1.25g*10bottle/box	15.14-18.96	5,167.20 thousand boxes
Qing Kai Ling for injection	10ml*5 bottle/box	5.60-12.15	8,208.00 thousand boxes
Qing Re Xiao Yan Ning Capsule	0.32g/grain*24 grain/box	24.77-48	1,933.00 thousand boxes
Mi Lian Chuan Bei Pi Pa Confection	345g/bottle	22.00-25.08	1,817.50 thousand bottles
Afa ossified alcohol pill	0.25ug * 20 tablets/box	10.50-19.00	2,593.56 thousand boxes
Sodium cemeno for injection	1.0g/bottle	15.70	5,316.51 thousand bottles

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(iii) Situation of the production and sales of the Company's products *(Continued)*

4) Analysis of sales expenses

Constitute of the sales expenses

Applicable Not applicable

Items	Amount occurred for the Report Period (RMB'000)	Percentage of amount occurred for the Report Period in the total sales cost (%)
Employee remuneration	1,702,287	39.72
Sales service fee	1,279,605	29.86
Transportation expenses	130,484	3.04
Office expenses	19,045	0.44
Freight and miscellaneous charges	458,580	10.70
Rental expenses	31,645	0.74
Conference expenses	46,436	1.08
Advertising and promotion fees	567,035	13.23
Consulting fees	12,381	0.29
Depreciation charges	2,874	0.07
Others	35,577	0.83
Total	4,285,949	100.00

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(4) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

(iii) Situation of the production and sales of the Company's products (Continued)

4) Analysis of sales expenses (Continued)

Situation of the comparison in the same industry

Applicable Not applicable

Comparable companies in the same industry	Selling and distribution expenses (RMB'000)	Selling and distribution accounted for the proportion of revenue (%)
Harbin Pharmaceutical Group Co.,Ltd.	762,113.90	5.39
China National Medicines Co.,Ltd.	215,466.40	1.61
Shanghai Pharmaceuticals Holding Co., Ltd.	6,067,497.20	5.02
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	3,704,056.40	25.32
Tongrentang Chinese Medicine-Since	2,422,682.20	20.04
The average amount of the selling and distribution expenses (RMB'000)		2,634,363.22
Total amount of the selling and distribution expenses of the Company during the Reporting Period (RMB'000)		4,285,949.35
Selling and distribution expenses accounted for the proportion of revenue of the Company during the Reporting Period (%)		20.45

Notes:

- (A) Full disclosure in the annual reports of the comparable companies for year 2017 is not yet available, the above information came from the annual reports of the comparable companies for year 2016.
- (B) The average amount of selling and distribution expenses is the arithmetic average of the five companies in the same industry.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD *(Continued)*

(4) Analysis on the pharmaceutical manufacturing industry operation information *(Continued)*

(iii) Situation of the production and sales of the Company's products *(Continued)*

4) Analysis of sales expenses *(Continued)*

Description on the significant changes in sales expenses and the reasonability of the proportion of the sales expenses

Applicable Not applicable

During the Reporting Period, the Group's total selling and distribution expenses amounted to approximately RMB4,286million, representing an increase of 12.90% compared with the corresponding period last year, mainly fact that in order to increase sales income during the Reporting Period, the Group actively carried out marketing and increased market investment, which resulted in an increase in related expenses such as sales service fee.

During the Reporting Period, the Group's sales service fee amounted to RMB1,279,605,000, representing an increase of 58.58% as compared with the corresponding period last year, mainly due to selling and distribution expenses, WLJ Great Health, a subsidiary of the Company, further improved the accuracy of selling and distribution expenses by review and tease out the detail of that expenses and transferred the product promotion fees (including free gifts, display, exclusive sales, barcode and others fees) incurred but not yet settled from "selling and distribution expenses – advertising and promotion fees" to "selling and distribution expenses – sales service fee". For more details, please refer to the Announcement of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited on the Reply to the Inquiry Letter from the Shanghai Stock Exchange published by the Company in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities journal (中國證券報), Securities Daily (證券日報) and on the websites of the SSE and HKEx on 24 November 2017.

During the Reporting Period, the Group's selling and distribution expenses accounted for 20.45% of operating income. Expenses of the Group in 2017 were higher than the average level of above enterprises in the industry in 2016, mainly because the Group's business structure and business sales model is different from the sales model of the above enterprises.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(5) Investment situation

(i) Overall analysis on foreign equity investment

As at the end of the Reporting Period, the foreign equity investment of the Company amounted to RMB2,008,481,000, with a decrease of RMB281,962,000 as compared with last year, mainly due to the increase in the long-term equity investment by investment revenue calculated using the joint venture equity method as adopted by the Company and the cash dividends received from joint venture, and no significant changes have occurred.

1) Significant equity investment

Applicable Not applicable

2) Significant non-equity investment

Applicable Not applicable

3) Financial assets evaluating at fair value

Applicable Not applicable

Investments in stocks

Number	Type of Stock	Stock Code	Stock name	The	Number of	Book value	% of stock	Gain/(Loss)
				initial amount of investment	shares held for the end of the Reporting Period	as at the end of the Reporting Period	investment as at the end of the Reporting Period	during the Reporting Period
				(RMB'000)	(share)	(RMB'000)	(%)	(RMB'000)
1	A Share of SSE	600038	AVIC Helicopter Co., Ltd.	1,806	57,810	2,690	0.31	(96)
2	A Share of SSE	600664	Harbin Pharmaceutical Group Co., Ltd.	3,705	376,103	2,185	0.25	(854)
3	A Share of Shenzhen Exchange	000950	*ST Jian Feng	150,145	25,992,330	250,306	28.94	-
4	A Share of Shenzhen Exchange	002727	Yi Xin Tang	800,000	41,928,721	609,644	70.50	-
Other stock investments held as at the end of the Reporting Period				-				
Gain/(Loss) of stock investments sold during the Reporting Period				-				
Total				955,656	68,354,964	864,825	100.00	(950)

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD (Continued)

(5) Investment situation (Continued)

(i) Overall analysis on foreign equity investment (Continued)

3) Financial assets evaluating at fair value (Continued)

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

Stock Code	Stockname	Initial investment amount (RMB'000)	% of share holding (%)	Book value as at the end of the Reporting Period (RMB'000)	Gain/(Loss) during the Reporting Period (RMB'000)	Changes in equity during the Reporting Period (RMB'000)	Accounting item	Sources of shares
601328	Bank of Communications	525	-	2,450	107	177	Available-for-sale Acquired financial assets	Acquisition
601818	Everbright Bank	10,725	Approximately 0.02	24,502	593	720	Available-for-sale Acquired financial assets	Acquisition

(ii) Details of the main subsidiaries and joint ventures of the Company

Name of enterprises	Business nature	Major products or services	Registered capital (RMB'000)	Equity directly held by the Company (%)	Total assets (RMB'000)	Net assets (RMB'000)	Net profit (RMB'000)
Subsidiaries							
WLJ Great Health	Manufacturing	Production and sales of pre-packaging food, dairy products, etc.	900,000	100.00	5,891,876	2,179,259	630,931

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

During the Reporting Period, the Group did not have other business operation activity having significant influence on the net profit.

Discussion and Analysis of Operation

3. DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT

(1) Competition pattern, and the development trend of the industry

Since 2001, the gross output value of China's pharmaceutical industry has been growing rapidly, and China has become the largest emerging pharmaceutical market in the world. For the recent two years, the industry growth has slowed down due to the combination of economic restructuring and other factors. However, with the continuous progress of the medical system reform, the framework of the social security system and the medical and healthcare system has been basically constructed, and the benefits of policy reform have provided new room for the growth of the pharmaceutical market. Meanwhile, China's accelerating population aging, increasing urbanization level, changing atlas of diseases, enhancing innovation capability in the industry and improving medical security system, are beneficial generally to the development of the PRC pharmaceutical industry.

Heading into 2018, during the cycle of new medical reform policy, the pharmaceutical industry enters a new stage of slow and stable transformation. The industry's profits are expected to continue to grow at double-digit rates, with profitability higher than most industries. Nevertheless, in light of speeding industry consolidation and expanding enterprise differentiation, the survival pressure of small and medium-sized enterprises increased sharply while the leading ones benefited from the policy and became consolidators of the industry. The pharmaceutical industry has entered into a new stage of capacity cutting and supply side reform. Under the new situation, there is a high degree of prosperity in the sector of innovative drugs, high-quality generic drugs and branding traditional Chinese medicines.

(2) Development strategy and annual work plan for year 2018

2018 will be a crucial year of the Group to implement the 13th Five-year Plan, and also a year of the Group to innovate and increase the benefits. In the year, the Group will carry out various work as below:

1. Set "major varieties" as the starting point to push forward revitalization and development of the Great Southern TCM segment: (1) strengthen collection and analysis of big data of key varieties to cultivate key products and execute "superstar products projects" while concentrating advantageous resources to build "superstar products"; (2) strengthen brand building and management, set strengthening brand and creating brand as the core to enhance efforts on 32 investment and promotion of PRC well-known trademarks and China Timehoned Brands, and further increase awareness and reputation of brands and products; (3) make great efforts to create "fashionable Chinese medicine", and promote the construction of "popularization, mass-orientation, modernization and internationalization" of Chinese medicine with high quality and fashion as the guidance and innovation as the starting point; (4) speed up marketing integration and promote changes in marketing modes, to establish marketing advantages of the Great Southern TCM segment.

Discussion and Analysis of Operation

3. DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT *(Continued)*

(2) Development strategy and annual work plan for year 2018 *(Continued)*

2. Promote development of the Great Health Industry by focusing on “diversified products”: (1) implement differentiated regional strategy, and implement diversified products strategy to establish the Great Health Industry product system featuring “one core with multi-elements” and “diversified products” (一核多元、品類多元); (2) implement precise publicity strategy, continue to increase investment in related fields, and promote the popularization of Wang Lao Ji products; speed up the implementation and construction of Wang Lao Ji museum projects, further increasing the influence of Wang Lao Ji brand; (3) implement international expansion strategy to increase product exports and overseas market presence; (4) implement modern science and technology strategy to strengthen scientific research of functional study, improvement in product quality and development of new products of Wang Lao Ji and other products.
3. Advance the expansion of the Great Commerce segment setting “furtherance+ exploitation” as the main line: (1) quicken the expansion of modern medical logistics extension services, and continue to exploit hospitals and medical institutions of each level to build smart pharmacy brands; (2) accelerate extension of the terminal delivery business network and layout of retail business, consolidating the network system of hospitals at all levels; (3) steadily promote the integration of industrial and commercial resources and sales.
4. Further promote the upgrading and reconstruction of Guangzhou Baiyunshan Hospital, and strengthen cooperation with professional and high-end medical institutions; expand this field gradually through international cooperation, merger and acquisition and shareholding, to develop new business patterns of medical device.
5. Develop high-quality innovation system driven by innovation: (1) promote innovation in science and technology to create a R&D model setting innovative medicine as the core, integrating generic medicine and innovative medicine; (2) boost technological innovation to build a more effective quality system; (3) impel management innovation to establish an information-based, standardized, scientific and efficient management system. Promote the construction of industrial innovation incubators as well as innovation and startup platforms, accelerate the implementation of crowd innovation projects, explore innovation and business start-up modes like shareholding by operators and internal crowd fund raising, and speed up development of institutional mechanisms for internal innovation and startup.
6. Accelerate merger and acquisition and expansion of new businesses and patterns, increase efforts on capital operation, continue to promote investment and acquisition projects of four major segments, and build up a unique and differentiated medical service industry.

Discussion and Analysis of Operation

3. DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT *(Continued)*

(2) Development strategy and annual work plan for year 2018 *(Continued)*

7. Scientifically plan and organize the layout, further improve the capacity layout, strengthen the centralized management of the Group's overall capacity development, speed up the construction of production base projects and promote the upgrade of manufacturing capacity.
8. Manage the Group strictly, reduce cost and increase the benefits to enhance the quality benefits of great management: improve the system, standardize management; control expenses, improve centralized purchasing, integrate various resources, strengthen expenses control, reduce cost and increase the benefits; increase the efforts on resource integration, continue in stages integration operation in a planned and systematic way; vigorously promote the information construction to enhance the benefits.

(3) Potential challenges and risks

In 2018, in the face of implementing and promoting new policies such as acceleration of medical and health reform, GPO pilot scheme, integrated medical system, two-voice system, removal of the price markups on medicine, medical expense growth control, restriction on adjuvant drugs, price adjustment for medical insurance payments, Medical Insurance Catalogue leaning toward innovative medicine with high performance price ratio, intensified secondary price negotiation and medicine price checking becoming norm, the development of traditional business the Group remained challenging.

The Group will pay close attention to the implementation and promotion of new policies and make strategic deployments in advance. For the corresponding measures, please refer to the content regarding the changes in industry policies and impact in the section headed “(4) Analysis on the pharmaceutical manufacturing industry operation information” in Section IV of this report.

4. OTHER MATTERS

(1) Accounts

The results of the Group for the year ended 31 December 2017 are set out in the consolidated income statement.

The financial conditions of the Group as at 31 December 2017 are set out in the consolidated balance sheet.

The cash flows of the Group for the year ended 31 December 2017 are set out in the consolidated cash flow statement.

The cash flows of the Company for the year ended 31 December 2017 are set out in the cash flow statement.

Discussion and Analysis of Operation

4. OTHER MATTERS *(Continued)*

(2) Financial Summary

A summary of the results and of the assets and liabilities of the Group are set out on pages 41 to 46 in the Directors' Report contained in this annual report.

(3) Reserves

Details of the movements in the reserves of the Group during the Year are set out on pages 307 to 313 of the financial report contained in this annual report.

(4) Distributable Reserves

The distributable reserves of the Group as at 31 December 2017 calculated in accordance with the PRC Accounting Standards was RMB4,024,415,000.

(5) Fixed Assets

Details of the movements of fixed assets for the year ended 31 December 2017 are set out on pages 282 to 284 of the financial report contained in this annual report.

(6) Ordinary Connected Transactions

Details of connected transactions were set out on pages 115 to 119 of the Major Events of this annual report.

(7) Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

(8) Corporate Governance

The Company complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules except for code provision A.6.7 as disclosed in the section headed IX "Corporate Governance" below.

Discussion and Analysis of Operation

4. OTHER MATTERS (Continued)

(9) Tax Exemption

Due to the changes in the PRC tax regulations, the individual holders of H Shares whose names appeared on the H Share register of members of the Company (the "Individual H-Share Holders") are no longer exempted from the individual income tax payment pursuant to the Circular on the Questions Concerning Tax on the Profits Earned by Enterprises with Foreign Investment, Foreign Enterprises and Individual Foreigners from the Transfer of Stocks (Stock Rights) and on Dividend Income (Guo Shui Fa[1993] No. 045)* (《關於外商投資企業、外國企業和外籍個人取得股票(股權)轉讓收益和股息所得稅收問題的通知》(國稅發[1993]045號)) issued by the State Administration of Taxation. Accordingly, in respect of non-resident enterprise holders of H Shares, the Company will withhold the dividends payable to them and pay for and on their behalf the individual income tax and enterprise income tax at a tax rate of 10% or any other applicable percentage tax rate according to the relevant tax regulations.

(10) Retirement Scheme

Details of the retirement scheme and amounts of contributions of the Group are set out on pages 299 to 300 of the financial report contained in this annual report respectively.

(11) There had been no changes in the newspapers designated by the Company for information disclosure

(12) Environmental policy

The environmental policy and its performance of the Group were set out on the Social Responsibility Report in 2017 of the Company (full text of the report has been uploaded to the website of SSE and HKEx).

Major Events

1. PROPOSED SCHEME OF PROFIT DISTRIBUTION OR INCREASE IN SHARE CAPITAL BY TRANSFER FROM CAPITAL RESERVE

(1) Formulation of cash distribution policy and its implementation

The Company attaches great importance to the reasonable investment returns for investors, explicitly stipulated the distribution policy in accordance with the relevant provisions of Article 217 of the Articles of Association on distribution policy, including the principle of distribution, method of distribution, conditions of distribution and the lowest proportion of distribution, decision-making process of distribution and the conditions and process of the adjustment of distribution.

Considering factors such as profit, investment, funding needs, cash flow and shareholders' returns planning, etc. in conjunction with the relevant provisions of the Article of Association relating to profit distribution, the proposal in relation to the distribution of special dividends was submitted to the Board. After the proposal in relation to the distribution of special dividends was approved by the Board unanimously, it was submitted to the second extraordinary general meeting of the Company of 2016 for consideration and was approved. The special dividends had been distributed by the end of December 2016. The Company has submitted the proposal on profit distribution and dividend payment for year 2016 to the Board. After the proposal on profit distribution and dividend payment for 2016 was approved by the Board unanimously, it was submitted to the annual general meeting of the Company of 2016 for consideration, and was approved by shareholders present at the 2016 annual general meeting who hold more than half of voting rights. The dividends had been distributed by the end of August 2017.

(2) Profit distribution scheme or plan, reserved funds to equity shares scheme or plan of the Company for the last three years (including the Reporting Period):

Distribution year	Distributions of every 10 shares (inclusive of tax)	Amount of profit distribution in cash (inclusive of tax)	Net profit attributable to the shareholders of the listed Company for the distribution year as shown in the consolidated financial statements (After restatement)	Proportion of payout distribution in the net profit as showed in the consolidated financial statements
			(RMB)	(%)
2017	3.81	619,426,351.57	2,061,651,929.01	30.05
2016	2.80	455,221,465.72	1,508,032,671.07	30.19
2015 ^(note)	3.00	487,737,284.70	1,300,351,292.59	37.51

Note: In order to ensure that the non-public offering of A shares of the Company is not affected by the payments of dividend, the Company had neither distributed the annual dividend of 2015 nor capitalized capital reserve as approved at the 2015 annual shareholders' meeting. Meanwhile, given that the Company has completed the implementation of the plan for non-public offering of A shares and taking into account of the Company's situation, the 2016 second extraordinary general meeting of shareholders held on 11 November 2016 approved the proposal on distribution of special dividend and such dividend distribution was treated as dividend for 2015.

Major Events

1. PROPOSED SCHEME OF PROFIT DISTRIBUTION OR INCREASE IN SHARE CAPITAL BY TRANSFER FROM CAPITAL RESERVE *(Continued)*

(3) Cash offer to repurchase shares into cash dividends

Applicable Not applicable

(4) The parent company make profit and undistributed profit is positive but did not proposed a scheme of profit distribution during the Reporting Period, the Company should disclose the reason and the scheme of undistributed profit

Applicable Not applicable

2. PERFORMANCE OF UNDERTAKINGS BY THE COMPANY, ITS SHAREHOLDERS AND ACTUAL CONTROLLERS

(1) Independence of listed company

Item	Content
Background of undertakings	Undertakings related to the Major Assets Reorganization in 2013
Party giving the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none"> After completion of the Major Assets Reorganization in 2013, GPLH, the controlling shareholder of the Company, will comply with the requirements of relevant laws and regulations, regulatory documents and the Articles of Association of the Company, and exercise shareholder's right according to laws and will not affect the independence of the Company by exerting its influence as a controlling shareholder and will maintain the integrity and independence of the Company in respect of assets, employees, finance, organisation and business. The undertaking letter will remain effective so long as GPC legally and validly exists and GPLH owns controlling interest in the Company.
Time and period of the undertaking	The undertaking was given on 29 February 2012 and is valid permanently.
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Compliance or not	Yes

Major Events

2 PERFORMANCE OF UNDERTAKINGS BY THE COMPANY, ITS SHAREHOLDERS AND ACTUAL CONTROLLERS (Continued)

(2) Avoiding competition

Item	Content
Background of undertakings	Undertakings related to the Major Assets Reorganization in 2013
Party giving the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none"> After completion of the Major Assets Reorganization in 2013, GPLH and its controlled subsidiaries (except for GPC and its subsidiaries) should avoid engaging in business and operations which substantially compete with those of the subsisting the Company after completion of the Major Assets Reorganization ("new GPC"), and avoid increasing investment in companies and enterprises, other than new GPC and its subsidiaries, which engages in business and operations which substantially compete with those of new GPC. GPLH will not and will procure its subsidiaries not to engage in the same or similar business of new GPC to avoid direct or indirect competition with the operation and business of new GPC. In addition, GPLH will voluntarily and vigorously procure its subsidiaries to give up competition with new GPC if GPLH and its subsidiaries will bring unfair impact on new GPC in respect of market shares, business opportunities and allocation of resources. GPLH shall bear the economic losses and/or additional costs directly and/or indirectly suffered or incurred by new GPC due to any breach of the above undertakings. The undertaking letter shall remain effective so long as GPC legally and validly exists and GPLH owns controlling interest in GPC.
Time and period of undertaking	The undertaking was given on 29 February 2012 and is valid permanently.
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Compliance or not	Yes

Major Events

2 PERFORMANCE OF UNDERTAKINGS BY THE COMPANY, ITS SHAREHOLDERS AND ACTUAL CONTROLLERS *(Continued)*

(3) Regulating connected transactions

Item	Content
Background of undertakings	Undertakings related to the Major Assets Reorganization in 2013
Party giving the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none"> After completion of the Major Assets Reorganization in 2013, GPLH and its subsidiaries should minimize and regulate connected transactions with new GPC. If there is any unavoidable connected transaction, GPLH and its controlled subsidiaries will sign agreement with new GPC in accordance with laws and perform the legal procedures. They will also fulfill the information disclosure obligations and pursue the reporting and approval procedures according to the requirements of relevant laws and regulations, the Listing Rules of SSE and the Listing Rules of HKEX and the Articles of Association of Guangzhou Pharmaceutical Company Limited, and warrant that it will not harm the legitimate rights and interests of the subsisting GPC after completion of the Major Assets Reorganization in 2013 and its other shareholders. The undertaking letter will remain effective so long as GPC legally and validly exists and GPLH owns controlling interest in GPC.
Time and period of the undertaking	The undertaking was given on 29 February 2012 and is valid permanently.
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Compliance or not	Yes

Major Events

2 PERFORMANCE OF UNDERTAKINGS BY THE COMPANY, ITS SHAREHOLDERS AND ACTUAL CONTROLLERS (Continued)

(4) Undertakings related to trademark

Item	Content
Background of the undertakings	Undertakings related to the Major Assets Reorganization in 2013
Party giving the undertaking	Controlling shareholder, the Company
Undertakings	<p>GPHL and the Company mutually undertake as follows in relation to the transactions under the Trademark Custody Agreement between Guangzhou Pharmaceutical Company Limited and Guangzhou Pharmaceutical Holdings Limited (the "Agreement"):</p> <ol style="list-style-type: none"> Both parties will enter into a supplemental agreement ("Supplemental Agreement") to the Agreement as soon as possible after the Agreement becoming effective and before they enter into the first new or renewal licensing agreement relating to the licensing of Wang Lao Ji trademarks in custody under the Agreement, with the specific arrangement for new/renewal trademark license to be negotiated by the parties separately. Both parties also agreed that the Supplemental Agreement shall (i) embody the requirement for GPHL to pay the Company a basic custody fee of RMB1 million per year as set out in the Agreement; and (ii) specify that 20% of the new licenses fees will be the custody income for the Company and the remaining 80% will be retained by GPHL. Both parties further undertake that the Supplemental Agreement they entered into in the future under the above arrangement will comply with applicable provisions of the Listing Rules of HKEx and SSE (including but not limited to the requirements of Chapter 14A of the Listing Rules of HKEx and Chapter 10 of the Listing Rules of SSE relating to continuing connected transactions/connected transactions in the ordinary course of business, including that the Supplemental Agreement must specify its validity term, the estimated annual cap of custody income, other terms that must be set out, and etc.).
Time and period of the undertaking	Commitment made on 26 March 2012 and the period of validity is up to the date of completion of the undertakings
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Compliance or not	Yes

Major Events

2 PERFORMANCE OF UNDERTAKINGS BY THE COMPANY, ITS SHAREHOLDERS AND ACTUAL CONTROLLERS *(Continued)*

(5) Undertakings related to properties with legal defects

Item	Content
Background of the undertakings	Undertakings related to the Major Assets Reorganization in 2013
Party giving the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none"> 1. GPLH will promote the development of the subsisting listed company, protect the interests of minority investors, and proactively take measures to solve the issue of Baiyunshan properties with legal defects in titles to ensure that the interests of the subsisting listed company and investors are not jeopardised. 2. Guaranteeing that the subsisting listed company will be able to continue occupying and using such properties after completion of the merger and that it will not incur any additional cost nor suffer any material adverse impact due to such issue. 3. After completion of the merger, GPLH will fully compensate the Company within 2 months from the date of incurring of the actual losses (not including the tax normally incurred in respect of changing the registration name and transfer in relation to the properties and the land premium in relation to the changes from non-granted land use rights to granted land-use rights) in case there are any penalties imposed on or losses incurred by the Company due to the legal defects in the building ownership or land use rights of the Baiyunshan properties to be acquired by the Company, and such losses include but not limited to all economic losses in connection with any civil, administration and criminal liabilities, to ensure that the Company and minority investors will not suffer any damage thereunder.
Time and period of the undertaking	The undertaking was given on 29 February 2012 and is valid permanently.
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Compliance or not	Yes

Major Events

2 PERFORMANCE OF UNDERTAKINGS BY THE COMPANY, ITS SHAREHOLDERS AND ACTUAL CONTROLLERS (Continued)

(6) Undertakings related to trademarks

Item	Content
Background of the undertakings	Undertakings related to the Major Assets Reorganization in 2013
Party giving the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none"> 1. GPLH undertakes that, within two years from the date of satisfaction of any one of the conditions set out below, it will legally transfer the trademarks in Wang Lao Ji series (25 in total) and 4 other trademarks (comprising trademarks with registration numbers of 125321, 214168, 538308 and 5466324) to the Company according to the requirements of laws and regulations then in force: (i) Upon the expiry on 1 May 2020, or earlier when the license agreement and its supplemental agreement were invalidated/void/terminated as determined by the arbitration institution, or earlier when the agreement was terminated or released as agreed between the parties; or (ii) Hung To (Holdings) Company Limited (鴻道(集團)有限公司) legally ceases to own the right of pre-emption. 2. On the basis of the original undertaking letter, GPLH has further made the promise as follows: After all of the legal disputes regarding the trademark of Wang Lao Ji have been resolved and within two years commencing from the transferable day, GPLH shall, pursuant to the provisions of the effective laws and regulations then and after the relevant procedures regarding the reporting for approval have been processed, legally transfer to the Company such 29 trademarks of the series of "Wang Lao Ji" together with such other trademarks related to Wang Lao Ji and 4 trademarks obtained and owned in legal manner by GPLH after the Execution Day (inclusive of today) for the "Supplementary Agreement to the Agreement of Trademark Custody". The Company may obtain such by cash or by issuing shares for purchasing assets wherein the transfer price shall be legally confirmed based on such appraisal value as issued by an appraisal institute possessing the professional qualification of engaging in securities and as confirmed in the asset appraisal report verified by the State-owned assets authority.

Major Events

2 PERFORMANCE OF UNDERTAKINGS BY THE COMPANY, ITS SHAREHOLDERS AND ACTUAL CONTROLLERS *(Continued)*

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

Item	Content
Time and period of the undertaking	The original undertaking was given on 29 February 2012. GPLH gave a supplemental undertaking in respect of the relevant contents on 15 June 2012. The undertaking remains valid until it has been fully performed.
Valid period for performance	N/A
Whether timely and strictly performed	In December 2014, the Company received the Letter of Amendment to the Undertakings of Injection of Wang Lao Ji Trademark Series from GPLH, which proposed to amend the performance period of the former undertakings to “two years since the commencing date of the judgment on the law case of red can decoration”, due to the disputes of red can decoration. As approved at the 8th meeting of the sixth session of the Board, the resolution on the amendment to the performance period of injection of Wang Lao Ji trademark series was submitted to the first extraordinary general meeting in 2015 held on 13 March 2015 and was approved.
Compliance or not	Yes

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

Major Events

3. APPROPRIATION OF FUNDS AND PROGRESS OF PAYMENTS OF DEBTS DURING THE REPORT PERIOD

Applicable Not applicable

4. EXPLANATION GIVEN BY THE BOARD ON THE “NON STANDARD AUDITOR’S REPORT” ISSUED BY THE AUDITORS

(1) Explanation of the Board and Supervisory Committee on the “Non Standard Auditor’s Report” issued by the auditors

Applicable Not applicable

(2) Analysis of the Board on reasons and effects on changes in the accounting policies, accounting estimates or the accounting methods

Applicable Not applicable

(3) Explanation and analysis of the Board on the reasons and effects on correction of errors in the period

Applicable Not applicable

5. APPOINTMENT, DISMISSAL OR CHANGE IN APPOINTMENT OF AUDITORS

Current auditors

Name of the domestic Certified Public Accountants	BDO China Shu Lun Pan CPAs LLP
Total remuneration of the domestic Certified Public Accountants (RMB’000)	2,203
Including: Expenses on auditing financial report (RMB’000)	1,823
Expenses on reviewing financial report (RMB’000)	380
Term of office of the domestic Certified Public Accountants	5
Name of the overseas Certified Public Accountants	/
Remuneration of the overseas Certified Public Accountants (RMB’000)	/
Term of office of the overseas Certified Public Accountants	/

Note: BDO China Shu Lun Pan CPAs LLP has been served as the Company’s prior domestic auditors since 2010 (including 2010).

	Name	Remuneration (RMB’000)
Internal control audit certified public accountants	BDO China Shu Lun Pan CPAs LLP	350

Major Events

5. APPOINTMENT, DISMISSAL OR CHANGE IN APPOINTMENT OF AUDITORS *(Continued)*

Explanatory notes on the appointment of auditors:

- (i) As approved at the third meeting of the Audit Committee in 2017, BDO China Shu Lun Pan CPAs LLP was appointed as the auditor of the Company for year 2017 and the internal control auditor of the Company for year 2017.
- (ii) The 3rd meeting of the seventh session of the Board passed the resolution in relation to the appointment of BDO China Shu Lun Pan CPAs LLP as the auditor of the Company for year 2017 and the internal control auditor of the Company for year 2017.
- (iii) Pursuant to the approval given in the first extraordinary general meeting of 2017, BDO China Shu Lun Pan CPAs LLP was appointed as the auditor of the Company for year 2017 and the internal control auditor of the Company for year 2017.

6. RISK OF FACING SUSPENSION OF LISTING

Applicable Not applicable

7. THE SITUATION AND REASONS FOR FACING SUSPENSION OF LISTING

Applicable Not applicable

8. MATTERS RELEVANT TO BANKRUPTCY AND SCHEME OF ARRANGEMENT

Applicable Not applicable

Major Events

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

The litigation and arbitration of the Group during the Reporting Period.

- (i) The litigation in relation to the Wang Lao Ji trademarks which GPLH (the controlling shareholder of the Company) was involved

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

According to the Civil Judgement of Case No. 1, the results of the judgment are as follows: "The appeal was dismissed and the original judgement was upheld.

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

According to the Civil Judgement of Case No. 2, the results of the judgment are as follows: "1. Revoked the Civil Judgement ((2013) Yue Gao Fa Min San Chu Zi No. 2) issued by the People's High Court of Guangdong Province (廣東省高級人民法院); 2. Dismissed all the claims made by Guangzhou Pharmaceutical Holdings Limited (廣州醫藥集團有限公司). The acceptance fee of RMB796,800, evidence preservation fee of RMB30 and the audit expense of RMB420,000 for the first instance trial, and the acceptance fee of RMB793,126.05 for the second instance trial shall be borne by Guangzhou Pharmaceutical Holdings Limited. The judgement is final."

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

Major Events

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

- (ii) The litigation in relation to the “dispute case of improper competition” between WLJ Great Health, a wholly-owned subsidiary of the Company, and GPLH, the controlling shareholder of the Company.

WLJ Great Health, a wholly-owned subsidiary of the Company, and GPLH, the controlling shareholder of the Company received the Civil Case Judgment of Second Instance Trial ((2016) Yue Min Zhong No. 303) issued by the People’s High Court of Guangdong Province (廣東省高級人民法院) (“Guangdong High Court”) regarding the dispute case of improper competition between Guangdong Jia Duo Bao, the appellant, Guangdong Lerun Store Co., Ltd. (廣東樂潤百貨有限公司), the defendant in the first instance trial and WLJ Great Health and GPLH, the appellees.

According to the Judgement, the judgment issued by Guangdong High Court are as follows: “(1) Revoked the Civil Case Judgment ((2013) Sui Zhong Fa Zhi Min Chu Zi No. 619) issued by the People’s Intermediate Court of Guangzhou City of Guangdong Province* (廣東省廣州市中級人民法院); (2) Dismissed all the claims made by WLJ Great Health and GPLH. The acceptance fee of RMB46,800 for the first instance trial and the acceptance fee of RMB46,800 for the second instance trial shall be borne by WLJ Great Health and GPLH. The acceptance fee of RMB46,800 for the second instance trial paid in advance by Guangdong Jia Duo Bao will be returned by the Court. The judgement is final.”

For details, please refer to the announcement dated 14 November 2017 published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and the announcement on the websites of the SSE and the HKEx.

- (iii) The arbitration in relation to the “equity dispute case” of Wang Lao Ji, a joint venture of the Company

On 25 December 2017, the Company received the Arbitration Award Hua Nan Guo Zhong Shen Cai [2017] No. 578 (the “Award”) regarding the equity dispute case of Wang Lao Ji, a joint venture of the Company (case No. SHEN T2014811) issued by Committee of South China International Economic and Trade Arbitration (“Shenzhen International Court of Arbitration”, hereinafter referred to as the “Arbitration Committee”).

Major Events

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

- (iii) The arbitration in relation to the “equity dispute case” of Wang Lao Ji, a joint venture of the Company (Continued)

According to the Award, the award issued by the Arbitration Committee are as follows: (1) Golden Force Pharmacy Limited (the respondent) shall transfer the entire equity of Wang Lao Ji (totaling 98,378,439 shares) held by it to the applicant at the net asset value of RMB3.75 per share with a total transfer price of RMB368,919,146.25 (inclusive tax). (2) The respondent shall cooperate with the applicant in handling the registration of alteration involved in the equity transfer of Wang Lao Ji (including but not limited to procedures of the foreign economy department and the industrial and commercial administrative department). If the respondent refuses to cooperate, the applicant may, within the scope as permitted by the effective laws, go through the formalities for alteration accordingly. (3) The respondent shall reimburse the lawyer fee of RMB560,000 paid by the applicant for the case. (4) The audit and evaluation fee of RMB7,100,000, the arbitration fees of RMB2,714,631 and the actual expenses for arbitration of RMB49,746.77 for the case shall be borne by the applicant and the respondent as to 30% and 70% respectively.

Each of the above obligations under the award shall be fulfilled by the parties within 30 days from the date of the award, and the monetary payment shall be made by the applicant to the respondent after offsetting.

The award is final and shall take effect on the day it is made.

For more details, please refer to the announcement dated 25 December 2017 published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and on the websites of the SSE and the HKEx.

- (iv) Other than the above, the Group had neither been engaged in any significant litigation or arbitration during the Reporting Period.

Major Events

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

Applicable Not applicable

11. EXPLANATION ON THE HONESTY OF THE COMPANY AND ITS CONTROLLING SHAREHOLDER AND ACTUAL CONTROLLER DURING THE REPORTING PERIOD

Applicable Not applicable

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

(1) Equity incentive

Applicable Not applicable

(2) Employee stock ownership plan

Applicable Not applicable

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

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

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

Major Events

13. CONNECTED TRANSACTIONS

(1) The details of the ordinary connected transactions disclosed in accordance with the requirements of the CSRC and the SSE are set out as below:

Connected parties	Relationship with the Company	Type of connected transactions	Contents of connected transactions	Pricing principle of the connected transactions	Amounts of connected transactions (RMB'000)	Percentage of similar transactions (%)	Settlement method of connected transactions
HWBYS	Joint Venture	Purchase of goods	Medicine or pharmaceutical products	Market price	24,954	0.24	Cash
GP Corp.	Joint Venture	Purchase of goods	Medicine or pharmaceutical products	Market price	286,177	2.81	Cash
Wang Lao Ji	Joint Venture	Purchase of goods	Medicine or pharmaceutical products	Market price	872,214	8.55	Cash
Hua Cheng	Controlled by the same parent company	Purchase of goods	Medicine or pharmaceutical products	Market price	7,987	0.08	Cash
Subtotal					1,191,332	11.68	
HWBYS	Joint Venture	Sale of products	Medicine or pharmaceutical products	Market price	209,169	1.01	Cash
GP Corp.	Joint Venture	Sale of products	Medicine or pharmaceutical products	Market price	1,019,758	4.95	Cash
Wang Lao Ji	Joint Venture	Sale of products	Medicine or pharmaceutical products	Market price	562,242	2.73	Cash
Nuo Cheng	Joint Venture	Sale of products	Medicine or pharmaceutical products	Market price	23	0.00	Cash
Baxter Qiao Guang	Joint Venture	Sale of products	Medicine or pharmaceutical products	Market price	928	0.00	Cash
Guangzhou Baiyunshan Southern antineoplastic Biological Products Holdings Co., Ltd.	Joint Venture	Sale of products	Medicine or pharmaceutical products	Market price	1	0.00	Cash
Hua Cheng	Controlled by the same parent company	Sale of products	Medicine or pharmaceutical products	Market price	72,694	0.35	Cash
Subtotal					1,864,815	9.04	

Major Events

13. CONNECTED TRANSACTIONS (Continued)

(1) The details of the ordinary connected transactions disclosed in accordance with the requirements of the CSRC and the SSE are set out as below: (Continued)

Connected parties	Relationship with the Company	Type of connected transactions	Contents of connected transactions	Pricing principle of the connected transactions	Amounts of connected transactions (RMB'000)	Percentage of similar transactions (%)	Settlement method of connected transactions
GPHL	Parent company	Provision of labour service	Advertising agency	Market price	1,190	0.92	Cash
HWBYS	Joint Venture	Provision of labour service	Advertising agency	Market price	43,598	33.87	Cash
GP Corp.	Joint Venture	Provision of labour service	Advertising agency	Market price	343	0.27	Cash
Wang Lao Ji	Joint Venture	Provision of service	Advertising agency	Market price	74,603	57.96	Cash
Baxter Qiao Guang	Joint Venture	Provision of labour service	Advertising agency	Market price	39	0.03	Cash
Hua Cheng	Controlled by the same parent company	Provision of labour service	Advertising agency	Market price	4,993	3.88	Cash
Wang Lao Ji	Joint Venture	Provision of labour service	Consigned processing	Market price	23,754	82.57	Cash
HWBYS	Joint Venture	Provision of labour service	Consigned processing	Market price	2,284	7.94	Cash
HWBYS	Joint Venture	Provision of labour service	Research and development	Market price	743	6.68	Cash
Subtotal					151,547	/	
GPHL	Parent company	Acceptance of patents, rights to use trademarks and others	Rights to use trademarks	At price determined by agreement	88,226	83.67	Cash
Wang Lao Ji	Joint Venture	Acceptance of patents, rights to use trademarks and others	Rights to use trademarks	At price determined by agreement	13,389	88.07	Cash

Major Events

13. CONNECTED TRANSACTIONS (Continued)

(1) The details of the ordinary connected transactions disclosed in accordance with the requirements of the CSRC and the SSE are set out as below: (Continued)

Connected parties	Relationship with the Company	Type of connected transactions	Contents of connected transactions	Pricing principle of the connected transactions	Amounts of connected transactions (RMB'000)	Percentage of similar transactions (%)	Settlement method of connected transactions
HWBYS	Joint Venture	Acceptance of patents, rights to use trademarks and others	Rights to use trademarks	At price determined by agreement	1,814	11.93	Cash
GPHL	Parent company	Others	Leased as tenant	At price determined by agreement	1,458	1.49	Cash
GPHL	Parent company	Others	Leased out	At price determined by agreement	367	0.46	Cash
GP Corp.	Joint Venture	Others	Leased out	At price determined by agreement	4,156	5.23	Cash
Baxter Qiao Guang	Joint Venture	Others	Leased out	At price determined by agreement	2,971	3.74	Cash
Nuo Cheng	Joint Venture	Others	Leased out	At price determined by agreement	2,258	2.84	Cash
HWBYS	Joint Venture	Others	Leased out	At price determined by agreement	70	0.09	Cash
Total					3,322,403	/	

Major Events

13. CONNECTED TRANSACTIONS (Continued)

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

The details of connected transactions disclosed in accordance with the requirements of the HKEx are set out as below:

	2017 (RMB'000)
Ultimate holding company	
License fee expense of Wang Lao Ji trademark	86,034
Rental expense	1,458
Ultimate Holding Company and its subsidiaries	
Sales of finished goods and raw materials	72,694
Purchase of finished goods and raw materials	7,987

Meanwhile, other transactions in respect of jointly controlled entities and associates have been disclosed in the notes to the financial statements, and such transactions do not constitute connected transactions in accordance with the Listing Rules of HKEx.

The Board considered that the above-mentioned connected transactions were conducted in accordance with the terms of the relevant agreements and contracts. The Board acknowledged that the annual cap for the year ended 31 December 2017 of the "Wang Lao Ji License Agreement" published on 26 April 2013 and 15 July 2016 amounted to RMB250,000,000. The annual cap for rental for the lands and real estates leased from GPLH for the year ended 31 December 2017 disclosed in the interim report for the six months ended 30 June 2017 which was published on 20 August 2017 amounted to RMB20,000,000. The approved quota for Sales of finished goods and raw materials and Purchase of finished goods and raw materials for the year ended 31 December 2017 published on 15 March 2018 is RMB 72,694,000 and RMB7,987,000.

The independent non-executive Directors have reviewed the connected transactions and each confirmed that all the transactions were conducted in the ordinary course of the business of the Company and were on normal commercial terms. Such terms were considered normal commercial terms or terms to the Company no less favourable than those available to or from independent third parties. The relevant connected transactions were conducted in accordance with the terms of the agreements, and the terms were fair and reasonable and were in the interests of the Company's shareholders as a whole and the aggregate amount of license fee for "Wang Lao Ji" trademarks have not exceed the annual cap disclosed in the Company's announcement dated 26 April 2013 and 15 July 2016. The rental expenses have not exceed the annual cap disclosed in the Company's interim report for the six months ended 30 June 2017 which was published on 20 August 2017. The amount of Sales of finished goods and raw materials and Purchase of finished goods and raw materials have not exceed the approved quota disclosed in the Company's announcement dated 15 March 2018.

Major Events

13. CONNECTED TRANSACTIONS *(Continued)*

The Company's auditor was appointed to report of the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Listing Rules of HKEx" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its conclusions in respect of the license fee for Wang Lao Ji trademarks, the rental expense, Sales of finished goods and raw materials and Purchase of finished goods as disclosed in the continuing connected transactions above in accordance with the rule 14A.56 of the Listing Rules.

14. THE GROUP'S PURCHASE AND DISPOSAL OF ASSETS OR ENTERPRISE MERGER AND OTHER TRANSACTIONS.

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

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

Ming Xing (98.8 mu), He Ji Gong (36 mu), HYBYS (99.7 mu) and GP Corp. (68.5 mu), which are under the Group, have obtained the land use rights of the land available for construction (303 mu) in the first phase, with a total land bidding price of about RMB221.29 million. Currently, the construction of the pile foundation and the excavation of the groundwater pool have been completed for the He Ji Gong project. A review is being conducted on the working drawing for the Ming Xing project. Predrilling and site mapping have been completed for the GP Corp. project. Other relevant work is currently in active progress.

- (ii) As approved at the 11th meeting of the Strategic Development and Investment Committee of the Company in 2015, the capital of HK\$177,500,000 or the equivalent amount of RMB will be injected to Guangyao Baiyunshan Hong Kong Company by the Company, which could be paid by installment. The first phase of capital increase of RMB58,464,000 has completed on 23 December 2015 and the second phase of capital increase is currently in progress.

Major Events

14. THE GROUP'S PURCHASE AND DISPOSAL OF ASSETS OR ENTERPRISE MERGER AND OTHER TRANSACTIONS. *(Continued)*

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

- (iii) As approved at the 2nd meeting of the Strategic Development and Investment Committee of the Company in 2016, the Company contributed additional capital of RMB20.4 million to Yi Gan, a subsidiary controlled by the Company, according to its shareholding. After the capital increase, the registered capital of Yi Gan will be increased to RMB55 million. Currently, the capital increase is in progress and has not yet been completed.
- (iv) As approved at the 5th meeting of the Strategic Development and Investment Committee of the Company in 2016, Guangzhou Baiyunshan Chemical & Pharmaceutical Technology Co., Ltd. ("Chemical & Pharmaceutical Technology Company") and the Management Committee of Zhuhai Fushan Industrial Park ("Fushan Industrial Park") signed the Investment Agreement between the Management Committee of Zhuhai Fushan Industrial Park and Guangzhou Baiyunshan Chemical & Pharmaceutical Technology Co., Ltd. In accordance with the Investment Agreement, upon the approval of the project environmental evaluation, the Fushan Industrial Park will transfer a piece of class-III industrial land of 133,340 square meters (200 mu) to Chemical & Pharmaceutical Technology Company for the construction of the relocated chemical and pharmaceutical plant which will involve a preliminary investment of RMB55 million.

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

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

- (v) At the 7th meeting of the Strategic and Investment Committee of the Company in 2016, it was considered and approved that, the Company's subsidiary, Guangyao Baiyunshan Hong Kong Company would establish a company in Macau with a registered capital of MOP 1 million. At present, the establishment of this company is in progress.
- (vi) At the 2nd meeting of the Strategic and Investment Committee of the Company in 2017, it was considered and approved that the Company contributed addition capital of RMB10 million to WLJ Investment, a wholly-owned subsidiary of the Company for the investment in the establishment of Wang Lao Ji Dazhai Beverages Co., Ltd. The aforesaid capital increase has been completed and the registered capital of WLJ Investment had been increased from RMB10 million to RMB20 million.

Major Events

14. THE GROUP'S PURCHASE AND DISPOSAL OF ASSETS OR ENTERPRISE MERGER AND OTHER TRANSACTIONS. *(Continued)*

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

- (vii) At the 2nd meeting of the Strategic and Investment Committee of the Company in 2017, it was considered and approved that the subsidiaries of the Company (the lessee) entered into a new Guangzhou Tenancy Agreement with GPLH (the lessor) in respect of the use of properties including related lands, enterprise operated real estate and employees' housing, the annual property use fee of which shall not exceed RMB20 million, with a lease term of three years from 1 January 2017 up to 31 December 2019.
- (viii) At the 2nd meeting of the Strategic and Investment Committee of the Company in 2017, it was considered and approved that the Company (the lessor) entered into a new Guangzhou Tenancy Agreement with GP Corp. (the lessee), a joint venture of the Company, in respect of the use of properties including related lands, enterprise operated real estate and employees' housing, the annual property use fee of which shall not exceed RMB3.50 million, with a lease term of three years from 1 January 2017 up to 31 December 2019.
- (ix) At the 2nd meeting of the Strategic and Investment Committee of the Company in 2017, it was considered and approved that the Company (Buyer) entered into the Purchase Agreement of Additional Legal Properties at Rear Block, 282 Beijing Road with GPLH (Seller) in respect of the purchase of additional legal properties at Rear Block, 282 Beijing Road, the market value of which, the market value of which as at the valuation date and on an "as is" basis was RMB15.273 million, the actual amount of consideration paid was RMB14.5001 million after deducting the land-transferring fees and related taxes paid by GPLH. At present, the matter is in progress.
- (x) At the 3rd meeting of the Strategic Development and Investment Committee of the Company in 2017, it was considered and approved that the Company would contribute additional capital of RMB30 million, which was by reference to the Company's 75% shareholdings, to Xing Zhu, of which the first phase of RMB22.71 million was contributed in cash. At present, the first phase of capital increase has been completed.
- (xi) At the 4th meeting of the Strategic Development and Investment Committee of the Company in 2017, it was considered and approved that the Company would contribute additional capital of RMB10 million to Guangyao General Institute. Such contribution will be accounted as capital reserve and will be used to purchase scientific research equipment. At present, such capital increase has been completed.

Major Events

14. THE GROUP'S PURCHASE AND DISPOSAL OF ASSETS OR ENTERPRISE MERGER AND OTHER TRANSACTIONS. *(Continued)*

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

- (xii) At the 4th meeting of the Strategic Development and Investment Committee of the Company in 2017, it was considered and approved that HWBYS, a company under the Company would transfer 60% equity in Nanyang Baiyunshan Hutchison Whampoa Salvia Technology Development Co., Ltd. (南陽白雲山和黃冠寶藥業有限公司) by way of public listing with a floor price of RMB18.19 million. At present, such equity transfer has been completed.
- (xiii) At the 5th meeting of the Strategic Development and Investment Committee of the Company in 2017, it was considered and approved that Guangzhou Baiyunshan Medical Device Investment Co., Ltd. (廣州白雲山醫療器械投資有限公司), a wholly-owned subsidiary of the Company, and Shanghai Xiecheng Investment Management Co., Ltd. (上海協成投資管理有限公司) and Guangzhou OSMUNDA Medical Device Technology, Inc., Ltd. (廣州奧諾達醫療器械技術股份有限公司) would set up a joint venture, in order to build an operating platform for the medical equipment innovation incubator park. Guangzhou Baiyunshan Medical Device Investment Co., Ltd. intends to contribute RMB17 million in cash, accounting for 34% of the total capital, and has completed the first tranche contribution of RMB3.40 million. At present, the above project is under way.
- (xiv) At the 6th meeting of the Strategic Development and Investment Committee of the Company in 2017, it was considered and approved that WLJ Great Health, a wholly-owned subsidiary of the Company, would invest RMB10 million to set up an e-commerce subsidiary, to complete the e-commerce integration and operation of Wang Lao Ji series products. At present, such company has been set up.
- (xv) At the 6th meeting of the Strategic Development and Investment Committee of the Company in 2017, it was considered and approved that Tian Xin, a subsidiary of the Company would set up Guangzhou Baiyunshan Tian Xin Pharmaceutical Technology Co., Ltd (廣州白雲山天心製藥科技有限公司), a subsidiary of Tian Xin, as the project management and operation entity to construct the "Innovative Drugs Management Enterprises Incubator ". At present, such company has been set up.
- (xvi) At the 6th meeting of the Strategic Development and Investment Committee of the Company in 2017, it was considered and approved that the Company would contribute additional capital of RMB30 million to Baiyunshan Pharmaceutical Marketing. At present, such capital increase has been completed.

Major Events

14. THE GROUP'S PURCHASE AND DISPOSAL OF ASSETS OR ENTERPRISE MERGER AND OTHER TRANSACTIONS. (Continued)

(2) Acquisitions of assets and equity, interests by the Group during the Reporting Period are as follow:

Except for those disclosed in (2) in the section III "Company's Business Profile" of this annual report, the Group did not engage in any material acquisitions of assets and equity.

15. DEBTS OF RELATED PARTIES

Related party	Relationship with the related parties	Funds provided to related parties		Funds provided by related parties to listed company			
		Balance as at the beginning of the Reporting Period (RMB'000)	Amount (RMB'000)	Balance as at the end of the Reporting Period (RMB'000)	Balance as at the beginning of the Reporting Period (RMB'000)	Amount (RMB'000)	Balance as at the end of the Reporting Period (RMB'000)
Bozhou Baiyunshan Pharmaceutical	Subsidiary of joint venture	16,239	–	16,239	–	–	–
Total		16,239	–	16,239	–	–	–

Reasons for the funds provided to/from related parties

The Company's other receivables from HWBYS for the Reporting Period included receivables of RMB16,239,000 from HWBYS' subsidiary, namely Bozhou Baiyunshan. HWBYS was originally a joint venture with 50% equity interest held by Baiyunshan, and Bozhou Baiyunshan was originally 80% and 20% equity interest held by Baiyunshan and HWBYS respectively. On 30 March 2013, Baiyunshan and HWBYS entered into "Equity Transfer Agreement of Bozhou Baiyunshan Pharmaceutical Co., Ltd", according to which Baiyunshan agreed to transfer its equity interest and all the associated rights and obligations in Bozhou Baiyunshan to HWBYS.

Since the absorption and merger of Baiyunshan by the Company was completed in May 2013, HWBYS became a joint venture as well as a related party of the Company. The receivables emerged after the share transfer of Bozhou Baiyunshan had completed.

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

No significant impact

Major Events

16. MATERIAL CONTRACTS AND THEIR PERFORMANCE

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

On 21 December 2017, the Company jointly entered into the Equity Interest Transfer Contract and the Joint Venture Operating Contract with GP Corp. and Alliance BMP Limited, for the very substantial acquisition which the Company acquired 30% equity interests of GP Corp. held by Alliance BMP Limited by cash and granted put options to Alliance BMP Limited for transfer all of the remaining 20% equity interests of GP Corp held by it. For the details, refer to the relevant contents disclosed the announcement titled "Report of Material Asset Acquisition (Revised)" disclosed by the Company on 6 January 2018. The company will be held the 2018 first extraordinary shareholders' general meeting in on 29 March 2018 to review the acquisition.

(2) **Guarantees**

Applicable Not applicable

(3) **Management of cash assets by entrusting third parties**

Applicable Not applicable

(i) **During the Reporting Period, the Group's entrusted wealth management activities**

(1) **Overview of the entrusted wealth management products**

Applicable Not applicable

Category	Source of funds	Amount occurred (RMB'000)	Outstanding balance (RMB'000)	Amount due but not recovered (RMB'000)
Bank financial products	own capital	1,334,900	256,300	–
Bank financial products	proceeds raised	3,000,000	1,500,000	–
Others				

Applicable Not applicable

Major Events

16. MATERIAL CONTRACTS AND THEIR PERFORMANCE (Continued)

(3) Management of cash assets by entrusting third parties (Continued)

(i) During the Reporting Period, the Group's entrusted wealth management activities.
(Continued)

(2) Individual entrusted wealth management products

Applicable Not applicable

Trustee	Type of entrusted wealth management product	Amount of entrusted wealth management (RMB'000)	Commencement		Capital source	Usage of funds	Method for determination of returns	Annualized returns (%)	Estimated returns (if any) (RMB'000)	Actual gains or losses (RMB'000)	Actual recovery	Lawsuit involved or not	Any entrusted financial plan in the future	Impairment provision (RMB'000)
			date of entrusted wealth management	Ending date of entrusted wealth management										
Guangzhou Jincheng Sub-branch of Shanghai Pudong Development Bank Co., Ltd.	LI DUO DUO corporate structured deposit No. JG0673 of 2017 of Shanghai Pudong Development Bank	600,000	15 June 2017	15 December 2017	Raised funds	-	Fixed return	4.04	11,434	11,434	Fully recovered	Yes	Yes	0
Guangzhou Branch of China Everbright Bank Company Limited	Corporate structured deposit of China Everbright Bank	500,000	9 June 2017	9 December 2017	Raised funds	-	Fixed return	4.02	9,481	9,481	Fully recovered	Yes	Yes	0
Guangzhou Branch of China Everbright Bank Company Limited	2017 Corporate Structured Deposit (Customized Tranche 12) 47	500,000	11 December 2017	11 June 2018	Raised funds	-	Fixed return	4.45	10,495	0	Not yet due	Yes	Yes	0
Guangzhou Branch of Shanghai Pudong Development Bank Co., Ltd.	LI DUO DUO corporate structured deposit No. JG2091 of 2017 of Shanghai Pudong Development Bank	600,000	15 December 2017	15 June 2018	Raised funds	-	Fixed return	4.45	12,594	0	Not yet due	Yes	Yes	0

Note: The above table only shows those wealth management products with individual amount accounting for 10% or above of the total amount.

Other

Applicable Not applicable

(3) Provision for impairment of entrusted wealth management products

Applicable Not applicable

Major Events

16. MATERIAL CONTRACTS AND THEIR PERFORMANCE *(Continued)*

(3) Management of cash assets by entrusting third parties *(Continued)*

(ii) During the Reporting Period, the Company's entrusted loans are set out below:

(1) Overview of the entrusted loans

Applicable Not applicable

Category	Source of funds	Amount occurred	Outstanding balance	Amount due but not recovered
		(RMB'000)	(RMB'000)	
Bank entrusted loan	own capital	1,271,733	1,271,733	–

Others

Applicable Not applicable

(2) Individual entrusted loans

Applicable Not applicable

Others

Applicable Not applicable

(3) Provision for impairment of entrusted wealth management products

Others

Applicable Not applicable

Major Events

17. AS AT THE END OF THE REPORTING PERIOD, THE EXPENSES ON CONSTRUCTION AND EQUIPMENT IN RELATION TO WHICH CONTRACTS HAD BEEN ENTERED INTO BY THE GROUP BUT PAYMENTS HAD NOT BEEN MADE YET WAS RMB246,646,000, AND THE RENTAL EXPENSES IN RELATION TO WHICH CONTRACTS HAD BEEN ENTERED INTO BY THE GROUP BUT PAYMENTS HAD NOT BEEN MADE YET WAS RMB389,429,000.
18. ACCORDING TO THE REQUIREMENTS OF RULE 23 OF APPENDIX 16 TO THE LISTING RULES OF HKEX, THE COMPANY DID NOT HAVE ANY INVESTMENT PROPERTIES WHOSE ASSETS RATIO, CONSIDERATION RATIO, PROFITS RATIO AND REVENUE RATIO EXCEEDED 5% DURING THE REPORTING PERIOD.
19. DURING THE REPORTING PERIOD, THE COMPANY DID NOT HAVE ANY SPECIAL TRANSACTION WITH ITS CONNECTED PARTIES INCLUDING DIRECT DONATIONS IN CASH OR ASSETS IN KIND, DIRECT EXEMPTION OR REPAYMENT FOR OTHERS.

20. EXPLANATORY NOTES ON OTHER MAJOR EVENTS

Applicable Not applicable

21. PERFORMANCE OF SOCIAL RESPONSIBILITIES

(1) Needy alleviation efforts of listed companies

Applicable Not applicable

(i) Plan of targeted approach to aid the needy

Three subsidiaries of the Company, namely Xing Qun, Guang Hua and Cai Zhi Lin, are responsible for the implementation of the specified poverty alleviation initiatives. The aforementioned subsidiaries planned to achieve the objective of “no worries for two things, guaranteed on three aspects and meeting the average” by the end of 2018 in accordance with the guideline of “targeted approach to aid the needy towards each village and household with the industry driving the whole village forward” towards three targeted villages with a contribution of not less than RMB2 million for each village. The aforesaid objective is to put the poor rural people in a stable condition that they no longer need to worry about food and clothes, compulsory education, basic medical services and residential safety are guaranteed and the index of the main areas of basic public services meets the average level in Guangdong Province.

Major Events

21. PERFORMANCE OF SOCIAL RESPONSIBILITIES (Continued)

(1) Needy alleviation efforts of listed companies (Continued)

(ii) Outline of targeted approach to aid the needy in 2017

In 2017, to better carry out targeted poverty alleviation initiatives, Xing Qun, Guanghua and Cai Zhi Lin, the three subsidiaries of the Company, formulated the general philosophy of poverty alleviation featuring “targeted, early and distinct” and assistance plan, established a leading group for targeted poverty alleviation, and conducted field investigations, accelerating the implementation of assistance projects. Under the general principle of poverty alleviation initiatives, accurate poverty alleviation work is carried out in an orderly manner.

(iii) Statistical Table of 2016 Targeted Poverty Alleviation by the Company

Index	(RMB'0000)
	Number and implementation information of GYBYS
1. General information	
Including: 1. Fund	330.03
2. Materials trade	33.35
3. Number of poor people helped to be removed from administrative record for poverty registering (Person)	184.00
2. Itemized input	
1. Poverty alleviation through industrial development	
Including: 1.1 Type of industrial poverty alleviation projects	<input checked="" type="checkbox"/> Poverty alleviation through agriculture and forestry <input type="checkbox"/> Poverty alleviation through tourism <input type="checkbox"/> Poverty alleviation through E-commerce <input checked="" type="checkbox"/> Poverty alleviation through assets income <input type="checkbox"/> Poverty alleviation through science and technology <input checked="" type="checkbox"/> Others
1.2 Number of industrial poverty alleviation projects	9.00
1.3 Amount invested in industrial poverty alleviation projects	133.20
1.4 Number of poor people helped to be removed from administrative record for poverty registering (Persons)	179.00
2. Poverty alleviation through employment	
Including: 2.1 Amount invested in vocational training	0.49
2.2 Number of people received vocational training (Persons/Time)	102.00
2.3 Number of poor people in administrative record for poverty registering employed (Persons)	71.00
3. Poverty alleviation through relocation	0.00
Including: 3.1 Number of relocated people employed (Persons)	0

Major Events

21. PERFORMANCE OF SOCIAL RESPONSIBILITIES (Continued)

(1) Needy alleviation efforts of listed companies (Continued)

(iii) Statistical Table of 2016 Targeted Poverty Alleviation by the Company (Continued)

Index	(RMB'0000)
	Number and implementation information of GYBYS
4. Poverty alleviation through education	
Including: 4.1 Amount invested in subsidizing poor students	1.40
4.2 Number of students received allowance (Persons)	21.00
4.3 Amount invested in improvement of education resources in poverty area	0.00
5. Poverty alleviation through health enhancement	
Including: 5.1 Amount invested in medical and health resources in poverty area	51.75
6. Poverty alleviation through ecological protection	
Including: 6.1 Name of project	<input checked="" type="checkbox"/> Launching ecological protection and construction <input type="checkbox"/> Establishing compensation for the ecological protection <input type="checkbox"/> Creating ecological and public welfare positions <input type="checkbox"/> Others
6.2 Amount invested	0.00
7. Protection for the most impoverished people	
Including: 7.1 Amount invested in helping the three left-behind groups	0.00
7.2 Number of people of the three left-behind groups helped (Persons)	0.00
7.3 Amount invested in helping poor people with disabilities	0.00
7.4 Number of poor people with disabilities helped (Persons)	0.00
8. Poverty alleviation in the society	
Including: 8.1 Amount invested in poverty alleviation in the east and west parts of the country	0.00
8.2 Amount invested in fixed-point poverty alleviation work	0.00
8.3 Poverty alleviation fund	0.00
9. Other projects	
Including: 9.1 Number of projects (Project)	35.00
9.2 Amount invested	176.54
9.3 Number of poor people helped to be removed from administrative record for poverty registering (Persons)	5.00
9.4 Details of other projects	Infrastructure construction, water conservancy construction, environmental control, renovation of dilapidated houses, etc.
3. Awards (details and levels)	the Bronze Medal of Hongmian Cup of Poverty Alleviation of Guangdong province 2016 and the Silver Medal of Poverty Alleviation of Meizhou 2016.

Major Events

21. PERFORMANCE OF SOCIAL RESPONSIBILITIES *(Continued)*

(1) **Needy alleviation efforts of listed companies** *(Continued)*

(iv) **Follow-up alleviation plan**

We will make great efforts on industrial “blood creating” alleviation as well as educational and intellectual alleviation. These will be implemented across the whole village, with new industrial ones suited to local conditions being implemented. Meanwhile, we will take extra care of the underprivileged and improve the residential environment. On top of improving the annual poverty alleviation plan, we provide greater support to the poor by proactively implementing the policy of “special policy to each household” in order to practically achieve the objective of targeted approach to aid the needy.

(2) **Work on social responsibilities**

Applicable Not applicable

The Company prepared the Social Responsibilities Report of 2016 (full version is available on the website of the SSE and the HKEx) in accordance with the requirements of the “Notice on Preparation of the 2017 Annual Report in an orderly manner by Listed Companies” issued by the SSE.

The Company has complied with the rules of Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and prepared the 2017 Social Responsibilities Report (environmental quality, professional health and safety, environmental protection and social participation).

Major Events

21. PERFORMANCE OF SOCIAL RESPONSIBILITIES (Continued)

(3) Descriptions of environmental protection status of key pollutant-discharging companies and their subsidiaries published by the environmental protection authority

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

✓Applicable Not applicable

Company name	Names of major pollutants and characteristic pollutants	Emission mode	Number of emission ports	Distribution of emission ports	Annual average emission concentration	Implementation of pollutant emission standards	Total annual emissions	Approved total emissions	Excessive emissions
					(mg/m ³)	(mg/m ³)	(ton)	(ton)	
Chemical Pharmaceutical Factory	Sulfur dioxide	Interval	2	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC	11.58	"Integrated emission standard of air pollutants", ≤50	0.46	Nil	None
	Nitrogen oxides	Interval	2	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC	48.15	"Integrated emission standard of air pollutants", ≤200	1.93	Nil	None
	Particulate matter (smoke dust)	Interval	2	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC	0.53	"Integrated emission standard of air pollutants", ≤30	0.21	Nil	None
	Total VOCs	Interval	7	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC	6.11	"Integrated emission standard of air pollutants", ≤120	9.90	Nil	None
Xing Zhu	Sulfur dioxide	Interval	1	No. 4 Venture Avenue South, Pearl Industrial Park, Conghua, Guangzhou City, Guangdong Province	23.00	"Integrated emission standard of air pollutants", ≤50	3.20	Nil	None
	Nitrogen oxides	Interval	1	No. 4 Venture Avenue South, Pearl Industrial Park, Conghua, Guangzhou City, Guangdong Province	27.00	"Integrated emission standard of air pollutants", ≤120	2.70	Nil	None
	Particulate matter (smoke dust)	Interval	1	No. 4 Venture Avenue South, Pearl Industrial Park, Conghua, Guangzhou City, Guangdong Province	15.50	"Integrated emission standard of air pollutants", ≤30	1.82	Nil	None

Major Events

21. PERFORMANCE OF SOCIAL RESPONSIBILITIES *(Continued)*

(3) Descriptions of environmental protection status of key pollutant-discharging companies and their subsidiaries published by the environmental protection authority *(Continued)*

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

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

Company name	Name of pollution preventing facility	Put into use date	Pollution category	Procedure	Average daily processing capacity (m ³ /h)
Chemical Pharmaceutical Factory	BMF boiler flue gas treatment facility	2010.06.01	Exhaust gas	Whirlwind dust-cleaning + bag dustcleaning + urea denitrification	5,500
	202 production exhaust gas treatment facility	2007.10.01	Exhaust gas	Alkali spraying + activated carbon adsorption	1,250
	205 cephalosporin sterile APIs production exhaust gas treatment facility	2009.06.01	Exhaust gas	Condensation + absorber recycling	360
	203 oral APIs production exhaust gas treatment facility	2014.10.01	Exhaust gas	Condensation + alkali spraying	1,100
	205 oral cephalosporin APIs production acidic organic gas treatment facility	2016.01.20	Exhaust gas	Alkali spraying + photocatalytic oxidation	1,550
	205 oral cephalosporin APIs production dust and exhaust gas treatment facility	2016.01.20	Exhaust gas	Cellulose thimble filtering	8,300

Major Events

21. PERFORMANCE OF SOCIAL RESPONSIBILITIES *(Continued)*

(3) Descriptions of environmental protection status of key pollutant-discharging companies and their subsidiaries published by the environmental protection authority *(Continued)*

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

Company name	Name of pollution preventing facility	Put into use date	Pollution category	Procedure	Average daily processing capacity (m ³ /h)
Xing Zhu	bag dust-cleaning + crushed granite and water film desulfurating dust separator	2014.01.08	Exhaust gas	Dusty smoke gets into the dust separator tangentially, spirals up along the inner wall and collides with water film from the tank, condensing. The dust is submerged by water and then the clean flue gas is discharged into the chimney after dehydration.	20,833.3

2. Besides the emphasis with the key polluters of other companies

Applicable Not applicable

3. Others

Applicable Not applicable

Apart from the above two subsidiaries which are listed as the key pollutant discharge units in Guangzhou, all the other affiliated enterprises are low-energy and low-emission enterprises, and most of them are provincial and municipal cleaner production units as well as national, provincial and municipal green enterprises. They have strictly in compliance with national, provincial and municipal laws and regulations related to environmental protection, and have not discharge excessive pollutants.

22. DURING THE REPORTING PERIOD, THE COMPANY DID NOT HAVE ANY CONVERTIBLE BONDS.

Changes in Share Capital and Shareholders

1. Changes in Share Capital

(1) Changes in share capital

During the Reporting Period, the Company did not have change in share capital

(2) Change in shares with selling restrictions

During the Reporting Period, the Company did not have change in shares with selling restrictions

2. Internal Staff Shares

The Company did not have any internal staff shares.

3. Information on Shareholders

(1) Number of shareholders as at the end of the Reporting Period

As at 31 December 2017, there were 65,632 shareholders in total, of which 65,606 were holders of domestically listed Renminbi-denominated ordinary shares (A shares) and 26 were holders of overseas listed shares (H shares).

As at 28 February 2018, there were 72,808 shareholders in total, of which 72,781 were holders of domestically listed Renminbi-denominated ordinary shares (A shares) and 27 were holders of overseas listed shares (H shares).

Changes in Share Capital and Shareholders

3. Information on Shareholders (Continued)

(2) As at 31 December 2017, the top ten shareholders of the Company

Shareholders	Increase/ (Decrease) during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Approximate percentage of the total issued share capital (%)	Number of shares subject to selling restrictions (share)	Number of shares pledged or locked (share)	Class of shares
GPHL	0	732,305,103	45.04	148,338,467	0	Domestic shares
HKSCC Nominees Limited	6,000	219,677,469	13.51	0	0	H Shares
GZ SOA Development	0	87,976,539	5.41	87,976,539	0	Domestic shares
GZ Chengfa	0	73,313,783	4.51	73,313,783	0	Domestic shares
China Securities Finance Corporation Limited	11,240,731	47,603,582	2.93	0	0	Domestic shares
Yufeng Investment	0	21,222,410	1.31	21,222,410	21,222,410	Domestic shares
Central Huijin Asset Management Co., Ltd.	0	15,260,700	0.94	0	0	Domestic shares
The Industrial and Commercial Bank of China Co., Ltd.-Southern Consumption Vitality Flexibly Configured Mixed Initiate Securities Investment Funds	-2,492,000	7,453,228	0.46	0	0	Domestic shares
The National Social Security Fund – One One Five Combination	7,100,033	7,100,033	0.44	0	0	Domestic shares
Huaxia Fund-Agricultural Bank of China-Huaxia Financial Asset Management Plan	1,745,600	5,231,736	0.32	0	0	Domestic shares

Changes in Share Capital and Shareholders

3. Information on Shareholders (Continued)

(2) As at 31 December 2017, the top ten shareholders of the Company (Continued)

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

Shareholders	Number of shares without selling restrictions (share)	Class of shares	The number of shares (share)
GPHL	583,966,636	Domestic shares	732,305,103
HKSCC Nominees Limited	219,677,469	H shares	219,677,469
China Securities Finance Corporation Limited	47,603,582	Domestic shares	47,603,582
Central Huijin Asset Management Co., Ltd.	15,260,700	Domestic shares	15,260,700
The Industrial and Commercial Bank of China Co., Ltd. – Southern Consumption Vitality Flexibly Configured Mixed Initiate Securities Investment Funds	7,453,228	Domestic shares	7,453,228
The National Social Security Fund – One One Five Combination	7,100,033	Domestic shares	7,100,033
Huaxia Fund-Agricultural Bank of China-Huaxia Financial Asset Management Plan	5,231,736	Domestic shares	5,231,736
China European Fund-Agricultural Bank of China- Central European Central China financial asset management plan	5,116,036	Domestic shares	5,116,036
Boshi Fund-Agricultural Bank of China-Bo card in financial asset management plan	5,098,236	Domestic shares	5,098,236
Dacheng Fund-Agricultural Bank of China-Dacheng certificate of financial assets management plan	5,093,236	Domestic shares	5,093,236

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

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

Changes in Share Capital and Shareholders

3. Information on Shareholders (Continued)

(2) As at 31 December 2017, the top ten shareholders of the Company (Continued)

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

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

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

Changes in Share Capital and Shareholders

3. Information on Shareholders (Continued)

(3) Shareholders' interests and short positions in the shares and underlying shares of the Company

As at 31 December 2017, the interests and short positions held by the persons (not being the directors, supervisors and senior management of the Company) in the shares and underlying shares of the Company which were required to be notified to the Company and the HKEx pursuant to Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required maintained by the Company under Section 336 of the SFO were as follows:

Shareholder	Nature of shares	Long Positions		Approximate % of the total issued domestic shares (%)	Approximate % of the total issued H shares (%)
		Number of shares held (share)	Capacity		
GPHL	Domestic shares	732,305,103	Beneficial owner	50.09	–
GZ SOA Development	Domestic shares	87,976,539	Beneficial owner	6.26	–
GZ Chengfa	Domestic shares	73,313,783	Beneficial owner	5.21	–
Platinum Investment Management Limited	H shares	1,134,547	Investment manager	–	0.52
		10,275,453	Trustee	–	4.67

As far as the Directors are aware, as at 31 December 2017, other than those listed above, there was no other person or corporation having an interest or short position in the shares and underlying shares of the Company which were required to be notified to the Company and the HKEx pursuant to Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to maintained by the Company under Section 336 of the SFO.

Changes in Share Capital and Shareholders

4. Information on Changes of the Company's Controlling Shareholder and its Beneficial Owner

(1) Controlling shareholder

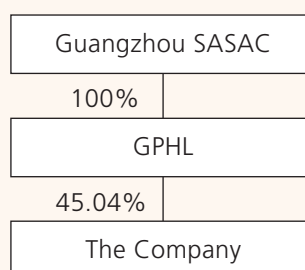
Name of shareholder	Guangzhou Pharmaceutical Holdings Limited
Legal representative	Li Chuyuan
Date of establishment	7 August 1996
Organization code	23124735-0
Registered capital	RMB1,252.8 million
Business scope	To invest in and manage State-owned assets, to sell and manufacture pharmaceutical intermediates, Chinese and western medicine, Chinese raw medicine, bio-tech products, medical apparatus, pharmaceutical equipment, packing materials for pharmaceutical products, health drinks and food, hygienic materials and pharmaceutical related merchandise; to undertake medicine related import and export affairs and to develop real estate.
Operating results	Sales revenue (unaudited) of the Company in 2017 was RMB20.921 billion and net profit (unaudited) was RMB2.093 billion in 2017.
Financial position	As at 31 December 2017, the total assets (unaudited) was RMB29.416 billion and net assets was RMB16.62 billion.
Cash flow and future development strategy	Upon the completion of the Major Assets Reorganization, all assets from the pharmaceuticals manufacturing of GPLL were incorporated into the Group. Without violating the independence maintained by the Group and avoidance of competitions in the same business, GPLL will fully utilize its advantages in branding, resources and financial condition while at the same time GPLL, according to the market principles, will nurture the business or assets which will be suitable for the development of the Group but not yet for implementation. When GPLL transfers the matured business operations, the Group will be given the right of pre-emption under the same conditions.
Shareholding information of other domestic and overseas listed companies during the Reporting Period	Nil

Changes in Share Capital and Shareholders

4. Information on Changes of the Company's Controlling Shareholder and its Beneficial Owner (Continued)

(2) Beneficial owner(s)

As at the end of the Reporting Period, the controlling shareholder of the Company was GPLH, the beneficial owner of which was the State-owned Assets and Administration Commission of Guangzhou Municipal Government ("Guangzhou SASAC").



5. Other Shareholders Holding 10% or more of the company's total issued shares

As at the end of the Reporting Period and saved as disclosed above, the Company had no other shareholders holding 10% or more of the Company's total issued shares.

6. Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's Shares during the Reporting Period.

7. During the Reporting Period, there was no change in the Controlling Shareholder of the Company.

8. Public Float

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

9. Pre-Emptive Rights

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

Relevant Information on Preferred Shares

DURING THE REPORTING PERIOD, THE COMPANY DID NOT HAVE ANY PREFERRED SHARES



Directors, Supervisors, Senior Management and Staff

1. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(i) Profiles of existing Directors, supervisors and senior management

(1) Executive directors

Mr. Li Chuyuan, aged 53, graduated from the chemistry of Sun Yat-sen University in 1988 and holds an EMBA degree. He is a senior economist and is a senior engineer of professor grade. Mr. Li received the “Model Workers Award” and enjoys special allowances from the State Council. He was awarded the “Top 10 Innovative Characters of Guangdong Province”, the “Top 10 Outstanding Business Individuals of Guangdong Province” and “Member of the education technology and culture health professional committee of Guangdong Province”. He is “2017 China’s Top Ten Economic Figures”, the person of “China Double Embrace”, the “Top Ten Innovative Figures in Guangdong Province” and the “Leader of Guangzhou Industry” (outstanding industrial talents), a member of the Guangdong Provincial People’s Congress, a representative of the Chinese Communist Party in Guangzhou and was awarded the “Outstanding City Management Expert of Guangzhou”. Mr. Li received the “Ding Ying Technology Award” in February 2014, which was the top award in the field of science and technology in Guangdong Province. Mr. Li began his career in July 1988 and has been the deputy head of the operations department of Baiyunshan General Factory, the deputy general manager of Baiyunshan, the general manager, vice chairperson and deputy secretary the Party Committee of GPL and the vice chairperson of the Company. Mr. Li has been the chairperson of the Company since 8 August 2013 and is also currently the chairperson and secretary of the Party Committee of each of GPL and the Company, vice chairperson and the secretary of the Party Committee of HWBYS and the vice chairperson of GP Corp. Mr. Li has extensive experience in corporate operations and management.

Mr. Chen Mao, aged 54, holds a bachelor degree in medicine and is a pharmaceutical engineer. He was awarded the “National Labour Day Award”. Mr. Chen began his career in November 1985, and has been the deputy factory manager of Guangzhou Baiyunshan Pharmaceutical Factory* (廣州白雲山中藥廠), the chairperson of Pharmaceutical Technology, the general manager of Baiyunshan, the factory manager of Baiyunshan General Factory, the chairperson of Guang Hua, the chairperson and secretary of the Party Committee of WLJ Great Health and deputy general manager of GPL. Mr. Chen has been the vice chairperson of the Company since January 2014 and is also currently the general manager, vice chairperson and deputy secretary of the Party Committee of GPL, deputy secretary of the Party Committee of the Company and the vice chairperson of Baxter Qiao Guang. Mr. Chen has extensive experience in corporate management and marketing.

Directors, Supervisors, Senior Management and Staff

1. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(i) Profiles of existing Directors, supervisors and senior management *(Continued)*

(1) Executive directors *(Continued)*

Ms. Liu Juyan, aged 53, completed postgraduate education and holds a doctorate degree in medicine and is a senior engineer of professor grade. Ms. Liu began her career in July 1990 and has been the chairperson and general manager of Guangzhou Han Fang, the head of the technology and quality department of GPL, the chairperson of Yi Gan and the chairperson of the Guangyao General Institute. Since August 2005, Ms. Liu has been the chief engineer of GPL and the chief technical officer of the Company. Since January 2011, she has been the deputy general manager of GPL and has been a chairperson of Nuo Cheng since March 2014. Ms. Liu has been a Director since December 2013. She also enjoys special allowances from the State Council and is a member of the Guangzhou Provincial People's Progress. She was also awarded the "March 8th Flag Bearer" of Guangzhou, a Guangzhou "121" reserved talent and an "Outstanding City Management Expert" of Guangzhou. Ms. Liu has extensive experience in scientific research and development, technological research and quality management.

Ms. Cheng Ning, aged 52, completed tertiary education and is an accountant. Ms. Chen possesses several professional qualifications, including PRC certified public accountant, PRC certified tax consultant, senior international finance manager and senior accounting (finance management) technician. Ms. Cheng began her career in August 1986 and has been an officer of the finance department of Baiyunshan General Factory, the deputy head of the finance department of Guangzhou Baiyunshan Bao De Pharmaceutical Factory* (廣州白雲山寶得藥廠), the head of the finance department of Guangzhou Baiyunshan Veterinary Medicine Factory* (廣州白雲山獸藥廠), the head of the settlements division of the operations department, head of the accounts and payments division of the settlements centre, deputy head of the finance department and a member and secretary of the supervisory committee of Baiyunshan, the acting manager and manager of the financial resources department and the head of the finance department of Guangzhou Baiyunshan Enterprise Group Co., Ltd.* (廣州白雲山企業集團有限公司), the deputy head and the head of the finance department of GPL, a director of each of Zhong Yi, Cai Zhilin, Qi Xing, Guangxi Yingkang, WLJ Investment and WLJ Catering. Ms. Cheng has been a Director since 19 September 2012, and is also currently the deputy general manager and the financial controller of GPL, the convenor of the board of directors of Guangyao Baiyunshan Hong Kong Company, a director of GP Corp., the chairperson of the supervisory committee of WLJ Great Health and the chairperson of the Guangzhou Pharmaceutical Accounting Association* (廣州醫藥會計學會) and director of Guangzhou CPA Association* (廣州會計師公會). Ms. Cheng has extensive experience in finance management and internal control management.

Directors, Supervisors, Senior Management and Staff

1. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(i) Profiles of existing Directors, supervisors and senior management *(Continued)*

(1) Executive directors *(Continued)*

Mr. Ni Yidong, aged 46, completed postgraduate education and holds a doctorate degree in medicine, a senior engineer and occupational qualification of licensed pharmacist. Mr. Ni began his career in July 1994 and has been the head of the marketing department of GPLH and the chairperson and secretary of the Party Committee of Zhong Yi. He has been a Director since January 2014, and is also currently the deputy general manager and chief officer of the Great Health segment of GPLH. Mr. Ni has extensive experience in corporate management, marketing and brand protection and management.

Mr. Wu Changhai, aged 52, holds a bachelor degree and an EMBA degree is an economist. Mr. Wu began his career in August 1989 and has been the deputy general manager of Guangxi Yingkang, the deputy general manager, general manager, chairperson and secretary of the Party Committee of Zhong Yi, the chairperson of each of Qi Xing, Xing Qun, WLJ Great Health, Wang Lao Ji Great Health (Ya'an) Co., Ltd. and Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd. and the general manager of Guangzhou Pharmaceutical Company Limited. Mr. Wu has been a Director since 28 June 2010 and is also currently a deputy general manager of the Company, a director of each of Zhong Yi, Qi Xing, Xing Qun, WLJ Great Health, Chen Li Ji and Xing Zhu. He has extensive experience in the operation of listed companies and pharmaceutical, food and beverage businesses, marketing and scientific research and development.

Directors, Supervisors, Senior Management and Staff

1. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(i) Profiles of existing Directors, supervisors and senior management *(Continued)*

(2) Independent non-executive directors

Mr. Chu Xiaoping, aged 63, holds a doctorate degree in management and is a professor and a doctoral advisor. Mr. Chu graduated from the Xi'an Jiaotong University. He was a lecturer, associate professor, professor, associate dean and the dean of the Business School of Shantou University in Guangdong and a visiting scholar of the University of Hong Kong. He has been an independent director of Shengyi Technology Co., Ltd. for six years. He is currently a professor and a doctoral advisor at the Lingnan (University) College, Sun Yat-sen University. Mr. Chu has extensive experience in the organisation, leadership, innovation and sustainable development of enterprises.

Mr. Jiang Wenqi, aged 60, holds a master's degree in clinical medicine and advanced health management and is a professor, doctoral advisor and a chief physician. Mr. Jiang obtained his medical degree from Shanghai Medical University in 1982 and obtained his master's degree in oncology from the Sun Yat-sen University in 1988. He was a physician, vice president and the head of the medical department of the Sun Yat-sen University Cancer Center (an affiliate hospital of the Sun Yat-sen University) and the dean of the School of Medicine of the Shenzhen University. Mr. Jiang is currently the head of the medical department of the Sun Yat-sen University Cancer Center. Mr. Jiang has extensive experience in the medical industry and health sectors.

Directors, Supervisors, Senior Management and Staff

1. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(i) Profiles of existing Directors, supervisors and senior management *(Continued)*

(2) Independent non-executive directors *(Continued)*

Mr. Wong Hin Win, aged 55, holds a Master's degree in Executive Business Administration from The Chinese University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in England & Wales, the Association of Chartered Certified Accountants, the Hong Kong Institute of Directors and the Institute of Chartered Secretaries and Administrators. He is also a member of the American Institute of Certified Public Accountants and a chartered member of the Chartered Institute for Securities & Investment. He is an Independent Non-executive Director of AEON Credit Service (Asia) Co. Ltd. (a public company listed on the Stock Exchange), Dongjiang Environmental Company Limited (a public company with A shares listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange and H shares listed on the Stock Exchange), CRCC High-Tech Equipment Corporation Limited (a public company with H shares listed on the Stock Exchange), China Agri-Products Exchange Limited (a public company listed on the Stock Exchange), Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (a public company with A shares listed on the Shanghai Stock Exchange and H shares listed on the Stock Exchange), Inner Mongolia Yitai Coal Co., Ltd. (a public company with B shares listed on the Shanghai Stock Exchange and H shares listed on the Stock Exchange) and Wine's Link International Holdings Limited (a public company listed in Hong Kong). He is also a Member of Anhui Provincial Committee of the Chinese People's Political Consultative Conference, a panel member of Securities and Futures Appeals Tribunal, a member of Nursing Council of Hong Kong and a member of the Construction Industry Council. He is the Managing Director and has been responsible officer of China Silk Road International Capital Limited (formerly known as Legend Capital Partners, Inc.), a licensed corporation under the SFO since 1997. Prior to this, he had worked with an international audit firm for four years and then a listed company as Chief Financial Officer for seven years. He has 34 years of experience in accounting, finance, investment management and advisory.

Directors, Supervisors, Senior Management and Staff

1. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(i) Profiles of existing Directors, supervisors and senior management *(Continued)*

(2) Independent non-executive directors *(Continued)*

Ms. Wang Weihong, aged 55, completed postgraduate education and holds a master degree in management. Ms. Wang is a professor and a member of each of the ninth, tenth and eleventh session of the Chinese People's Political Consultative Conference of Guangdong Province. Ms. Wang graduated from the Hunan Institute of Economics and Finance (currently known as the Hunan University). She began her career in July 1986 and had been a teacher of the Department of Trade and Economics of the Hunan Institute of Finance and Economics, the head and an associate professor of the Teaching and Research Office of the Department of Business Administration of the Hunan Institute of Finance and Economics, the head and an associate professor of the Department of Marketing and Sale of the Business Faculty of the Hunan University and an evaluation expert of the Association of the Social and Scientific Sectors of Guangdong (廣東省社會科學界聯合會). Ms. Wang is currently the head of the Department of Marketing of the School of Business Administration and the Business College, the head of the Research Center and a professor of the Guangdong University of Foreign Studies. Ms. Wang is also a standing director of the China Marketing Association, the deputy secretary general of China Business Administration Association of University (中國高校商務管理研究會), a standing director of China Marketing Association of University (中國高校市場學研究會), a standing director and the deputy secretary general of Guangdong Marketing Association and a standing director of Guangdong Institute of Research on the Tertiary Sector (廣東省第三產業研究會). Ms. Wang has extensive experience in strategy management, marketing management and brand operation.

Details of the membership information of the board committees on which the non-executive director serve, please refer to the section headed 4. Committees of the Board of IX. Corporate Governance of this report; details of term of the non-executive director of the Company please refer the relevant content of 2. Changes in Interests and Emoluments of this section of this report.

(3) Supervisors

Mr. Xian Jiaxiong, aged 58, holds a bachelor degree and a master's degree in business administration, and is an economist and senior political engineer. Mr. Xian began his career in September 1976 and has been the deputy secretary of the Party Committee of Guangzhou Grandbuy Co., Ltd. and assistant to the general manager and the secretary of the disciplinary committee of Guangzhou Department Store Enterprise Group Co., Ltd. Mr. Xian has been the deputy secretary of the Party Committee, secretary of the disciplinary committee and chairperson of the supervisory committee of the Company since January 2014, and is also currently the deputy secretary of the Party Committee of GPLH. Mr. Xian has extensive experience in economic management, operations of the Chinese Communist Party and legal affairs.

Directors, Supervisors, Senior Management and Staff

1. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(i) Profiles of existing Directors, supervisors and senior management *(Continued)*

(3) Supervisors *(Continued)*

Ms. Li Jinyun, aged 50, obtained a bachelor's degree from the Central Party School of the Communist Party of China. She is a senior political engineer, an engineer, an economist and is also a representative of the Chinese Communist Party in Guangzhou. Ms. Li began her career in July 1990 and has been the chairperson of the labour union of Guangzhou Baiyunshan Chinese Medicine Factory* (廣州白雲山中藥廠), the deputy secretary of the Party Committee of Baiyunshan Chemical Factory and the deputy head of the human resources department, the deputy head of the political works department, the head of the organisational and personnel department, a member of the disciplinary committee, the deputy secretary of the retirement office of the Party Committee and the secretary of Party Committee of Baiyunshan. From March 2014 to June 2017, Ms. Li has been the head of the organisational department and the head of the human resources department of the Company. Since September 2016, Ms. Li has been a member of the supervisory committee of the Company and has been the chairperson of the labour union of the Company since May 2017. Ms. Li has been engaged in the political work of the Chinese Communist Party and administration and human resource management for more than 20 years and has extensive experience in the development and innovation aspects of the Chinese Communist Party, talent recruitment and development.

Ms. Gao Yanzhu, aged 52, holds a bachelor degree and a MBA degree. She is a senior economist, auditor and an engineer and a member of the 16th session of Guangzhou City Liwan District People's Congress. Ms. Gao started her career in July 1988 and had been the deputy director of the office of the operation and management of the enterprise management department of Guangzhou Baiyunshan Enterprise Group Co., Ltd., representative of securities affairs and company's legal adviser of Baiyunshan Pharmaceutical, deputy department head of the audit department and the deputy director of the risk control office of GPLH. Ms. Gao was the deputy department head of the audit department and the deputy director of the risk control office of the Company during March 2014 to January 2017 and is currently the department head of the audit department and the director of the risk control office of the Company. Ms. Gao has extensive experience in audit, risk control and securities affairs.

Directors, Supervisors, Senior Management and Staff

1. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(i) Profiles of existing Directors, supervisors and senior management *(Continued)*

(4) Senior management

Mr. Li Hong, aged 51, holds a bachelor degree and a MBA degree. Mr. Li also holds the titles of engineer and senior political work engineer and possesses the qualification of licensed pharmacist. Mr. Li is a specially appointed committee member of the Guangdong Committee of the Chinese People's Political Consultative Conference. Mr. Li started his career in July 1990. He has served as a director and the chairperson of the board of Guangzhou Baiyunshan Qiao Guang Pharmaceutical Co., Ltd., a director and the general manager of Tian Xin; a general manager, chairperson and secretary of the party committee of Ming Xing; a director of Baiyunshan and an assistant to the general manager of GPHL. Mr. Li is currently a member of the party committee of GPHL, a party branch secretary of Guangyao Haima, the member of the Party Committee and general manager of the Company.

Mr. Zhang Chunbo, aged 41, holds a bachelor degree and a master degree of EMBA, and is a druggist. Mr. Zhang graduated from the China Pharmaceutical University in July 2000 and began his career in the same year. In December 2010, he received a master degree of EMBA from the Lingnan (University) College of the Sun Yat-Sen University. He has served as the vice manager of the second zone, the assistant manager of sales department, the vice general manager of sales department, the manager of sales department, the vice director of marketing department of HWBYS, the vice manager and the vice general manager of Zhong Yi. Mr. Zhang has been as the vice general manager of the Company since January 2015, and is currently the chairperson and the general manager of Zhong Yi, the chairperson and the general manager of Qi Xing. Mr. Zhang has extensive experience in corporate management and marketing.

Ms. Huang Xuezheng, aged 44, holds a master's degree. She is an economist and a member of the 15th session of Guangzhou City Liwan District People's Congress. Ms. Huang started her career in July 1977 and joined the company in September 2003. She had been as deputy director of the Secretariat to the Board of the company, the head of of the secretariat and representative of securities affairs. She has served as the secretary to the Board of the Company since 26 April 2017 and is currently the head of the Secretariat to the Board and as a director of Golden Eagle Fund.

Directors, Supervisors, Senior Management and Staff

1. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(ii) Profiles of the former Directors, supervisors and senior management

(1) Executive directors

Mr. Wang Wenchu, aged 51, holds a bachelor degree and is an assistant engineer and economist. Mr. Wang began his career in July 1988 and has been the deputy factory manager of Baiyunshan General Factory, the general manager of Baiyunshan and the chairperson of Guang Hua. Mr. Wang has been a Director since January 2014 and retired as deputy general manager of the Company on 23 June 2017. He resigned as director of the Company on 28 August 2017.

(2) Independent non-executive directors

Professor Patrick Wong Lung Tak, B.B.S., JP, aged 70, has been an independent non-executive Director since 28 June 2010 and retired as deputy general manager of the Company on 23 June 2017. He is a Certified Public Accountant (Practising) in Hong Kong, a Chartered Secretary, Certified Tax Adviser in Hong Kong and the executive director of Patrick Wong CPA Limited. He has over 40 years experience in the accountancy profession. Prof. Wong obtained a Doctor of Philosophy Degree in Business and was awarded a Badge of Honour by the Queen of England. He has been appointed as a Justice of the Peace and was awarded a Bronze Bauhinia Star (B.B.S.) by the Government of the Hong Kong Special Administrative Region. He was appointed as Adjunct Professor, School of Accounting and Finance of the Hong Kong Polytechnic University from 2002 to 2013. Professor Wong is an independent non-executive director of C C Land Holdings Limited, Galaxy Entertainment Group Limited, Water Oasis Group Limited, Sino Oil and Gas Holdings Limited, National Arts Entertainment and Culture Group Limited, BAIC Motor Corporation Ltd, Winox Holdings Limited and Li Bao Ge Group Limited. He had been an independent non-executive director of Bisu Technology Group International Limited (formerly known as Excel Development (Holdings) Limited and resigned on 10 August 2015) and an independent non-executive director of Musun Capital Group Limited on (formerly known as China Precious Metal Resources Holdings Co., Ltd and resigned on 3 October 2016) and Real Nutriceutical Group Limited resigned on 10 December 2017. The above companies are all listed on the HKEx.

Directors, Supervisors, Senior Management and Staff

1. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(ii) Profiles of the former Directors, supervisors and senior management

(2) Independent non-executive directors *(Continued)*

Mr. Qiu Hongzhong, aged 61, is a master degree postgraduate and professor, has served as an independent non-executive Director since 28 June 2010. He graduated in 1981 with a degree in clinical medicine and was a master degree postgraduate in 1988. He was a senior visiting scholar of anthropology of the Sun Yat-sen University and completed courses of strategic management training class in Party School of the Central Committee of the Chinese Communist Party. Mr. Qiu had been the head of the Medical Department of the Eighth Engineering Bureau, ministry of Water Conservancy of Dong Jiang Hospital, deputy director of Department of Social Science of the Guangzhou University of Traditional Chinese medicine, deputy head of Huodao Town, Gaoyao County of Guangdong Province, standing vice president, president and the secretary of the Communist Party Committee of School of Economic and Management of the Guangzhou University of Traditional Chinese Medicine. Mr. Qiu is currently the president, tutor of Ph.D. students, professor and chief physician of School of Economic and Management of the Guangzhou University of Traditional Traditional Chinese medicine, and is also a member of the Medicine Teaching and Guidance Committee of Higher Education Institution under the Ministry of Education of China, deputy director of Psychology of TCM in Chinese Medical Association of Guangdong Province, editor of the national core journal-Journal of Medicine and Philosophy, standing director of the Society of Chinese Medicine and Health Economics, deputy officer of the hygiene policy committee, the Society of Hygiene Economics of Guangdong Province, standing vice-chairperson of School of Management of Hospital of Traditional Chinese Medicine of Guangdong Provincial Association of Chinese Medicine. Mr. Qiu has extensive experience in economic management and pharmaceutical industry.

(3) Supervisors

Ms. Wu Yan, aged 49, graduated from the Murdoch University in Australia with a master degree in business administration and has been as a supervisor of the Company since 28 January 2014. Ms. Wu is currently the vice president of the Guangdong University of Foreign Studies Audiovisual Press, and the office director, party branch committee member and chairperson of the labour union.

Mr. Chen Jing, aged 34, served as the secretary to the Board of the Company since 28 January 2014 and resign as the secretary to the Board of the Company on 26 April 2017. He graduated from the School of Management of the Huazhong University of Science and Technology in July 2008 with a master degree of accounting. Mr. Chen had served in the Investment Banking Department of Guotai Junan Securities Co., Ltd..

Directors, Supervisors, Senior Management and Staff

2. CHANGES IN INTERESTS AND EMOLUMENTS

(1) Interests in shares (A shares) and emoluments of the current and the former Directors, Supervisors and senior management of the Company during the Reporting Period

During the Year, the total amounts of remuneration received by the Directors, supervisors and the senior management from the Group, the shareholder(s) of the Company and other connected entities was RMB12,452,690.

Name	Position	Sex	Age	Commencement date of term of office	Ending date of term of office	Shares held	Shares held	Change in	Reasons for change	Emoluments	Emoluments
						as at the beginning of the Reporting Period	as at the end of the Reporting Period	shareholding during the Reporting Period		received from the Company during the Reporting Period	received from the Company's shareholder during the Reporting Period
						(shares)	(shares)			(RMB'000)	(RMB'000)
										(before tax)	(RMB'000)
(i) Interest (A shares) and emoluments of the current directors, supervisors and senior management of the Company											
Li Chuyuan	Chairperson	Male	53	28 June 2010	note ①	100,000	100,000	0	Note 5	/	2,269.48
Chen Mao	Vice chairperson	Male	54	28 January 2014	note ①	50,000	50,000	0	Note 5	/	1,222.44
Liu Juyan	Executive director	Female	53	28 January 2014	note ①	13,000	13,000	0	Note 5	/	1,060.71
Cheng Ning	Executive director	Female	52	19 September 2012	note ①	21,500	21,500	0	Note 5	/	1,076.12
Ni Yidong	Executive director	Male	46	28 January 2014	note ①	0	0	0	Note 5	/	1,120.00
Wu Changhai	Executive director and the deputy general manager	Male	52	28 June 2010	note ①	13,000	13,000	0	Note 5	1,005.51	/
Chu Xiaoping	Independent non-executive director	Male	63	28 January 2014	note ①	0	0	0	/	100.00	/
Jiang Wenqi	Independent non-executive director	Male	60	17 March 2016	note ①	0	0	0	/	100.00	/
Wong Hin Wing	Independent non-executive director	Male	55	23 June 2017	note ①	0	0	0	/	52.22	/
Wang Weihong	Independent non-executive director	Female	55	23 June 2017	note ①	0	0	0	/	52.22	/
Xian Jiaxiong	Chairperson of the Supervisory Committee	Male	58	28 January 2014	note ①	11,000	11,000	0	Note 5	/	1,100.58
Li Jinyun	Supervisory	Female	50	7 September 2016	note ①	10,000	10,000	0	Note 5	222.09	435.72
Gao Yanzhu	Supervisory	Female	52	23 June 2017	note ①	5,000	5,000	0	Note 5	328.10	/
Li Hong	General manager	Male	51	23 June 2017	note ①	10,000	10,000	0	Note 5	276.46	/
Zhang Chunbo	Deputy general manager	Male	41	12 January 2016	note ①	10,000	10,000	0	Note 5	866.60	/
Huang Xuezhen	Secretary to the Board	Female	44	23 June 2017	note ①	2,500	2,500	0	Note 5	479.25	/

Directors, Supervisors, Senior Management and Staff

2. CHANGES IN INTERESTS AND EMOLUMENTS (Continued)

(1) Interests in shares (A shares) and emoluments of the current and the former Directors, Supervisors and senior management of the Company during the Reporting Period (Continued)

Name	Position	Sex	Age	Commencement date of term of office	Ending date of term of office	Shares held	Change in shareholding during the Reporting Period	Reasons for change	Emoluments received from the Company during the Reporting Period	Emoluments received from the Company's shareholder during the Reporting Period	
						as at the beginning of the Reporting Period			Shares held as at the end of the Reporting Period	(RMB'000)	(RMB'000)
(ii) Interest (A shares) and emoluments of the former directors, supervisors and senior management of the Company											
Wang Wenchu	Executive director, deputy general manager	Male	51	28 January 2014	28 August 2017	10,000	10,000	10,000	Note 5	361.70	/
Wong Lung Tak Patrick	Independent non-executive director	Male	70	28 June 2010	23 June 2017	0	0	0	/	50.00	/
Qiu Hongzhong	Independent non-executive director	Male	61	28 June 2010	23 June 2017	0	0	0	/	50.00	/
Wu Yan	Supervisor	Female	49	28 January 2014	23 June 2017	0	0	0	/	25.00	/
Chen Jing	Secretary to the Board	Male	34	28 January 2014	26 April 2017	75,000	75,000	0	Note 5	161.94	/
Total	/	/	/	/	/	330,000	331,000	0	/	4,131.09	8,321.00

Directors, Supervisors, Senior Management and Staff

2. CHANGES IN INTERESTS AND EMOLUMENTS *(Continued)*

(1) Interests in shares (A shares) and emoluments of the current and the former Directors, Supervisors and senior management of the Company during the Reporting Period *(Continued)*

Notes:

- ① The term of office of the members of the 7th session of the Board, Supervisory Committee and senior management commenced from 23 June 2017 up to the date of which members of new session of the Board and the Supervisory Committee.
- ② The emoluments of Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong and Mr. Xian Jiexiong for the year were the emoluments they received from the Company's shareholder, which included the remuneration for 2017, clearing amounts of annual salaries in previous year and/or special government incentives, etc..
- ③ The emoluments of Mr. Wu Changhai, Mr. Zhang Chunbo, Mr. Chu Xiaoping, Mr. Jiang Wenqi, Ms. Wang Weihong, Mr. Wang Wenchu, Mr. Wong Lung Tak Patrick, Mr. Qiu Hongzhong, Ms. Wu Yan, Ms. Gao Yanzhu, Ms. Huang Xuezhen and Mr. Chen Jing for the Year were the emoluments they received from the Company, which included the remuneration for 2017, clearing amounts of annual salaries in previous years and and/or special government incentives, etc..
- ④ The emoluments of Ms. Li Jinyun from January 2017 to May 2017 was the emoluments she received from the Company due to change of position, and the emoluments of from June 2017 to December 2017 was the emoluments she received from the Company's shareholder.
- ⑤ The emoluments of Mr. Li Hong from July 2017 to December 2017 was the emoluments he received from the Company.
- ⑥ Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Wu Changhai, Mr. Wang Wenchu, Mr. Li Hong, Mr. Zhang Chunbo, Mr. Xian Jiexiong, Ms. Li Jinyun, Ms. Gao Yanzhu, Ms. Huang Xuezhen and Mr. Chen Jing had participated in the Stock Ownership Scheme.

(2) The situation of the equity incentive given to the Directors, supervisors and senior management

Applicable Not applicable

Directors, Supervisors, Senior Management and Staff

2. CHANGES IN INTERESTS AND EMOLUMENTS (Continued)

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

- (i) As at 31 December 2017, the directors, supervisors, senior management and their associates who had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which were required, pursuant to the Model Code of the Listing Rules, to be notified to the Company and the HKEx were as follows:

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

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

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

Note: The above disclosures shares which held by the Employee Stock Ownership Scheme.

Directors, Supervisors, Senior Management and Staff

2. CHANGES IN INTERESTS AND EMOLUMENTS *(Continued)*

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

- (ii) Saved as disclosed above, as at 31 December 2017, none of the directors, supervisors, senior management of the Company and their associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which were required, pursuant to the Model Code of the Listing Rules, to be notified to the Company and the HKEx.

3. POSITIONS HELD BY THE CURRENT AND DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND THOSE WHO DEPARTED DURING THE REPORTING PERIOD

(i) Positions held in the Company's shareholder

Name	Company	Position(s) held in the shareholder	Commencement date of term of office	Ending date of term of office
Li Chuyuan	GPHL	Chairperson	July 2013	/
		Secretary of the party committee	June 2013	/
Chen Mao	GPHL	Vice chairperson, general manager, deputy secretary of the party committee	July 2013	/
Liu Juyan	GPHL	Deputy general manager	January 2011	/
Cheng Ning	GPHL	Chief engineer	August 2005	/
		Deputy general manager	July 2012	/
Ni Yidong	GPHL	Chief Financial Officer	May 2010	/
		Deputy general manager	July 2012	/
Xian Jiexiong	GPHL	Deputy secretary of the party committee	October 2012	/
		Discipline inspection commission secretary	October 2012	December 2017
Li Jinyun	GPHL	Chairperson of labor union	May 2017	/

Directors, Supervisors, Senior Management and Staff

4. INFORMATION ON THE EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The annual emoluments for Directors and supervisors were proposed by the Board and approved at the annual general meeting of the Company at which the Board will be authorized to determine the amount of the emoluments and method of payment for services of the Company's directors and supervisors. The amount of the emoluments and payment method for the senior management were determined by the Board after taking into account of the Company's operating results and individual performance.

5. THE APPOINTMENTS OR DEPARTURES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE REPORTING PERIOD AND AFTER THE REPORTING PERIOD

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

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

Mr. Wong Lung Tak Patrick and Mr. Qiu Hongzhong, formerly the members of the sixth session of the Board, ceased to be the directors of the Company from 23 June 2017. Ms. Wu Yan, formerly a member of the sixth session of the Supervisory Committee, ceased to be a supervisor of the Company from 23 June 2017. Mr. Wang Wenchu, formerly a member of the seventh session of the Board, ceased to be a executive director of the Company from 28 August 2017.

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

At the same meeting, Mr. Li Hong was appointed as the general manager of the Company, Mr. Wu Changhai was appointed as the standing vice general manager of the Company, Mr. Zhang Chunbo was appointed as the vice general manager of the Company and Ms. Huang Xuezhen was appointed as the secretary to the Board. The term of office for the above persons commenced from the date of their respective appointments up to the date on which the members of new session of the Board are elected.

Directors, Supervisors, Senior Management and Staff

5. THE APPOINTMENTS OR DEPARTURES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE REPORTING PERIOD AND AFTER THE REPORTING PERIOD *(Continued)*

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

In accordance with Rule 13.51(B)(1) of the Listing Rules of HKEx, the change in information of directors after the publication of the interim report of the Company for the six months ended 30 June 2017 is as follows:

Name of director	Details of change
Wong Hin Win	An independent non-executive director of the Company elected as an independent non-executive director of Wine's Link International Holdings Limited on 18 December 2017.

6. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the existing directors and existing supervisors of the sixth session has entered into a service contract with the Company. Except for Mr. Jiang Wenqi, an independent non-executive Director and Li Jinyun, a supervisor, the contract term commenced from 28 January 2014 up to the date of election of the seventh session of the Board.

The term of office of Mr. Jiang Wenqi, an independent non-executive director of the Company, was from 17 March 2015 up to the date on which members of the seventh session of the Board are elected.

The term of office of Ms. Li Jinyun, a supervisor of the Company, was from 7 September 2016 up to the date on which members of the new session of the Supervisory Committee are elected.

Each of the existing directors and existing supervisors of the sixth session has entered into a service contract with the Company and the contract term commenced from 23 June 2017 up to the date of election of the seventh session of the Board.

The term of office of each Director and supervisor of the Company commenced from the date of their respective appointments up to the date on which of the new sessions of the Board and the Supervisory Committee are elected. The term of each session of the Board or the Supervisory Committee is three years. All directors and supervisors are eligible to offer themselves for re-election.

The above-mentioned service contracts with the directors and supervisors do not contain any provisions for compensation for early termination of contract, nor for them not being re-elected after expiration of their terms of office.

Directors, Supervisors, Senior Management and Staff

7. INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS

In this year or at the end of this year, the company, each affiliated company, affiliated companies or holding companies in the group entered into no significant transaction, arrangement or contract in which any business of the group is involved or any director or supervisor of the company or any entity related to such director or supervisor directly or indirectly has any material right and interest.

8. PUNISHMENT FROM SECURITIES REGULATORY INSTITUTIONS IN THE PAST THREE YEARS

Applicable Not applicable

9. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company adopted Appendix 10 of the Listing Rules entitled “Model Code for Securities Transactions by Directors of Listed Issuers” and “Measures for the Administration of Trading Shares of the Company by directors, supervisors and senior management” as stipulated by the Company as the code and criteria for securities transactions by directors and supervisors of the Company. After making specific inquiry on all the directors and supervisors, the Company confirmed that its directors and supervisors had fully complied with the standards relating to directors’ and supervisors’ dealing in securities as set out in the above code and criteria during the Reporting Period.

Directors, Supervisors, Senior Management and Staff

10. EMPLOYEES OF THE GROUP

(1) Situation of the employees

Numbers of the employees of the parent Company	2,347
Numbers of the employees of the major subsidiaries	19,608

21,955

Total 11,341

Retired employees of the Company and major subsidiaries whose
expenses were assumed by the Company and major subsidiaries 2,347

Gross payroll of the Group RMB2.174 billion

Category constitution	A number of constitute staff
Production staff	4,831
Sales personnel	11,659
Technical staff	2,607
Finance staff	623
Administrative staff	2,235
Total	21,955

Educational Level	Number (person)
Post Graduate	433
Undergraduate	5,443
University college	6,571
Secondary and below	9,508
Total	21,955

Directors, Supervisors, Senior Management and Staff

10. EMPLOYEES OF THE GROUP *(Continued)*

(2) Remuneration policy

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.

(3) Training plan

The Group regard staff as its precious wealth, adhere to the "people oriented" principle, respect their legitimate rights and interests, strives to provide them with extensive career development platform, care of their lives and constantly enhance their happiness and sense of belonging.

In 2017, the Group on the basis of "talent upgrading" strategy, carried out more training in respect of knowledge, skill and professional ability for the staff to constantly enhance their comprehensive quality and operational ability, so as to provide powerful talent support for the Group to achieve transformation and upgrading and to complete the strategic objective.

Corporate Governance

1. CORPORATE GOVERNANCE AND INSIDERS REGISTRATION MANAGEMENT

- (1) The Company has been strictly complying with the Company Law of the PRC, the Securities Law of the PRC, related laws and regulations of the CSRC and the Listing Rules of the SSE and the Listing Rules of the HKEx, continuously improving the management structure and regulate the operations of the Company.

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

During the Reporting Period, the Company complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (“CG Code”) and the code provisions of the CG Code except that (i) Mr. Chen Mao, Ms. Liu Juyan, Mr. Ni Yidong, Mr. Wu Changhai and Mr. Wang Wenchu, executive Directors, were unable to attend the annual general meeting in 2016 due to business reasons which constituted deviation from code provision A.6.7, and (ii) Mr. Li Chuyuan and Ms. Liu Juyan, executive Directors, Mr. Chhu Xiaoping, Mr. Jiang Wenqi, Mr. Wong Hin Wing and Ms. Wang Weihong, independent non-executive Directors,, were unable to attend the first extraordinary general meeting in 2017 due to business which constituted a deviation from code provision A.6.7.

The Board continues to monitor and review the Company’s corporate governance practices to ensure compliance with the provisions in the corporate governance code.

The Group is committed to: (1) the research and development, manufacturing and sales of pharmaceutical products and great health products; and (2) wholesale, retail, import and export of Western and Chinese pharmaceutical products and medical apparatus, and; (3) adopted relatively flexible business model and strategies and prudent risk and capital management structure; the Group is committed to strengthening the internal control publicity and guidance and the establishment of systems related to the internal control, and established a relatively standardized internal control management and risk prevention system; formulated the strategic objectives and detailed work plans and measures of the Group, so as to ensure the accomplishment of the strategic objectives.

The review of the business and financial position of the Company for 2017 is set out in the section headed “Discussion and Analysis of Operations” in this annual report.

Corporate Governance

1. CORPORATE GOVERNANCE AND INSIDERS REGISTRATION MANAGEMENT *(Continued)*

The Board confirmed that it is responsible for risk management and internal control and is responsible for continuing reviewing the effectiveness of the risk management and internal control. The Board has delegated its responsibilities on risk management and internal control (together with the relevant powers) to the Audit Committee under the Board. The Audit Committee oversees management in the design, implementation and monitoring of the risk management and internal control systems. In relation to the year ended 31 December 2016, the Audit Committee (and the Board) is of the view that the internal control system of the Group is adequate and effective and the Company has complied with the provisions of the CG Code regarding internal control, including:

(i) Procedures for identification, assessment and management of major risks

Based on comprehensive risk management, the Company, by collecting and managing the relevant information on major risks, identifies those posing a significant risk to corporate business and operations. Furthermore, in line with assessment standards for risk potentiality and impact, the Company conducts the assessment of risk events, gives a risk rating and develops the strategies for risk management and procedures for internal monitoring to prevent and reduce risks. The Company monitors the related risks continuously and regularly and makes sure that appropriate procedures for internal monitoring are available. In case of major changes, the Company is responsible for modifying the policies on risk management and regularly reporting on the result of risk monitoring to the management and Board of Directors.

(ii) Main features of risk management and internal monitoring system

The comprehensive risk management system of the Company covers risk events, risk management strategies & solutions, risk mapping and risk management information system, and the Company has established an internal control system of risk management.

(iii) The Board confirmed that it is responsible for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

(iv) Self-assessment and risk management review of internal control are conducted semi-annually and annually by the Company. Identify key risks based on risk assessment and take measures for the management of key risks; base on the risks, review critical internal control activities of key business procedures for high-risk or important business and give the above a high-priority rating regarding effectiveness assessment and find out the defects; take measures for implementation, sort out and perfect the internal monitoring system towards the essential goal of risk control. The internal control system and the risk management information system are updated at least once a year.

Corporate Governance

1. CORPORATE GOVERNANCE AND INSIDERS REGISTRATION MANAGEMENT *(Continued)*

(v) Internal audit function

The Company is equipped with the Audit Department and Risk Control Office. Under the leadership of the Board of Directors and the supervision of the Audit Committee, the foregoing two departments are responsible for supervising, examining and evaluating the implementation of internal risk control of the Company and its subsidiaries, and coordinating the audit of internal control and other related affairs; the Supervisory Committee is responsible for supervising the Board of Directors establishing and implementing the internal control system; the management is responsible for the effective operation of internal risk control.

(2) Work related to corporate governance of the Company during the Reporting Period are as follows:

- (i) The Company performed review on its internal control and fulfillment of social obligations for year 2017 pursuant to the requirement of the "Notice on Proper Preparation of the 2017 Annual Report by Listed Companies" issue by the SSE. Accordingly, the Company prepared the "Self-assessment Report of the board of director of the Company on Internal Control for 2017" and the "Report on Performance of Social Responsibilities for 2017", both of which were disclosed after being duly considered and approved at the Board meeting of the Company held on 15 March 2018.
- (ii) To improve the corporate governance system, the Company amended the relevant provisions of the "Investment Management System". Such amendments were reviewed and approved by the board meeting of the Company held on 26 April 2017.
- (iii) The Company amended the relevant provisions of the "Guarantee Management System" and the "Debt Financing Management System". Such amendments were reviewed and approved by the board meeting of the Company held on 18 August 2017.

Corporate Governance

1. CORPORATE GOVERNANCE AND INSIDERS REGISTRATION MANAGEMENT *(Continued)*

(3) Establishment and implementation of insider information management

The Company had formulated the “Insiders Registration System” in 2010. Upon self-assessment made by the Company, there was no trading of shares of the Company by insiders based on any insider information before disclosure of material price sensitive information as at the end of the Reporting Period.

The company has established comprehensive measures on procedures and internal control related to inside information. The relevant departments are designed as the general working departments for monitoring, management, registration, disclosure and filing of the inside information of the Company. The supervisory committee will monitor the performance of registration system of the insiders of inside information, ensuring that the insiders understand their own rights, obligations and legal liabilities, supervising the strict compliance on information confidentially and prevent and control insider trading with strong force.

(4) Establishment and enhancement of the management system regarding the users of external information of the Company

The Company had formulated the Management System Regarding the Users of External Information in 2010, which strictly regulate the external disclosure of information by the Company and the use of external information on the Company, prevent information from leaking out and procure fair disclosure of information.

During the Reporting Period, the Company did not violate any requirement of the system.

2. SHAREHOLDERS AND GENERAL MEETINGS OF SHAREHOLDERS

The Company treats all shareholders equally, ensures that they can fully exercise their rights and protects their legal interests; and the shareholders can request and convene shareholders’ meeting in strict accordance with the relevant laws and regulations. The Company’s corporate governance structure is to ensure that all shareholders, especially the minority shareholders, can enjoy equal benefits and undertake corresponding responsibilities.

Shareholders of the Company shall enjoy the following rights according to the Articles of Association and the Shareholders Communication Policy of the Company:

- (i) Shareholders can convene the general meeting of shareholders on its own initiative, but shall send out a written notice to the Board, and shall submit the records to the branch of CSRC where the Company is located and the stock exchange.
- (ii) Prior to the announcement of the resolution of the general meeting of shareholders, the shareholdings of the shareholders convening the general meeting shall not be less than 10%. Upon the issue of the notice and the announcement of resolution of the general meeting of shareholders, the shareholders convening the general meeting shall submit the relevant documentary information to the branch of CSRC where the Company is located and the stock exchange.

Corporate Governance

2. SHAREHOLDERS AND GENERAL MEETINGS OF SHAREHOLDERS *(Continued)*

- (iii) Shareholders to enjoy the rights of access to information, participation and decision on material matters as stipulated by law, administrative regulation and the Articles of Association.
- (iv) Where the Company convenes an annual general meeting of the shareholders, the shareholders with 5% or more of the total voting rights of the Company shall be entitled to put forth a new proposal in writing to the Company. The Company shall dispatch supplemental notice of the general meeting within two days after receiving such proposal to announce the contents of such provisional proposal. Any matters contained in such proposal which are within the terms of reference of the general meeting of the shareholders shall be listed in the agenda of the meeting.

In accordance with the Shareholders Communication Policy of the Company, the shareholders of the Company are entitled to the following rights:

- (i) The Shareholders should direct their questions about their shareholdings to the Company's share registrar (H share) or to the designated securities branch (A share);
- (ii) Shareholders and investors community may at any time make a request for the Company's information to the extent that such information is publicly available;
- (iii) The Company shall provide to the shareholders and investors with the designated contact person, e-mail address and enquiry channels of the Company, so as to facilitate them to make reasonable enquires on the Company.

Contact	Ms. Huang Xuezhen, Ms. Huang Xuimei
E-mail:	sec@gybys.com.cn/huangxz@gybys.com.cn/huangrm@gybys.com.cn
Internet website:	http://www.gybys.com.cn

The general meetings of shareholders will be convened and held in strict compliance with the Rules for Shareholders' General Meetings of Listed Companies issued by the CSRC and Rules and Procedures for Shareholders' General Meetings of the Company. The Company will strictly comply with the relevant requirements in respect of voting matters and voting procedures so as to safeguard the legal interests of the Company and its shareholders. Accountant and the lawyer will be present at the meeting as witnesses. The Company encourages all shareholders to attend the meetings and welcome shareholders to express their opinions.

Corporate Governance

2. SHAREHOLDERS AND GENERAL MEETINGS OF SHAREHOLDERS (Continued)

During the Reporting Period, information on the convening of the general meetings of the Company is as follows:

Session and number of meeting	Date of meeting	Resolutions	Resolutions passed or not	Newspapers in which the resolutions were published	Disclosure date
2016 annual general meeting	23 June 2017	<p>Report of the Board for year 2016; Report of the supervisory committee of the Company for year 2016; Financial reports of the Company for year 2016; Auditors' reports of the Company for year 2016; Proposal on profit distribution and dividend payment of the Company for year 2016;</p> <p>Proposal on the operational targets and financial budget of the Company for year 2017;</p> <p>Resolution on the total service emoluments to be paid to the directors of the Company for year 2017; Resolution on the total service emoluments to be paid to the supervisors of the Company for year 2017; Resolution on the amounts of guarantees to be provided by the Company to secure the bank loans for some of its subsidiaries; Resolution on the application by the Company for general banking facilities not exceeding RMB2 billion; Resolution on entrusted loans business between the Company and its subsidiaries;</p> <p>Proposed cash management of part of the temporary idle proceeds from funds raising of the Company; Proposed cash management of part of the temporary internal idle funds of the Company and its subsidiaries;</p> <p>Resolution on the anticipated amounts of daily connected transactions for year 2017;</p> <p>Election of the executive directors of the seventh session of the Board of the Company; Election of the independent non-executive directors of the seventh session of the Board of the Company; Election of the supervisory of the seventh session of the Supervisory Committee of the Company.</p>	Passed	Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報)	23 June 2017

Corporate Governance

2. SHAREHOLDERS AND GENERAL MEETINGS OF SHAREHOLDERS (Continued)

Session and number of meeting	Date of meeting	Resolutions	Resolutions passed or not	Newspapers in which the resolutions were published	Disclosure date
The first extraordinary general meeting in 2017	22 December 2017	Resolution on the re-appointment of BDO China Shu Lun Pan Certified Public Accountants LLP as the auditors of the Company for year 2017; Resolution on the re-appointment of BDO China Shu Lun Pan Certified Public Accountants LLP as the auditors for the internal control of the Company for year 2017; Resolution on the addition of new entities which may use part of the Placing Proceeds	Passed	Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報)	22 December 2017

Note: The resolution of "Resolution on the addition of new entities which may use part of the Placing Proceeds" was considered and approved at the 4th meeting of the seventh session of the Board held on 20 October 2017, the 4th meeting of the seventh session of the Supervisory Committee and the 1st extraordinary general meeting in 2017 held on 22 December 2017. Details of which please refer to the announcement of the Company disclosed on 20 October 2017 in SSE and the circular of the Company dated 6 November 2017.

Relationship between the Controlling Shareholder and the Company:

GPHL, as the controlling shareholder of the Company, exercises its power and accepts its obligations in accordance with the laws, and has not acted beyond the shareholders' meetings to interfere directly or indirectly in the Company's operations. The Company and GPHL have been working separately in areas relating to assets, business, organization, finance and human resources and are independent of each other. The Board, the Supervisory Committee and the internal departments of the Company operate independently.

3. BOARD OF DIRECTORS

(1) Composition

The Board is the core decision-making body entrusted by general meeting of the shareholders to be in charge of the operation and management of the Company's assets. The Board is accountable to the shareholders. The management is responsible for the Company's daily operations and daily administration management works. There is no financial, business, family or other material relationships among members of the Board.

The present Board is the seventh session since the establishment of the Company, and is comprised of 10 members, including Mr. Li Chuyuan (chairperson), Mr. Chen Mao (vice chairperson), 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. Each director has a term of office commenced from 23 June 2017 up to the date on which the new session of the Board is elected.

Corporate Governance

3. BOARD OF DIRECTORS *(Continued)*

(1) Composition *(Continued)*

The Board shall exercise the following powers:

- (A) convention of general meetings of shareholders, and report to the general meetings;
- (B) implementation of the resolutions of the general meeting;
- (C) formulation of the business plan and investment scheme of the Company;
- (D) formulation of the annual financial budget and financial accounting policy of the Company;
- (E) formulation of the profit distribution policy and loss recovery policy of the Company;
- (F) formulation of the policy of increase or reduction of registered capital and the policy of issue of corporate bonds of the Company;
- (G) drafting of the policies of material corporate acquisition, acquisition of shares of the Company, or the merger, separation, dissolution and liquidation of the Company;
- (H) making decision on the establishment of internal management system in the Company;
- (I) employment or dismissal of the managers of the Company; based on nomination, employ or dismiss the assistant managers, financial controller, other senior management personnel and secretary to the Board of the Company; and decide on their remuneration;
- (J) formulation of the basic management system of the Company;
- (K) formulation of the proposal on amendment of the Articles of Association of the Company;
- (L) making decision on external guarantee which involves an amount of more than 10% (or 10%) of the net assets in the consolidated financial statements of the most recent fiscal year of the Company;
- (M) making decisions on matters such as external investment, acquisition and sale of assets, mortgaged assets, external guarantee, entrusted financial management and connected transaction, within the scope of authorization by the general meeting of shareholders;
- (N) management of disclosure of information of the Company;
- (O) proposing to the general meeting of shareholders on appointment or replacement of accounting firm responsible for auditing for the Company;

Corporate Governance

3. BOARD OF DIRECTORS *(Continued)*

(1) Composition *(Continued)*

- (P) receiving the work report of the managers of the Company and checking the work of the managers;
- (Q) other powers granted by these Articles of Association and the general meeting of shareholders.

The Board shall exercise the above powers by convening the meeting of the Board and reviewing the decision and reaching the resolution of the Board for implementation.

Directors shall be elected or removed by general meeting of shareholders, at which a cumulative voting system is adopted for the election of directors. Directors are eligible for re-election upon expiration of their term of office. All independent non-executive directors are independent persons, and are not connected with the Company and its substantial shareholders. Their terms of office shall not exceed six years.

The role of chairperson and general manager of the Company are performed by separate persons with clear division of responsibilities. The Board is presided over by the chairperson, who is in charge of the daily business of the Board and the examination of the implementation of the resolutions passed at Board meetings. The general manager works under the leadership of the Board. The principal responsibilities of the general manager include management of the Company's daily operations and implementation of the resolutions passed at the Board. The chairperson of the Board is Mr. Li Chuyuan and the general manager is Mr. Li Hong of the Company. The daily operation management of the Company is supervised by executive directors and senior management.

Members of the Board have different industry backgrounds, having expertise and extensive experience in areas such as business management, accounting, finance, pharmaceuticals, law and investment planning.

The Company regularly arranges every Director to participate in the professional trainings organized by the CSRC and the stock exchanges on which the Company is listed, and the certificate of qualification for training or certificate recognized by the relevant authorities were given. The secretary to the Board also participates in the relevant professional trainings of not less than 15 hours each year. All Directors had provided the secretary to the Board with records on their trainings during the Reporting Period.

Corporate Governance

3. BOARD OF DIRECTORS *(Continued)*

(1) Composition *(Continued)*

All the Directors can obtain from the secretary of the Board and the secretariat to the Board timely relevant information and updates of the statutory and regulatory regulations that directors of listed companies must abide by and that are related to their continuing obligations in order to ensure that the Directors understand their duties and that the procedures of Board meetings are implemented and complied with appropriately. The Directors and the special committees of the Board are both entitled within the scope of their powers to engage the services of independent professional institutions for performing their duties or for the business operation when needed. The Company shall bear the reasonable cost incurred thereof.

The board of directors shall perform the following functions of corporate governance responsibilities:

- (A) formulate and review the Company's corporate governance policies and procedures;
- (B) review and monitor the personnel training and continuing professional development of the directors and senior management;
- (C) review and monitor the Company's compliance with the laws and regulations of the policies and procedures;
- (D) formulate, review and monitor the ethics code of conduct and compliance manual applicable to employees and Directors (if any); and
- (E) review the Company's compliance with the corporate governance rules and the disclosure within the corporate governance report.

(2) Board Meetings

In 2017, eight Board meetings were held (of which six were physical meetings and two were meetings by way of written resolutions) and discussed the election members of the Board and the members of the special committee formed under the Board and the investment projects as well as connected transactions and financial matters of the Group. The Board meeting could make effective discussion and bring out prudent decision.

Corporate Governance

3. BOARD OF DIRECTORS (Continued)

(2) Board Meetings (Continued)

The attendance of Directors at Board meetings and Shareholders' Meetings during the Reporting Period is set out below:

Directors	Whether an independent director	No. of meetings that should attend	Participation of directors at Board meetings				Attendance of Directors at Shareholders' meetings		
			Number of meetings participated in person	Number of meetings participated by way of communication	Number of meetings participated by appointing a representative	Number of absence	Failure to participate two meetings in person consecutively	Number of general meetings that should have participated	Number of general meetings participated
Li Chuyuan	No	8	6	2	2	0	No	2	1
Chen Mao	No	8	7	2	1	0	No	2	1
Liu Juyan	No	8	5	2	3	0	No	2	0
Cheng Ning	No	8	7	4	1	0	No	2	2
Ni Yidong	No	8	8	2	0	0	No	2	1
Wu Changhai	No	8	7	3	1	0	No	2	1
Chu Xiaoping	Yes	8	7	2	1	0	No	2	0
Jiang Wenqi	Yes	8	7	5	1	0	No	2	1
Wong Hin Wing	Yes	5	5	4	0	0	No	1	0
Wang Weihong	Yes	5	5	3	0	0	No	1	0
Wang Wenchu	No	6	4	1	2	0	No	1	0
Wong Lung Tak Patrick	Yes	3	2	2	1	0	No	1	0
Qiu Hongzhong	Yes	3	2	0	1	0	No	1	1

Notes:

- A. Participation by way of communication deemed participation in person.
- B. Mr. Wong Lung Tak Patrick and Mr. Qiu Hongzhong, formerly the members of the sixth session of the Board, ceased to be the directors of the Company from 23 June 2017; Mr. Wong Hin Wing and Ms. Wang Weihong were elected as the independent non-executive directors of the seventh session of the Board of the Company; Mr. Wang Wenchu ceased to be a executive director of the Company from 28 August 2017.

Corporate Governance

3. BOARD OF DIRECTORS *(Continued)*

(3) Independent non-executive directors

Currently, the Company has 4 independent non-executive directors, representing more than 1/3 of the total members of the Board. All the independent non-executive directors of the Company are familiar with the rights and obligations of directors and independent non-executive directors of listed companies. During the Reporting Period, the independent non-executive directors strictly complied with the provisions in the Articles of Association, “Rules of Procedures of the Board”, “Independent Directors system” and “the annual reporting system of Independent Directors”, faithfully and diligently carried out the duties of independent non-executive directors, carefully, seriously and appropriately exercised the rights of independent non-executive directors, proactively and seriously attended Board meetings and general meetings of shareholders and offered their experience and strengths to the maximum extent. They had done a lot of work on improving the Company’s corporate governance and material decision-making, and had expressed impartial and objective opinions on relevant matters, thus effectively safeguarding the interests of the majority shareholders. All of the 4 independent non-executive directors of the Company were members of the special committees formed under the Board.

During the Reporting Period, the independent non-executive directors of the Company expressed their independent views on the connected transactions made during the Reporting Period and discharged their duties as independent non-executive directors seriously.

During the Reporting Period, the independent non-executive directors of the Company expressed no dissenting views to the Board resolutions and other matters other than the Board resolutions.

The Board confirmed the receipt from each of the independent non-executive directors a confirmation letter in regards to his independence pursuant to Rule 3.13 of the Listing Rules of the HKEx. The Board considered the existing independent non-executive directors to be independent persons as defined in Rule 3.13 of the Listing Rules of the HKEx.

Pursuant to the “Notice on preparation of the 2017 Annual Report by Listed Companies” issued by SSE on 31 December 2017, the independent non-executive directors studied the relevant requirements set out in the Notice seriously. The Company reported to the independent non-executive directors on production and operation issues and the progress of major events, and submitted an action plan in relation to the preparation of the 2017 annual report and auditing work and relevant information. After completion of the preliminary auditing work by the Company’s accountants, the independent non-executive directors communicated with the auditors on issues related to the auditing process.

(4) Loan or guarantee for loan granted to Directors

During the Reporting Period, the Group had not made any loan or provided any guarantee for any loan, directly or indirectly, to the directors, supervisors and senior management of the Company, the Company’s controlling shareholder or their respective connected persons.

Corporate Governance

4. COMMITTEES OF THE BOARD

(1) Audit Committee

In August 1999, the Company established the Audit Committee. Its principal responsibilities include: to review and monitor the quality and procedure of the Group's financial reporting; to review the completeness and effectiveness of the Company's internal control system; to consider the appointment of independent auditors and to co-ordinate and to review the efficiency and quality of their work.

The members of the Audit Committee of the sixth session of the Board comprised Mr. Wong Lung Tak Patrick (chairman of the Audit Committee), Mr. Qiu Hongzhong, Mr. Chu Xiaoping and Mr. Jiang Wenqi. All four of them were independent non-executive Directors and were qualified under the relevant requirements, which their term of office of the members commenced from 28 January 2014 up to the date on which members of the new session of the Board are elected.

The term of office of members of the Audit Committee of the sixth session of the Board expired on 23 June 2017. The Audit Committee of the seventh session of the Board was established on the same date, its members comprised Mr. Wong Hin Wing (chairman of the Audit Committee), Mr. Chu Xiaoping, Mr. Jiang Wenqi and Ms. Wang Weihong. All four of them were independent non-executive Directors and were qualified under the relevant requirements, which their term of office of the members commenced from 23 June 2017 up to the date on which members of the new session of the Board are elected.

Major tasks accomplished by the Audit Committee in 2017 including:

- (A) held three meetings in 2017 to review the 2016 Annual Report and 2017 Interim Report of the Group as well as the recommendations on management issued by external auditors and the respective response by the Company's management. Each of the members of the committee attended all the meetings;
- (B) reviewed the accounting policies adopted by the Group and the relevant issues regarding accounting practice;
- (C) reviewed the Company's internal control evaluation report for 2016 and audit risk control work plan for 2017.
- (D) advised the Board regarding re-appointment of auditing firm for the year;
- (E) advised the Company on major events of the Company or reminding the management of relevant risks.

Corporate Governance

4. COMMITTEES OF THE BOARD *(Continued)*

(1) Audit Committee *(Continued)*

The work on the annual audit for 2017 and relevant jobs regarding the preparation of the Annual Report are as follows:

In accordance with “the Notice on preparation of the 2017 Annual Report in an orderly manner by Listed Companies” issued by the SSE on 31 December 2017, all members of the Audit Committee reviewed the relevant requirements seriously. The Audit Committee actively coordinate with the Company in respect of the audit for 2017 and the preparation of the annual report for 2017 in pursuance of the Rules on the Annual Report of the Audit Committee, including:

- 1) The Committee negotiated with the auditors of the Company and the Company’s Finance Department regarding the time line for audit and the relevant arrangements and set out the “Action plan for the Preparation of 2017 Annual Report” and reviewed the audit plan submitted by the auditors.
- 2) On 13 March 2018, the Audit Committee reviewed the draft of the financial reports prepared by the Company and issued written recommendations thereon.
- 3) After the auditors’ completion of the preliminary auditing work, the Audit Committee reviewed the financial reports again and issued written recommendations regarding the audit work. The Audit Committee believed that the 2017 financial reports of the Company reflected the state of affairs of the Company truly, accurately and fairly, and agreed to submit the reports to the Board for approval.
- 4) On 15 March 2018, the Audit Committee convened the first meeting in 2018 and considered and passed the 2017 Annual Report and its summary and the Company’s 2017 Financial Report. At the same time, the Audit Committee finalized its evaluation on the audit work of the auditor and believes that the auditor has carried out the audit work for the Company with cautious, independent and objective standards, and managed to abide by their professional work ethics, followed closely the auditing regulations, fulfilled their auditing responsibilities and submitted the auditors’ report in time, as well as having issued fair and unbiased management recommendations to the management of the Company, and completed the audit work with satisfactory performance.

Corporate Governance

4. COMMITTEES OF THE BOARD *(Continued)*

(2) Strategic Development and Investment Committee

In February 2001, the Company established the investment management committee, which was renamed as strategic development and investment committee as approved at the fourth Board meeting of the fourth session of the Board. Its principal responsibilities are to research and issue recommendations on the long-term strategic development and significant investment decisions of the Company and, with authorization from the Board, to examine and approve investment projects intended to be implemented by the Company.

The strategic development and investment committee of the sixth session of the Board comprised Mr. Li Chuyuan (chairperson of the committee), Mr. Chen Mao, Ms. Liu Juyan, Mr. Qiu Hongzhong and Mr. Chu Xiaoping. The term of office of the aforementioned committee members commenced from the date of their appointments on 28 January 2014 up to the date on which members of the new session of the Board are elected.

The term of office of members of the strategic development and investment committee of the sixth session of the Board expired on 23 June 2017. The strategic development and investment committee of the seventh session of the Board was established on the same date, its members comprised Mr. Li Chuyuan (chairman of the strategic development and investment committee), Mr. Chen Mao, Ms. Liu Juyan, Mr. Jiang Wenqi, Mr. Chu Xiaoping and Ms. Wang Weihong, which their term of office of the members commenced from 23 June 2017 up to the date on which members of the new session of the Board are elected.

During the Year, the strategic development and investment committee held six meetings. All of the committee members attended the meetings.

(3) Nomination and Remuneration Committee

In February 2002, the Company established the Remuneration & Evaluation Committee, which was renamed as Nomination and Remuneration Committee as approved at the fourth Board meeting of the fourth session of the Board. Its principal responsibilities are to study and examine the remuneration policies and proposals of directors and senior management, to research on the selection standards and procedures of directors, general managers and other senior management and to issue recommendations, and to extensively look for qualified persons to be directors and senior management, to conduct examination on them and to issue recommendations, audit the remuneration of directors and senior management and make recommendation to the Board.

The Nomination and Remuneration Committee of the sixth session of the Board comprised of Mr. Chu Xiaoping (chairperson of the committee), Mr. Ni Yidong, Mr. Wu Changhai, Mr. Wong Lung Tak Patrick and Mr. Jiang Wenqi. The term of office of the aforementioned committee members commenced from the date of their appointments on 28 January 2014 up to the date on which members of the new session of the Board are elected.

Corporate Governance

4. COMMITTEES OF THE BOARD *(Continued)*

(3) Nomination and Remuneration Committee *(Continued)*

The term of office of members of the Nomination and Remuneration Committee of the sixth session of the Board expired on 23 June 2017. The Nomination and Remuneration Committee of the seventh session of the Board was established on the same date, its members comprised Mr. Chu Xiaoping (chairman of the Nomination and Remuneration Committee), Mr. Ni Yidong, Mr. Wu Changhai, Mr. Jiang Wenqi and Mr. Wong Hin Wing, which their term of office of the members commenced from 23 June 2017 up to the date on which members of the new session of the Board are elected.

During the Reporting Period, the Nomination and Remuneration Committee held two meetings to make examinations and approvals to the disclosure of emoluments of the Directors, supervisors and senior management in the 2016, the disclosure of total amounts of payment for service of the Directors and supervisors in the 2017, the resolution of the nomination of candidates for director of the seventh session of the Board and the resolution of the evaluation on the independence of candidates for independent non-executive Director of the seventh session of the Board. All of the committee members attended the meetings.

The Company has adopted the CG Code and the Nomination and Remuneration Committee has been appointed to make recommendations regarding remunerations of executive directors and senior management of the Company to the Board as well as the nomination of candidates for director of the seventh session of the Board.

The Company has formulated the Diversified Policy for the Board Members, which was approved at the Board meeting dated 26 September 2013 and carried out. As of the end of the Reporting Period, the Nomination and Remuneration Committee has basically complied with the provisions of the Diversified Policy for the Board Members. For the effectiveness of the Diversified Policy for the Board Members of the Company, the Nomination and Remuneration Committee of the Company will constantly supervise and review the Diversified Policies for the Board Members. Pursuant to the Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service. The Board will consider to set measurable objectives to implement the Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

As of the end of the Report Period, there was no trading of shares of the Company by insiders of the Nomination and Remuneration Committee based on any insider information before the disclosure of material price sensitive information.

Corporate Governance

4. COMMITTEES OF THE BOARD *(Continued)*

(4) Budget Committee

In October 2007, the Company established the Budget Committee as approved at the 4th meeting of the fourth session of the Board. Its principal responsibilities are to provide guidance on the formulation of the budgeting plans and business objectives of the Company for the year and to supervise and inspect their implementations.

The Budget Committee of the sixth session of the Board comprised of Mr. Qiu Hongzhong (the chairperson of the Committee), Ms. Cheng Ning, Mr. Wang Wenchu, Mr. Wong Lung Tak Patrick and Mr. Jiang Wenqi . The term of office of the above members commenced from 28 January 2014 to the date on which members of the new session of the Board are elected. On 15 March 2017, the Budget Committee held the first meeting for 2017. All of the committee members attended the meetings. Annual business objectives and the budget for 2017 and the Work plan of budget in 2016 of the Company were considered and approved at the meeting. All of the committee members attended the meetings.

The term of office of members of the Budget Committee of the sixth session of the Board expired on 23 June 2017. The Budget Committee of the seventh session of the Board was established on the same date, its members comprised Ms. Wang Weihong (chairlady of the Budget Committee), Ms. Cheng Ning, Mr. Wu Changhai, Mr. Jiang Wenqi and Mr. Wong Hin Wing, which their term of office of the members commenced from 23 June 2017 up to the date on which members of the new session of the Board are elected.

During the Reporting Period, the Budget Committee held one meeting. Annual business objectives and the budget for 2017 and the Work plan of budget in 2017 of the Company were approved at the meeting. All of the committee members attended the meetings.

(5) **Special committees of the Board did not give important opinions or suggestions when performing their duties during the Reporting Period.**

Corporate Governance

5. SUPERVISORY COMMITTEE

- (1) During the Reporting Period, the Supervisory Committee monitored the procedures for convening Board meetings and shareholders' meetings and the resolutions proposed to be considered thereat, as well as the execution by the Board of the resolutions passed at the shareholders' meetings and has no dissenting view on any reports and proposals submitted by the Board at shareholders' meetings. The Supervisory Committee considered that during the Reporting Period the operations conducted by the Company were in compliance with the Company Law, the Securities Law, the respective Listing Rules governing the securities exchanges in the PRC and in Hong Kong, the Articles of Association and other relevant laws and regulations, and the Company has executed the resolutions of the shareholders' meetings of the Company diligently, continued to enhance the internal management and internal control systems of the Company and established a good internal management system. The Company's directors and senior management have not committed any acts in breach of the rules and regulations, the Articles of Association, nor have they engaged in any acts involving the infringement of the Company's interest or infringement of shareholder's interests.
- (2) During the Reporting Period, the Supervisory Committee held eight meetings, all supervisors attended the meetings.
- (3) The Supervisory Committee has carefully reviewed the financial statements and other financial information of the Company during the Reporting Period, and considered that the Company's financial statements were fairly presented, the auditing and financial management were in line with the relevant regulations and had not discovered any issues. The auditor issued their standard and unqualified auditor's reports after auditing the accounts of the Group and the Company for the year ended 31 December 2017, which reflected an objective, true and fair view of the financial status and the operations results of the Company.
- (4) The Supervisory Committee monitored and inspected the connected transactions of the Company, and was of the opinion that: the connected transactions of the Company satisfied the development strategy and actual needs of the Company; the connected transactions were reasonable and necessary; the decision-making procedures in respect of connected transactions complied with the relevant laws and regulations and the provisions of the Articles of Association; and the interests of the Company and its minority shareholders were not prejudiced.
- (5) The Supervisory Committee expressed no dissent to the matters subject to their supervision during the Reporting Period.

Corporate Governance

6. SEPARATION OF BUSINESS, HUMAN RESOURCES, ASSETS, ORGANIZATION AND FINANCIAL ARRANGEMENT FROM THE CONTROLLING SHAREHOLDER

- (1) Separation of business: the Company operates with its own autonomy and integrated business structure and is independent from its controlling shareholder.
- (2) Human resources: the Company maintains independence in the areas of staffing, personnel and payroll management. Senior management of the Company are remunerated by the Company.
- (3) Assets: the Group is equipped with an independent production system, a supplementary production system and related facilities. It also has its own independent purchases and sales systems. The Company itself owned 1,260 registered trademarks which are all within validity periods.
- (4) Organization: there was no combustion of operation return the Company and its controller shareholder. The Company has its own independent and comprehensive organizational structure. The Board, the Supervisory Committee and other departments operate independently and autonomously. Further, the Company has independent decision-making mechanisms and integrated production units. No supervisory or reporting relationships existed between the functional departments of the Company and the controlling shareholder of the Company.
- (5) Finance: the Company has established an independent finance department, an independent accounting system and an independent financial management policy. The Company has maintained separate bank accounts and paid tax independently.

Corporate Governance

7. THE ESTABLISHMENT AND IMPLEMENTATION OF ASSESSMENT MECHANISM AND INCENTIVE MECHANISM FOR THE SENIOR MANAGEMENT OFFICERS DURING THE REPORTING PERIOD

The Company has established the performance assessment mechanism in respect of the senior management officers and thus can assess the performance of the senior management officers according to the formulated assessment scheme on an annual basis. At present, the Company is actively exploring relevant proposals regarding the incentive mechanisms, and will facilitate share incentive plans at the appropriate time so as to improve and complete the mechanism and to mobilize the enthusiasm and initiatives of the management officers at the medium and senior levels and business backbones to the greatest extent, and to arouse their creativity for purposes of generating greater return to the Company and its shareholders.

8. WHETHER TO DISCLOSE THE SELF-ASSESSMENT ON INTERNAL CONTROL

Applicable Not applicable

The Board performed a self-assessment on internal control for the Year and formulated the Self-assessment Report on Internal Control (full version is available on the website of the SSE) in accordance with the requirements of the “Notice on preparation of the 2017 Annual Report in an orderly manner by Listed Companies” issued by SSE on 31 December 2017.

Significant shortcoming in the internal control was found during the Reporting Period

Applicable Not applicable

9. AUDIT REPORT ON THE INTERNAL CONTROL

- (1) The recommendation from the audit firm: BDO China Shu Lun Pan CPAs LLP considered that as at 31 December 2017, the Group has maintained effective internal control in its financial reporting in all material aspects, pursuant to the “Guidelines for Internal Control Standards” and relevant regulations.
- (2) The Company has appointed BDO China Shu Lun Pan CPAs LLP to review and assess on the Group’s internal control for the Year (full version is available on the website of the SSE).

Whether to disclose the audit report on internal control: Yes

Corporate Governance

10. DIRECTORS' RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibilities to prepare the financial statements which give a true and fair view of the state of affairs of the Group and of the loss and cash flows position of the Group for the Year and which are in compliance with statutory requirements and other regulatory requirements. As at 31 December 2017, the Board was not aware of any material misstatement or uncertainties that might put doubt on the Group's financial position or ability to continue as a going concern. The Board endeavors to ensure a balanced, clear and understandable assessment of the Group's performance, position and prospects in financial reporting. The statement of the Auditors regarding their reporting responsibility for the financial statements is set out in the Independent Auditors' Report on pages 184 to 188 of this annual report. There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

11. OTHERS

(1) Other stakeholders

The Company respected and safeguarded the interests of the stakeholders and realized the balance of interests among the shareholders, employees and the society. At the same time, the Company also pays attention on environmental protection, public welfare and other issues and economic to mutually promote the sustainable and sound development of the Company in economic activities.

(2) Information on the disclosure and management of relationship with investors

The Company delegated the secretary to the Board with the responsibility for handling the Company's information disclosure, arranging company visits and answering enquiries from shareholders and investors and responding to correspondence from shareholders in a timely manner. The Company has designated Shanghai Securities News, Securities Times, China Securities Journal and China Securities News in the PRC to publish the Company's information and disclose such at websites designated by the SSE and the HKEx and the Company's website. The Company continues to disclose information in a truthful, accurate, comprehensive and timely manner in strict compliance with the relevant rules and regulations and the Code of Information Disclosure of the Company, and make preserve confidentiality before disclosure. The Company also ensures that all shareholders have fair and equitable access to information relating to the Company.

Relevant Information of Company Bonds

THE COMPANY DID NOT HAVE ANY BONDS DURING THE REPORTING PERIOD.



Auditors' Report



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. ZC10049

To the Shareholders of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.:

I. AUDIT OPINION

We have audited the attached financial statements of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (hereinafter referred to as "the Company"), which comprise the balance sheet and consolidated balance sheet as at 31 December 2017, the income statement and consolidated income statement for the year then ended 31 December 2017, the cash flow statement and consolidated cash flow statement for the year then ended 31 December 2017, the statement of changes in equity and consolidated statement of changes in equity for the year then ended 31 December 2017, as well as the notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended 31 December 2017 in accordance with Accounting Standards for Business Enterprises.

II. BASIS OF OPINIONS

We have conducted our audit in accordance with the Chinese Auditing Standards issued by the Chinese Institute of Certified Public Accountants. Our responsibilities under those standards are further described in the responsibilities of certified public accountants for the audit of the financial statements section of the auditors' report. We are independent of the Company in accordance with the ethical codes of Chinese certified public accountants, and we have fulfilled our other ethical responsibilities in accordance with the codes. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

III. KEY AUDIT MATERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the current period. These matters were addressed in the context of our audit of the financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Auditors' Report



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. ZC10049

1. Impairment tests for the intangible assets with uncertain useful life

a) Details

In accordance with Accounting Standards for Business Enterprises, intangible assets with uncertain useful life are tested for impairment at the end of each year. Trademark is the intangible assets with uncertain useful life of the Company, which balance amounted to RMB0.13911 billion as at 31 December 2017, impairment tests are the key audit matters which have material impact to financial statements. As the evaluation of impairment tests are complicated and require high judgement to do so, the assumption is based on the expected future market and the economic environment.

b) Application for auditing

When addressing the impairment tests for the intangible assets with uncertain useful life, we implemented the auditing procedures mainly including: We discussed with evaluation experts hired by the management of the Company (hereinafter referred to as "management") for the rationality of evaluate method and the key parameter, which includes forecast for increase of operation revenue and discount rate, we discussed the rationality of comparative data with larger changes between forecast for increase of operation revenue and historic data, and asked for more evidence of them; meanwhile we paid attention to disclosure of the method of impairment tests and key parameter is enough or not. Method of impairment tests for the intangible assets with uncertain useful life refers to the notes to financial statements V(15).

2. Litigation

a) Details

Some subsidiaries of the Company are related to litigation, which refer to the notes to financial statements XVI (1). Those litigation are mainly includes be accused for repayment and accuse customers of repayment. As these cases have not yet been judged, management exercise material judgement to the probability of cases and the affected amount in financial statement, therefore, we presented litigation as key audit matter.

b) Application for auditing

When addressing the litigation, we implemented the auditing procedures mainly including: We discussed it with related person or legal department, obtained legal opinions from a law office, which described the cases and made a professional judgement to the probability and potential risk. We discussed these materials with management and accessed the provision of liabilities and bad debts are appropriate or not.

Auditors' Report



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. ZC10049

IV. OTHER INFORMATION

The management is responsible for the other information which comprises all the information in the annual report other than the financial statements and this auditors' report.

Our audit opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Combining with our audit to the financial statements, our responsibility is to read the other information. During the process, we considered if there is significant inconsistency or there is likely significant misstatement between the other information and the financial statements or the information we obtained during the audit.

As we have performed the work on the other information obtained before the date of our auditors' report, we shall report if we confirmed there was a significant misstatement among the other information. We have nothing needed to be reported on this case.

V. RESPONSIBILITIES OF THE MANAGEMENT AND GOVERNING BODIES FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the Accounting Standards for Business Enterprises, and also designing, implementing and maintaining the internal control system as necessary such that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the Company's ability to continue as a going concern, disclosing the matters related to the going concern basis and using the going concern basis of accounting unless the management either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The governing bodies are responsible for overseeing the financial reporting process of the Company.

Auditors' Report



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. ZC10049

VI. RESPONSIBILITIES OF CERTIFIED PUBLIC ACCOUNTANTS FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are generally considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also performed the following works:

- (1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- (4) Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Auditors' Report



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. ZC10049

- (5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicated with the governing bodies regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that they identify during the audit.

We also provided the governing bodies with a statement that we had complied with relevant ethical requirements regarding independence, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence.

From the matters we had discussed with the governing bodies, we confirmed which matters were the most important to the audit of the financial statements for the current period and thus constituted the key audit matters. We set out these matters in the auditors' report. Unless the disclosure of these matters are forbidden by the laws and regulations, or, in rare cases, if it is reasonably expected that the negative impacts caused by discussing certain matters in the auditors' report would be larger than the benefits for public interest, We shall not disclose the matters in the auditors' report under such circumstances.

BDO CHINA SHU LUN PAN Certified Public
Accountants LLP

Shanghai, China

Chinese Certified Public Accountant
(Engagement partner)

Zhang Ning

Chinese Certified Public Accountant

Zhang Xi

Consolidated Balance Sheet

As At 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

Item	Note	31 December 2017	31 December 2016
Current assets			
Cash at bank and on hand	5(1)	11,697,218,882.84	12,821,007,880.23
Financial assets based on fair value to confirm profit or loss	5(2)	4,875,057.73	6,026,123.94
Notes receivable	5(3)	1,702,655,475.08	1,604,767,885.21
accounts receivable	5(5)	1,113,769,006.51	1,108,363,607.29
advances to suppliers	5(7)	256,571,758.01	414,073,610.15
Interest receivable		–	–
Dividends receivable	5(4)	552,938,523.45	52,938,523.45
Other receivables	5(6)	209,318,838.53	205,120,876.85
Inventories	5(8)	3,700,222,896.01	2,781,495,711.45
Current portion of non-current assets		–	–
Other current assets	5(9)	2,266,983,406.82	520,191,094.03
Total current assets		21,504,553,844.98	19,513,985,312.60
Non-current assets			
available-for-sale financial assets	5(10)	1,038,859,674.96	327,889,324.24
Held-to-maturity investments		–	–
Long-term receivables		–	–
Long-term equity investments	5(11)	2,008,481,257.05	2,290,443,462.70
Investment properties	5(12)	217,675,779.38	228,575,391.31
Fixed assets	5(13)	2,082,244,551.64	2,107,109,957.69
Construction in progress	5(14)	284,672,127.45	255,276,101.16
Construction materials		–	–
Fixed assets pending for disposal		–	–
Intangible assets	5(15)	728,009,270.29	668,305,151.10
Development costs	5(16)	800,000.00	3,017,046.84
Goodwill	5(17)	11,499,562.74	11,499,562.74
Long-term prepaid expenses	5(18)	49,066,645.52	37,939,444.42
Deferred tax assets	5(19)	388,850,739.31	417,159,182.77
Other non-current assets	5(20)	–	35,970,282.97
Total non-current assets		6,810,159,608.34	6,383,184,907.94
TOTAL ASSETS		28,314,713,453.32	25,897,170,220.54

Consolidated Balance Sheet

As At 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

Item	Note	31 December 2017	31 December 2016
Current liabilities			
Short-term borrowings	5(22)	11,500,000.00	25,215,424.88
Financial liabilities based on fair value to confirm profit or loss		–	–
Notes payable	5(23)	252,226,384.82	320,811,521.98
accounts payable	5(24)	2,802,200,696.28	2,267,279,067.87
advances from customers	5(25)	1,888,892,476.97	1,552,885,731.40
Employee benefits payable	5(26)	631,170,810.62	546,523,380.87
Taxes payable	5(27)	206,462,076.94	384,192,155.39
Interest payable	5(28)	253,966.40	257,658.10
Dividends payable	5(29)	45,446,017.79	57,301,541.02
Other payables	5(30)	2,399,394,477.50	2,267,981,520.69
Current portion of non-current liabilities	5(31)	31,307,337.23	–
Other current liabilities		–	–
Total current liabilities		8,268,854,244.55	7,422,448,002.20
Non-current liabilities			
Long-term borrowings	5(32)	–	33,502,083.03
Debentures payable		–	–
Long-term payables	5(33)	20,171,809.73	20,558,783.65
Payables for specific projects	5(34)	14,954,855.39	16,842,773.80
Provisions	5(35)	55,348,585.32	61,045,873.15
Deferred income	5(36)	526,890,368.97	612,084,162.58
Deferred tax liabilities	5(19)	114,788,264.17	76,581,360.14
Long-term Employee benefits payable	5(37)	326,532.02	316,733.72
Other non-current liabilities	5(38)	50,225,000.00	–
Total non-current liabilities		782,705,415.60	820,931,770.07
Total liabilities		9,051,559,660.15	8,243,379,772.27

Consolidated Balance Sheet

As At 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

Item	Note	31 December 2017	31 December 2016
Shareholders' equity			
Share capital	5(39)	1,625,790,949.00	1,625,790,949.00
Capital surplus	5(40)	9,875,177,958.43	9,875,172,584.68
Less: Treasury share		—	—
Other comprehensive Income	5(41)	(70,206,938.27)	9,788,066.97
Surplus reserves	5(42)	1,154,762,193.41	1,052,034,418.97
Undistributed profits	5(43)	6,285,996,409.09	4,782,293,720.24
Total equity attributable to shareholders of parent Company		18,871,520,571.66	17,345,079,739.86
Equities of minority shareholders	5(44)	391,633,221.51	308,710,708.41
Total shareholders' equity		19,263,153,793.17	17,653,790,448.27
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		28,314,713,453.32	25,897,170,220.54

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Li Hong

Person in charge of
accounting department:

Wang Jiansheng

Consolidated Income Statement

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

Item	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
1. Revenue	5(45)	20,954,225,189.53	20,035,681,499.37
Less: Cost of sales	5(45)	13,063,229,348.28	13,412,062,896.03
Taxes and surcharges	5(46)	204,088,804.03	189,309,156.99
Selling and distribution expenses	5(47)	4,285,949,353.46	3,823,589,490.19
General and administrative expenses	5(48)	1,579,582,508.93	1,439,734,312.47
Financial expenses	5(49)	(210,571,299.44)	(96,520,258.97)
asset impairment losses	5(50)	19,962,967.90	6,728,893.84
Add: Profit arising from the changes in fair value	5(51)	(1,151,066.21)	(473,665.66)
Investment income	5(52)	338,362,629.19	206,321,948.46
Including: Share of profit of associates and jointly controlled entities		281,264,687.40	194,459,911.23
Income from disposal of assets		–	–
Other income	5(53)	111,775,896.26	–
2. Operating profit		2,460,970,965.61	1,466,625,291.62
Add: Non-operating income	5(54)	76,504,148.53	554,792,542.30
Less: Non-operating expenses	5(55)	44,498,977.44	76,364,435.58
3. Total profit		2,492,976,136.70	1,945,053,398.34
Less: Income tax expenses	5(56)	374,220,515.80	386,379,403.17
4. Net profit		2,118,755,620.90	1,558,673,995.17
I. Items classified by continued operations			
(1). Net profit from continued operations		2,118,755,620.90	1,558,673,995.17
(2). Net profit from discontinued operations		–	–
II. Items classified by attribution of ownership			
(1). Minority equity		57,103,691.89	50,641,324.10
(2). Net profit attributable to the owner of the parent company		2,061,651,929.01	1,508,032,671.07

Consolidated Income Statement

For the year ended 31 December 2017
(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Item	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
5. Other comprehensive net income after tax	5(41)	(79,988,438.72)	10,516,712.10
Other comprehensive net income after tax attributable to shareholders' equity of the parent company		(79,995,005.24)	10,520,745.16
I. Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period		-	-
(1). Portion of items will not be classified into profit or loss when under equity method		-	-
II. Items will be classified into profit or loss when satisfied with certain conditions at following accounting period		(79,995,005.24)	10,520,745.16
(1). Portion of items will be classified into profit or loss when under equity method		20,429.81	(218,435.84)
(2). Profit or loss arising from changes in fair value of available for sale financial assets		(75,775,613.41)	6,796,748.61
(3). Differences arising from translation of foreign currency financial statements		(4,239,821.64)	3,942,432.39
Other comprehensive net income after tax attributable to minority shareholders' equity		6,566.52	(4,033.06)
6. Total comprehensive income		2,038,767,182.18	1,569,190,707.27
(1) Total comprehensive income attributable to shareholders' equity of parent company		1,981,656,923.77	1,518,553,416.23
(2) Total comprehensive income attributable to minority shareholders' equity		57,110,258.41	50,637,291.04
7. Earnings per share			
(1) Basic earnings per share	5(57)(a)	1.268	1.075
(2) Diluted earnings per share	5(57)(b)	1.268	1.075

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Li Hong

Person in charge of
accounting department:

Wang Jiansheng

Consolidated Cash Flow Statement

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

Item	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		16,326,273,474.22	17,268,366,583.98
Refund of taxes and surcharges		7,908,303.56	8,491,189.51
Cash received relating to other operating activities	5(58)(a)	604,730,654.18	1,231,074,991.51
Sub-total of cash inflows		16,938,912,431.96	18,507,932,765.00
Cash paid for goods and services		6,961,089,578.68	8,705,625,607.36
Cash paid to and on behalf of employees		3,232,065,014.82	3,049,506,228.39
Payments of taxes and surcharges		2,015,932,378.60	1,659,063,123.63
Cash paid relating to other operating activities	5(58)(b)	2,896,134,734.29	2,549,066,177.55
Sub-total of cash outflows		15,105,221,706.39	15,963,261,136.93
Net cash flows from operating activities	5(59)(a)	1,833,690,725.57	2,544,671,628.07
2. Cash flows from investing activities			
Cash received from disposal of investments		2,478,600,000.00	398,409,818.38
Net cash received from disposal of subsidiaries		–	–
Cash received from returns on investments		124,472,745.99	22,474,950.73
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		849,586.97	18,059,677.86
Cash received relating to other investing activities	5(58)(c)	650,078.98	7,915,085.64
Sub-total of cash inflows		2,604,572,411.94	446,859,532.61
Cash paid to acquire fixed assets, intangible assets and other long-term assets		196,771,378.84	228,026,926.70
Cash paid to acquire investments		4,848,444,730.66	706,000,000.00
Net cash paid to acquire subsidiaries		–	–
Cash paid relating to other investing activities	5(58)(d)	–	1,990,385.70
Sub-total of cash outflows		5,045,216,109.50	936,017,312.40
Net cash flows from investing activities		(2,440,643,697.56)	(489,157,779.79)

Consolidated Cash Flow Statement

For the year ended 31 December 2017
(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Item	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
3. Cash flows from financing activities			
Cash received from capital contributions		14,220,000.00	7,869,146,528.33
Including: Cash received from capital contributions by minority shareholders to subsidiaries		14,220,000.00	5,700,000.00
Cash received from borrowings		18,248,638.00	288,033,608.85
Cash received relating to other financing activities		–	–
Sub-total of cash inflows		32,468,638.00	8,157,180,137.18
Cash repayments of borrowings		31,964,062.88	908,920,164.85
Cash payments for interest expenses and distribution of dividends or profits		484,778,265.87	523,231,009.84
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		21,138,212.43	10,763,819.03
Cash payments relating to other financing activities	5(58)(e)	–	307,223.86
Sub-total of cash outflows		516,742,328.75	1,432,458,398.55
Net cash flows from financing activities		(484,273,690.75)	6,724,721,738.63
4. Effect of foreign exchange rate changes on cash and cash equivalents		292,035.93	(1,369,354.38)
5. Net increase/(decrease) in cash and cash equivalents	5(59)(a)	(1,090,934,626.81)	8,778,866,232.53
Add: Cash and cash equivalents at beginning of year	5(59)(b)	12,586,469,786.51	3,807,603,553.98
6. Cash and cash equivalents at end of year	5(59)(b)	11,495,535,159.70	12,586,469,786.51

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Li Hong

Person in charge of
accounting department:

Wang Jiansheng

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

Item	Current period												
	Attributable to shareholders of the Company												Total shareholders' equity
	Other equity instruments				Capital surplus	Less: Treasury share	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Minority Shareholders' equity	
Share capital	Preferred shares	Sustainable debts	Others										
1. Balance at 31 December 2016	1,625,790,949.00	-	-	-	9,875,172,584.68	-	9,788,066.97	-	1,052,034,418.97	-	4,782,293,720.24	308,710,708.41	17,653,790,448.27
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Business combination involving enterprises under common control	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2017	1,625,790,949.00	-	-	-	9,875,172,584.68	-	9,788,066.97	-	1,052,034,418.97	-	4,782,293,720.24	308,710,708.41	17,653,790,448.27
3. Movements For the year ended 31 December 2017 (Less: "-")	-	-	-	-	5,373.75	-	(79,995,005.24)	-	102,727,774.44	-	1,503,702,688.85	82,922,513.10	1,609,363,344.90
(1) Total comprehensive income	-	-	-	-	-	-	(79,995,005.24)	-	-	-	2,061,651,929.01	57,110,258.41	2,038,767,182.18
(2) Capital contribution and withdrawal by shareholders	-	-	-	-	5,373.75	-	-	-	-	-	-	34,841,791.25	34,847,165.00
1. Common stock by shareholders	-	-	-	-	-	-	-	-	-	-	-	34,841,791.25	34,841,791.25
2. Capital contribution by owner of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment changed to equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	5,373.75	-	-	-	-	-	-	-	5,373.75
(3) Profit distribution	-	-	-	-	-	-	-	-	102,727,774.44	-	(557,949,240.16)	(9,029,536.56)	(464,251,002.28)
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	102,727,774.44	-	(102,727,774.44)	-	-
2. Appropriation to general risk provision	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	-	(455,221,465.72)	(9,029,536.56)	(464,251,002.28)
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer within shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Current appropriation	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Current apply	-	-	-	-	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Balance at 31 December 2017	1,625,790,949.00	-	-	-	9,875,177,958.43	-	(70,206,938.27)	-	1,154,762,193.41	-	6,285,996,409.09	391,633,221.51	19,263,153,793.17

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

Item	Prior period												
	Attributable to shareholders of the Company												
	Other equity instruments				Capital surplus	Less: Treasury share	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Minority Shareholders' equity	Total shareholders' equity
Share capital	Preferred shares	Sustainable debts	Others										
1. Balance at 31 December 2015	1,291,079,250.00	-	-	-	2,346,435,108.64	-	(732,678.19)	-	930,522,262.36	-	3,883,510,490.48	233,118,715.62	8,683,933,148.91
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Business combination involving enterprises under common control	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2016	1,291,079,250.00	-	-	-	2,346,435,108.64	-	(732,678.19)	-	930,522,262.36	-	3,883,510,490.48	233,118,715.62	8,683,933,148.91
3. Movements For the year ended 31 December 2016 (less: "-")	334,711,699.00	-	-	-	7,528,734,829.04	-	10,520,745.16	-	121,512,156.61	-	886,783,229.76	75,591,992.79	8,969,857,299.36
(1) Total comprehensive income	-	-	-	-	-	-	10,520,745.16	-	-	-	1,508,032,671.07	50,637,291.04	1,569,190,707.27
(2) Capital contribution and withdrawal by shareholders	334,711,699.00	-	-	-	7,528,734,829.33	-	-	-	-	-	-	5,700,000.00	7,869,146,528.33
1. Common stock by shareholders	334,711,699.00	-	-	-	7,528,734,829.33	-	-	-	-	-	-	5,700,000.00	7,869,146,528.33
2. Capital contribution by owner of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment charged to equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	-	-	121,512,156.61	-	(609,249,441.31)	(15,931,187.14)	(503,668,471.84)
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	121,512,156.61	-	(121,512,156.61)	-	-
2. Appropriation to general risk provision	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	-	(487,737,284.70)	(15,931,187.14)	(503,668,471.84)
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer within shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Current appropriation	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Current apply	-	-	-	-	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	2,646.71	-	-	-	-	-	-	35,185,888.89	35,188,535.60
4. Balance at 31 December 2016	1,625,790,949.00	-	-	-	9,875,172,584.68	-	9,788,066.97	-	1,052,034,418.97	-	4,782,293,720.24	308,710,708.41	17,653,790,448.27

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

Legal representative:

Li ChuyuanPerson in charge of
accounting function:**Li Hong**Person in charge of
accounting department:**Wang Jiansheng**

Balance Sheet

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

Item	Note	31 December 2017	31 December 2016
Current assets			
Cash at bank and on hand		6,148,845,583.90	8,358,861,097.11
Financial assets based on fair value to confirm profit or loss		4,875,057.73	6,026,123.94
Notes receivable		679,046,805.63	586,068,682.00
accounts receivable	18(1)	265,693,684.36	334,495,199.70
advances to suppliers		8,408,955.59	6,765,642.36
Interest receivable		–	–
Dividends receivable		656,897,700.00	227,303,087.42
Other receivables	18(2)	1,527,015,254.36	1,497,826,949.82
Inventories		579,702,447.36	350,901,854.94
Current portion of non-current assets		–	–
Other current assets		1,503,465,702.19	311,191.58
Total current assets		11,373,951,191.12	11,368,559,828.87
Non-current assets			
Available-for-sale financial assets		1,035,180,994.75	324,384,253.51
Held-to-maturity investments		–	–
Long-term receivables		–	–
Long-term equity investments	18(3)	4,764,674,279.23	4,150,739,999.55
Investment properties		208,498,363.23	216,673,097.32
Fixed assets		483,033,235.07	492,475,829.83
Construction in progress		37,984,793.35	10,418,008.58
Construction materials		–	–
Fixed assets pending for disposal		–	–
Intangible assets		370,192,435.37	376,892,173.85
Development costs		–	2,217,046.84
Goodwill		–	–
Long-term prepaid expenses		2,384,650.49	2,303,114.09
Deferred tax assets		108,368,848.19	58,199,543.56
Other non-current assets		–	–
Total non-current assets		7,010,317,599.68	5,634,303,067.13
TOTAL ASSETS		18,384,268,790.80	17,002,862,896.00

Balance Sheet

For the year ended 31 December 2017
(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Item	Note	31 December 2017	31 December 2016
Current liabilities			
Short-term borrowings		154,431,644.92	184,431,644.92
Financial liabilities based on fair value to confirm profit or loss		–	–
Notes payable		908,082.74	–
accounts payable		331,740,567.20	189,679,883.62
advances from customers		116,889,039.40	14,149,991.14
Employee benefits payable		78,032,160.23	55,444,007.49
Taxes payable		124,918,499.55	84,161,748.85
Interest payable		–	–
Dividends payable		477,452.11	224,299.47
Other payables		1,122,916,120.25	597,717,008.34
Current portion of non-current liabilities		–	–
Other current liabilities		–	–
Total current liabilities		1,930,313,566.40	1,125,808,583.83
Non-current liabilities			
Long-term borrowings		–	–
Debentures payable		–	–
Long-term payables		7,802,224.39	7,802,224.39
Payables for specific projects		–	–
Provisions		170,214,675.19	98,550,055.19
Deferred income		69,548,966.56	74,971,856.94
Deferred tax liabilities		18,591,820.19	4,063,555.02
Long-term Employee benefits payable		–	–
Total non-current liabilities		266,157,686.33	185,387,691.54
Total liabilities		2,196,471,252.73	1,311,196,275.37

Balance Sheet

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

Item	Note	31 December 2017	31 December 2016
Shareholders' equity			
Share capital		1,625,790,949.00	1,625,790,949.00
Capital surplus		9,820,175,495.89	9,820,175,495.89
Less: Treasury share		—	—
Other comprehensive income		(64,737,939.47)	11,187,421.73
Surplus reserve		782,153,758.81	679,425,984.37
Undistributed profits		4,024,415,273.84	3,555,086,769.64
Total shareholders' equity		16,187,797,538.07	15,691,666,620.63
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY			
		18,384,268,790.80	17,002,862,896.00

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Li Hong

Person in charge of
accounting department:

Wang Jiansheng

Income Statement

For the year ended 31 December 2017
(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Item	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
1. Revenue	18(4)	3,147,499,142.41	2,846,022,356.72
Less: Cost of sales	18(4)	1,445,191,393.37	1,338,788,213.32
Taxes and surcharges		45,573,066.44	50,265,333.41
Selling and distribution expenses		537,781,498.11	521,991,155.17
General and administrative expenses		445,111,622.93	402,496,963.37
Financial expenses		(126,045,833.40)	(25,270,202.62)
Asset impairment losses		4,019,821.89	(2,309,712.84)
Add: Profit arising from changes in fair value		(1,151,066.21)	(473,665.66)
Investment income	18(5)	320,671,360.92	708,126,833.47
Including: Share of profit of associates and jointly controlled entities	18(5)	214,633,349.87	184,378,081.23
Income from disposal of assets		-	-
Other income		35,944,618.96	-
2. Operating profit		1,151,332,486.74	1,267,713,774.72
Add: Non-operating income		8,040,488.33	38,551,260.89
Less: Non-operating expenses		2,200,109.31	3,170,511.06
3. Total profit		1,157,172,865.76	1,303,094,524.55
Less: Income tax expenses		129,895,121.40	87,972,958.49
4. Net Profit		1,027,277,744.36	1,215,121,566.06
(1) Net profit from continued operations		1,027,277,744.36	1,215,121,566.06
(2) Net profit from discontinued operations		-	-

Income Statement

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

Item	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
5. Other comprehensive income		(75,925,361.20)	(1,915,460.84)
– Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period		–	–
– Items will be classified into profit or loss when satisfied with certain conditions at following accounting period		(75,925,361.20)	(1,915,460.84)
(1).Portion of items will be classified into profit or loss when under equity method		20,429.81	(218,435.84)
(2).Profit or loss arising from changes in fair value of available for sale financial assets		(75,945,791.01)	(1,697,025.00)
6. Total comprehensive income		951,352,383.16	1,213,206,105.22
7. Earnings per share			
(1) Basic earnings per share		–	–
(2) Diluted earnings per share		–	–

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Li Hong

Person in charge of
accounting department:

Wang Jiansheng

Cash Flow Statement

For the year ended 31 December 2017
(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Item	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		2,001,998,256.72	1,687,701,056.54
Refund of taxes and surcharges		–	–
Cash received relating to other operating activities		361,574,393.15	254,652,676.58
Sub-total of cash inflows		2,363,572,649.87	1,942,353,733.12
Cash paid for goods and services		411,707,007.31	302,818,917.00
Cash paid to and on behalf of employees		427,668,653.99	557,626,961.31
Payments of taxes and surcharges		411,148,256.26	383,094,970.83
Cash paid relating to other operating activities		135,758,442.80	227,215,689.54
Sub-total of cash outflows		1,386,282,360.36	1,470,756,538.68
Net cash flows from operating activities	18(6)	977,290,289.51	471,597,194.44
2. Cash flows from investing activities			
Cash received from disposal of investments		1,500,000,000.00	–
Net cash received from selling of subsidiaries		–	–
Cash received from returns on investments		649,938,153.79	481,452,678.90
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		679,300.00	59,800.00
Cash received relating to other investing activities		1,307,864,538.86	852,058,999.56
Sub-total of cash inflows		3,458,481,992.65	1,333,571,478.46
Cash paid to acquire fixed assets, intangible assets and other long-term assets		45,299,850.39	22,417,581.95
Cash paid to acquire investments		4,804,425,230.66	151,600,000.00
Net cash paid to acquire subsidiaries		–	–
Cash paid relating to other investing activities		1,271,830,986.36	1,159,485,916.05
Sub-total of cash outflows		6,121,556,067.41	1,333,503,498.00
Net cash flows from investing activities		(2,663,074,074.76)	67,980.46

Cash Flow Statement

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

Item	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
3. Cash flows from financing activities			
Cash received from capital contributions		–	7,863,446,528.33
Including: Cash received from capital contributions by minority shareholders to subsidiaries		–	–
Cash received from borrowings		154,431,644.92	214,431,644.92
Cash received relating to other financing activities		–	–
Sub-total of cash inflows		154,431,644.92	8,077,878,173.25
Cash repayments of borrowings		184,431,644.92	110,000,000.00
Cash payments for interest expenses and distribution of dividends or profits		463,196,446.63	486,179,553.96
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		–	–
Cash payments relating to other financing activities		–	587,338,049.41
Sub-total of cash outflows		647,628,091.55	1,183,517,603.37
Net cash flows from financing activities		(493,196,446.63)	6,894,360,569.88
4. Effect of foreign exchange rate changes on cash and cash equivalents		(5,658.03)	8,209.29
5. Net increase/(decrease) in cash and cash equivalents		(2,178,985,889.91)	7,366,033,954.07
add: Balance of cash and cash equivalents at beginning of year		8,326,923,391.07	960,889,437.00
6. Cash and cash equivalents at end of year		6,147,937,501.16	8,326,923,391.07

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Li Hong

Person in charge of
accounting department:

Wang Jiansheng

Statement of Changes in Equity

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

Item	Current period										
	attributable to shareholders of the Company										
	Other equity instruments				Capital surplus	Less: Treasury share	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Total shareholders' equity
Share capital	Preferred shares	Sustainable debts	Others								
1. Balance at 31 December 2016	1,625,790,949.00	-	-	-	9,820,175,495.89	-	11,187,421.73	-	679,425,984.37	3,555,086,769.64	15,691,666,620.63
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2017	1,625,790,949.00	-	-	-	9,820,175,495.89	-	11,187,421.73	-	679,425,984.37	3,555,086,769.64	15,691,666,620.63
3. Movements For the year ended 31 December 2017	-	-	-	-	-	-	(75,925,361.20)	-	102,727,774.44	469,328,504.20	496,130,917.44
(1) Total comprehensive income	-	-	-	-	-	-	(75,925,361.20)	-	-	1,027,277,744.36	951,352,383.16
(2) Capital contribution and withdrawal by shareholders	-	-	-	-	-	-	-	-	-	-	-
1.Common stock by shareholders	-	-	-	-	-	-	-	-	-	-	-
2.Capital contribution by owner of other equity instruments	-	-	-	-	-	-	-	-	-	-	-
3.Share-based payment charged to equity	-	-	-	-	-	-	-	-	-	-	-
4.Others	-	-	-	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	-	-	102,727,774.44	(557,949,240.16)	(455,221,465.72)
1.Appropriation to surplus reserves	-	-	-	-	-	-	-	-	102,727,774.44	(102,727,774.44)	-
2.Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	(455,221,465.72)	(455,221,465.72)
3.Others	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer within shareholders' equity	-	-	-	-	-	-	-	-	-	-	-
1.Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-	-	-
2.Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-
3.Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-	-	-
4.Others	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-
1.Current appropriation	-	-	-	-	-	-	-	-	-	-	-
2.Current apply	-	-	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	-	-	-	-	-	-	-
4. Balance at 31 December 2017	1,625,790,949.00	-	-	-	9,820,175,495.89	-	(64,737,939.47)	-	782,153,758.81	4,024,415,273.84	16,187,797,538.07

Statement of Changes in Equity

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

Item	Prior period										
	Other equity instruments				attributable to shareholders of the Company						
	Share capital	Preferred shares	Sustainable debts	Others	Capital surplus	Less: Treasury share	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Total shareholders' equity
1. Balance at 31 December 2015	1,291,079,250.00	-	-	-	2,291,438,019.85	-	13,102,882.57	-	557,913,827.76	2,949,214,644.89	7,102,748,625.07
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2016	1,291,079,250.00	-	-	-	2,291,438,019.85	-	13,102,882.57	-	557,913,827.76	2,949,214,644.89	7,102,748,625.07
3. Movements For the year ended											
31 December 2016 (less: "-")	334,711,699.00	-	-	-	7,528,737,476.04	-	(1,915,460.84)	-	121,512,156.61	605,872,124.75	8,588,917,995.56
(1) Total comprehensive income	-	-	-	-	-	-	(1,915,460.84)	-	-	1,215,121,566.06	1,213,206,105.22
(2) Capital contribution and withdrawal by shareholders	334,711,699.00	-	-	-	7,528,734,829.33	-	-	-	-	-	7,863,446,528.33
1. Common stock by shareholders	334,711,699.00	-	-	-	7,528,734,829.33	-	-	-	-	-	7,863,446,528.33
2. Capital contribution by owner of other equity instruments	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment charged to equity	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	-	-	121,512,156.61	(608,249,441.31)	(487,737,284.70)
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	121,512,156.61	(121,512,156.61)	-
2. Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	(487,737,284.70)	(487,737,284.70)
3. Others	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer within shareholders' equity	-	-	-	-	-	-	-	-	-	-	-
1. Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-
1. Current appropriation	-	-	-	-	-	-	-	-	-	-	-
2. Current apply	-	-	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	2,646.71	-	-	-	-	-	2,646.71
4. Balance at 31 December 2016	1,625,790,949.00	-	-	-	9,820,175,495.89	-	11,187,421.73	-	679,425,984.37	3,555,086,769.64	15,691,666,620.63

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Li Hong

Person in charge of
accounting department:

Wang Jiansheng

Notes to the Financial Statements

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

1 GENERAL INFORMATION

(1) Summarization of the Company

Approved by the Circular Ti Gai Sheng [1997] No.139 issued by the State Commission for Restructuring the Economic Systems, Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (the "Company") was founded by Guangzhou Pharmaceutical Holdings Limited ("GPHL"). The 8 Chinese Patent Medicine ("CPM") manufacturing companies and 3 pharmaceutical trading companies under GPHL were restructured and the stated-owned equity interest in the assets of these companies were injected in the Company. The Company obtained business license on 1 September 1997 and the registered number is 440101000005674.

Approved by the Circular Ti Gai Sheng [1997] No.145 issued by the State Commission for Restructuring the Economic Systems and Circular Zheng Wei Fa [1997] No.56 issued by the Securities Regulatory Commission of the State Council, the Company issued 219,900,000 shares listed in Hong Kong Stock Exchange (H shares) in October 1997. Approved by China Securities Regulatory Commission on 10 January 2001, 78,000,000 a shares of the Company were issued and became listed in Shanghai Stock Exchange on 6 February 2001. The stock abbreviation is GZ Phar., and stock code is 600332.

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

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

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

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

1 GENERAL INFORMATION (Continued)

(1) Summarization of the Company (Continued)

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

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

The Group’s current structure mainly include 11 CPM manufacturing companies, 2 western medicine manufacturing companies, 1 chemical raw materials manufacturing company, 2 pre-packaged food manufacturing company, 3 pharmaceutical research and development companies, 6 pharmaceutical trading companies, 1 advertising company and 1 pharmaceutical research company.

These financial statements were approved for issue by the Board on 15 March 2018.

(2) Scope of consolidated financial statements

As at 31 December 2017, subsidiaries in the scope of consolidated financial statements are as below:

Name of subsidiary	Control
Guangzhou Baiyunshan Xing Qun Pharmaceutical Holdings Co., Ltd. (Xing Qun)	Direct subsidiary
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. (Zhong Yi)	Direct subsidiary
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd. (Chen Li Ji)	Direct subsidiary
Guangzhou Baiyunshan Han Fang Contemporary Pharmaceutical Co., Ltd. (Guangzhou Han Fang)	Direct subsidiary

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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1 GENERAL INFORMATION (Continued)

(2) Scope of consolidated financial statements (Continued)

Name of subsidiary	Control
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	Direct subsidiary
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. (Jing Xiu Tang)	Direct subsidiary
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (Pan Gao Shou)	Direct subsidiary
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (Cai Zhi Lin)	Direct subsidiary
Guangzhou Pharmaceutical Import & Export Co., Ltd. (Pharmaceutical Import & Export)	Direct subsidiary
Guangzhou Baiyunshan Bai Di Bio-Technology Co., Ltd. (Guangzhou Bai Di)	Direct subsidiary
Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. (WLJ Great Health)	Direct subsidiary
Guangxi Baiyunshan Ying Kang Pharmaceutical Co., Ltd. (Guangxi Ying Kang) (Note 1)	Direct subsidiary
Guangzhou Guang Yao Yi Gan Biological Product Co., Ltd. (Yi Gan)	Direct subsidiary
Guangzhou Baiyunshan Xing Zhu Pharmaceutical Co., Ltd. (Xing Zhu)	Direct subsidiary
Guangzhou Baiyunshan Medical and Healthcare Industry Investment Co., Ltd. (Baiyunshan Medical and Healthcare Industry Company)	Direct subsidiary
Guangzhou Baiyunshan Chemical Medicine Technology Co., Ltd.	Direct subsidiary
Guangzhou Haima Pharmaceutical advertising Co., Ltd. (Guangyao Haima)	Direct subsidiary

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

1 GENERAL INFORMATION *(Continued)*

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

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

Notes to the Financial Statements

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

1 GENERAL INFORMATION (Continued)

(2) Scope of consolidated financial statements (Continued)

Name of subsidiary	Control
Guangzhou Baiyunshan Guang Hua Health Products Co., Ltd. (Guang Hua Health)	Indirect subsidiary
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary
Zhejiang Guang Kang Pharmaceutical Co., Ltd.	Indirect subsidiary
Tibet Linzhi Baiyunshan Tibetan Health Castle Management Co., Ltd.	Indirect subsidiary
Guangzhou Wang Lao Ji Great Health Enterprise Development Co., Ltd.	Indirect subsidiary
Guangzhou Wang Lao Ji Industry Company	Indirect subsidiary
Wang Lao Ji Great Health Industry (Beijing) Sales Co., Ltd.	Indirect subsidiary
Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd.	Indirect subsidiary
Guangzhou Xing Qun Health Technology Co., Ltd.	Indirect subsidiary
Guangzhou Baiyunshan Hospital Co., Ltd. (Guangzhou Baiyunshan Hospital)	Indirect subsidiary
Guangzhou Baiyunshan Jin Ge Male Health Consulting Co., Ltd.	Indirect subsidiary
Guangzhou WLJ Catering Management Development Co., Ltd.. (WLJ Catering)	Indirect subsidiary
Guangzhou Chen Li Ji Great Health Industry Co., Ltd.	Indirect subsidiary
Wang Lao Ji Dazhai Beverages Co., Ltd.	Indirect subsidiary
Guangzhou Wang Lao Ji Dazhai Beverages Co., Ltd.	Indirect subsidiary
Meizhou Guangyao Cai Zhi Lin Pharmaceutical Co., Ltd.	Indirect subsidiary

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

1 GENERAL INFORMATION *(Continued)*

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

Name of subsidiary	Control
Guangzhou Wang Lao Ji Great Health E-commercial Co., Ltd.	Indirect subsidiary
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. (Tian Xin)	Direct subsidiary
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd. (Guang Hua)	Direct subsidiary
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. (Ming Xing)	Direct subsidiary
Baiyunshan Wei Ling Pharmaceutical Co., Ltd. (Wei Ling)	Direct subsidiary
Guangzhou Baiyunshan Pharmaceutical Technological Development Co., Ltd. (Pharmaceutical Technological)	Direct subsidiary
Guangzhou Guangyao Baiyunshan Great Health Hotel Co., Ltd. (Baiyunshan Great Health Hotel)	Direct subsidiary
Guangyao Baiyunshan Hong Kong Company	Direct subsidiary
Guangzhou Pharmaceutical Research Institute (“Guangyao General Institute”)	Direct subsidiary

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

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

Notes to the Financial Statements

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

2 FOUNDATION OF PREPARATION OF THE FINANCIAL STATEMENTS.

(1) Basis of preparation

Based on going concern and actual transactions and events, the Company prepared financial statements in accordance with the basic and specific standards of the accounting Standards for Business Enterprises, the application Guidance for *Accounting Standard for Business Enterprises*, interpretations of the accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance (hereinafter collectively referred to as "CAS"), and the disclosure requirements in the *Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 – General provisions on Financial Reporting* issued by the China Securities Regulatory Commission.

(2) Going concern

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

The financial statements of the Company for the year ended 31 December 2017 are in compliance with the accounting Standards for Business Enterprises, and truly and completely present the financial position as at 31 December 2017 and the operating results, cash flows and other information for the year ended 31 December 2017 of the Group and the Company.

(2) Accounting period

Accounting year starts on 1 January and ends on 31 December. The financial statements cover the period from 1 January 2017 to 31 December 2017.

(3) Business period

The business period of the Company is 12 months.

(4) Recording currency

The recording currency is Renminbi ("RMB").

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

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

(a) Business combinations involving entities under common control

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (capital premium). If the capital surplus (capital premium) is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings.

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

(b) Business combinations involving entities not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized in initial confirmation amount.

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(6) Preparation of consolidated financial statements

(a) Scope of combination

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

(b) Procedure of combination

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

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

For the subsidiaries acquired from business combinations involving entities under common control, its financial statements shall be adjusted based on carrying amount of its assets, liabilities (including goodwill arising from when ultimate controlling party purchased the subsidiary) in the financial statements of ultimate controlling party.

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(6) Preparation of consolidated financial statements *(Continued)*

(b) Procedure of combination *(Continued)*

(1) *Acquisition of subsidiaries or business*

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

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

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(6) Preparation of consolidated financial statements *(Continued)*

(b) Procedure of combination *(Continued)*

(1) *Acquisition of subsidiaries or business (Continued)*

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

(2) *Disposing of subsidiaries or business*

① General treatment

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(6) Preparation of consolidated financial statements *(Continued)*

(b) Procedure of combination *(Continued)*

(2) *Disposing of subsidiaries or business (Continued)*

① General treatment *(Continued)*

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

Notes to the Financial Statements

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

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

(6) Preparation of consolidated financial statements (Continued)

(b) Procedure of combination (Continued)

(2) Disposing of subsidiaries or business (Continued)

② Disposal in stages for subsidiaries

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

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

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

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(6) Preparation of consolidated financial statements *(Continued)*

(b) Procedure of combination *(Continued)*

(3) *Purchasing minority equity of subsidiaries*

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

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

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

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(7) Classification of accounting method and the joint arrangements

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

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

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

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

As at 31 December 2017, there are no joint operations.

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

(8) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with bank and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(9) Foreign currency translation

(a) Foreign currency transactions

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions. The differences arising from the exchange of foreign currencies are recognized in the financial expenses.

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

(b) Translation of foreign currency financial statements

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(10) Financial Instruments

(a) Financial assets

(i) Classification

Financial assets are classified into the following categories at initial recognition: Financial assets based on fair value to confirm profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the Group's intention and ability to hold the financial assets.

1) Financial assets based on fair value to confirm profit or loss.

Financial assets based on fair value to confirm profit or loss include financial assets held for the purpose of selling in the short term. They are presented as financial assets held for trading on the balance sheet.

2) Receivables

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

3) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated to be available for sale upon initial recognition and financial assets not classified in any other categories. Available-for-sale financial assets are included in other current assets on the balance sheet if management intends to dispose of them within 12 months of the balance sheet date.

4) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that management has the positive intention and ability to hold to maturity. Held-to-maturity investments with maturities over 12 months when the investments were made but are due within 12 months (including 12 months) at the balance sheet date are included in the current portion of non-current assets; held-to maturity investments with maturities no more than 12 months (including 12 months) when the investments were made are included in other current assets.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(10) Financial Instruments *(Continued)*

(a) Financial assets *(Continued)*

(ii) *Recognition and measurement*

Financial assets are recognized at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. In the case of financial assets based on fair value to confirm profit or loss, the related transaction costs incurred at the time of acquisition are recognized in profit or loss for the current year. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initial recognition amounts.

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

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

Gain or loss arising from a change in fair value of an available-for-sale financial asset is recognized directly in equity, except for impairment losses and foreign exchange gains and losses arising from the translation of monetary financial assets. When such financial asset is derecognized, the cumulative gain or loss previously recognized directly in equity is reclassified to profit or loss for the current year. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognized as investment income, which is recognized in profit or loss for the period.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(10) Financial Instruments (Continued)

(a) Financial assets (Continued)

(iii) Impairment of financial assets

The Group assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that the financial assets are impaired, the Group shall determine the amount of impairment loss.

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

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

The standard of fair value decrease is not temporary: 12 months in a row fell. Computing method of investment cost: consideration of payment at acquisition (net of cash dividends declared but not yet paid or due but unpaid interest on bonds) and the relevant transaction cost are recognized as the investment cost. Determination basis of: Falling or downturn continued during the rally up less than 20% margin. Rebound duration not more than six months are treated as continue decrease period.

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

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(10) Financial Instruments *(Continued)*

(a) Financial assets *(Continued)*

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

When the Group transfers financial assets, the financial assets should be derecognized when all the risks and rewards of ownership of the financial asset have been substantially transferred. The financial assets shall not be derecognized if the Group substantially retains all the risks and rewards of ownership of the financial asset. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but ceases the control over the financial asset, the financial asset shall be derecognized.

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

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

(b) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: Financial liabilities based on fair value to confirm profit or loss and other financial liabilities. The financial liabilities in the Group mainly comprise other financial liabilities, including payables, borrowings and debentures payable.

Payables comprise accounts payable and other payables, etc, which are recorded initially at fair value and measured subsequently at amortized cost using the effective interest method.

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(10) Financial Instruments *(Continued)*

(b) Financial liabilities *(Continued)*

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

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

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

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(11) Receivables

Receivables comprise accounts receivable and other receivables. accounts receivable arising from sale of goods or rendering of services are initially recorded at fair value of the contractual payments from the buyer or service recipients.

(a) Receivables that are individually significant and subject to separate provision:

The criteria for individually significant receivables	The amount of accounts receivable are individually more than RMB1,000,000 (including RMB1,000,000) and other receivables are individually more than RMB100,000 (including RMB100,000).
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Method of provision for bad debts of individually significant receivables.	Individually significant receivables are subject to separate impairment assessment, and the amount of the present value of the future cash flows expected to be derived from the receivables below the carrying amount shall be accounted for as provision for bad debts and recognized in profit or loss. accounts receivable and other receivables which are not impaired according to the separate impairment assessment, shall be combined into certain groups with similar credit risk characteristics and subject to impairment assessment by groups.
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(b) Receivables that are combined into certain groups and subject to provision by groups

Basis for determination of groups is as follow:

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

Notes to the Financial Statements

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

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

(11) Receivables (Continued)

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

Method for provision by groups are summarized as followed:

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

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

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

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

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(12) Inventories

(a) Classification of inventories

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

(b) Cost of inventories

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

Cost is determined using the weighted average method. The cost of finished goods, commodity stocks and work in progress comprises raw material, direct labor and an allocation of all production overhead expenditures incurred that are systematically determined based on normal operating capacity.

(c) Basis for the determination of net realizable value and the method of provision for impairment of inventories

Provisions for declines in the value of inventories are determined at the excess amount of the carrying value of the inventories over their net realizable value. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

(d) Inventory system

The Group adopts the perpetual inventory system.

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

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

Notes to the Financial Statements

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

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

(13) Held-for-trading Assets

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

- (a) The non-current assets or disposal groups must be under the current conditions only according to the usual terms of the sale of such part, then sell immediately;
- (b) The sales of non-current assets and disposal groups has potential to occur within 1 year that the Group has been offered a resolution with an affirmatory purchase commitment for sales plan. If regulation needs to be approved by relevant authoritative organization or regulator, it has approved by relevant authoritative organization or regulator.

(14) Long-term equity investments

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

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

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

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(14) Long-term equity investments *(Continued)*

(b) Initial recognition

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

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

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(14) Long-term equity investments *(Continued)*

(b) Initial recognition *(Continued)*

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

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

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

The exchange of non-monetary assets with commercial nature and the fair value of the assets received or surrendered can be reliably measured, under the circumstance, for a long-term equity investment acquired through an exchange of non-monetary assets according to the fair value of the assets surrendered and shall pay the relevant taxes to determine its initial cost, unless there is convincing evidence that the fair value of the assets received is more reliable.

If exchange of non-monetary assets does not meet the above premise, the carrying amount of surrendered assets and taxes payable would be recognized as initial cost for long-term equity investments.

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

(c) Subsequent measurement and recognition for profit or loss

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

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(14) Long-term equity investments *(Continued)*

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

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

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

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

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

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

Notes to the Financial Statements

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

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

(14) Long-term equity investments (Continued)

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

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

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

(iii) Disposal for long-term equity investments

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

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

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(14) Long-term equity investments *(Continued)*

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

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

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

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

(15) Investment properties

Investment properties, which are properties held to earn rental or capital appreciation or both, including land use rights that have already been leased out, land use rights that are held for the purpose of sale after capital appreciation, buildings that have been already been leased out and buildings that are in construction or developed for the purpose of being leased out in the future, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property is included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and its cost can be reliably measured; otherwise, the expenditures are recognized in profit or loss in the period in which they are incurred.

The Group adopts the cost model for subsequent measurement of the investment properties. Buildings which are held for rental and measured at cost model are depreciated on a basis consistent with the depreciation policy which the Group adopts for fixed assets. Land use right which are held for rental and measured at cost model are amortized on a basis consistent with the amortization policy which the Group adopts for intangible assets.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(15) Investment properties (Continued)

When an investment property is transferred to an owner-occupied property, it is reclassified as a fixed asset or an intangible asset at the date of the transfer. When an owner-occupied property is transferred for earning rentals or for capital appreciation, the fixed asset or intangible asset is reclassified as an investment property at its carrying amount at the date of the transfer.

The estimated useful life, net residual value of the investment property and the depreciation (amortization) method applied are reviewed and adjusted as appropriate at each year-end.

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

(16) Fixed assets

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

Fixed assets are tangible assets that are held for producing goods, rendering of services, leasing out to other parties or administrative purposes, with useful life more than one year.

Fixed asset is recognized when it is probable that the economic benefits associated with the fixed asset will flow to the Group and its cost can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the economic benefits associated with the fixed asset will flow to the Group and its cost can be reliably measured. The carrying amount of those parts that are replaced is derecognized and all the other subsequent expenditures are recognized in profit or loss when they are incurred.

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(16) Fixed assets (Continued)

(b) Depreciation method of different categories of fixed assets

Fixed assets are classified as buildings, machinery and equipment, motor vehicles, computer and electronic equipment, office equipment and fixed asset renovation. The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates are as follows:

Category	Estimated useful lives	Estimated residual value	Annual depreciation rate
Buildings	10-70 years	0%~10%	1.29%~10%
Machinery and equipment	4-18 years	0%~10%	5%~25%
Motor vehicles	5-10 years	0%~10%	9%~20%
Electronic equipment	5-10 years	0%~10%	9%~20%
Office equipment	4-8 years	0%~10%	11.25%~25%
Decoration and fixtures	5 years	0%	20%

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

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

Fixed assets held under a finance lease are depreciated on a basis consistent with the depreciation policy which the Group adopts for self-owned fixed assets. If it can be reasonably determined that at the end of the lease term the ownership of the leased asset will be transferred, the leased asset is depreciated over the estimated useful lives; if not, the leased asset is depreciated over the shorter period of the lease term and the estimated useful lives.

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(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(16) Fixed assets (Continued)

(d) Other specification

Disposal of fixed assets

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

(17) Construction in progress

Constructions in progress are accounted for by individual projects.

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use.

Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. When construction in progress is ready for its intended use but has not completed the final accounts, it is transferred to fixed assets using an estimated cost on the day when it is ready for intended use and depreciation is made accordingly pursuant to the Group's depreciation policy. The estimated cost can be based on project budget, project price or actual construction cost. The estimated cost is adjusted by the actual cost after the completion of the final accounts.

(18) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time of acquisition and construction for its intended use commence to be capitalized and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use, the borrowing costs incurred thereafter are recognized in profit or loss for the current year. Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(18) Borrowing costs *(Continued)*

For the specific borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowing during the capitalisation period.

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

(19) Intangible assets

(a) Recognition and measurement of intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Group, including land use rights, industrial property and patent technology, and non-patent technology etc. an intangible asset is recognized only if both of the following conditions are satisfied: (i) it is probable that future economic benefits attributable to the asset will flow to the enterprise; (ii) the amount of the intangible assets can be measured reliably.

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

Notes to the Financial Statements

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

(19) Intangible assets (Continued)

(b) Periodical review of useful life and amortization method

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

(c) Intangible asset with an indefinite useful life

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

The Company owns trademarks including Baiyunshan Dashen series, Xing Qun series, Zhong Yi series, Pan Gao Shou series, Chen Li Ji series, Jing Xiu Tang series, Qi Xing series, which are identified as indefinite useful life due to expected economic interest in future. The Company reviews the indefinite useful life of intangible assets at every accounting period. The reviewed useful life of above intangible assets is indefinite.

(d) Research and development

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at end of the project.

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

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

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

Notes to the Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(19) Intangible assets *(Continued)*

(d) Research and development *(Continued)*

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

- It is technically feasible to complete the intangible asset so that it will be available for use;
- Management intends to complete the intangible asset, and use or sell it;
- It can be demonstrated how the intangible asset will generate economic benefits;
- Adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset;
- The expenditure attributable to the intangible asset during its development phase can be reliably measured.

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(20) Impairment of long-term assets

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

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

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

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

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

Notes to the Financial Statements

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(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(21) Long-term prepaid expenses

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

(22) Employee benefits

(a) Method for short-term benefits

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

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

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

(b) Method for post-employee benefits

(i) *Defined contribution plans*

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

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

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

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

(22) Employee benefits (Continued)

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

(i) Defined contribution plans (Continued)

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

(ii) Define benefits plans

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

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

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(22) Employee benefits *(Continued)*

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

(ii) Define benefits plans *(Continued)*

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

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

As at 31 December 2017, there are no defined benefits plans in the Group.

(c) Accounting method for termination benefits

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(23) Provisions

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

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

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

(24) Revenue

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

(a) Revenue recognition

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

(b) Sales of goods

Sales of goods are recognized when a group entity has delivered products to the customer and the customer has accepted the goods, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and it is probable that the economic benefit associated with the transaction will flow to the Group and the relevant revenue and costs can be measured reliably.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(24) Revenue *(Continued)*

(c) Rendering of services

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

(d) Transfer of asset use rights

Income from transfer of asset use rights include:

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

(e) Dividend income

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

(25) Government grants

(a) Classification

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

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(25) Government grants *(Continued)*

(a) Classification *(Continued)*

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

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

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

(b) Accounting treatment

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

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

Notes to the Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(25) Government grants *(Continued)*

(b) Accounting treatment *(Continued)*

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

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

(c) The point of recognition

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

(26) Deferred tax assets and deferred tax liabilities

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

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

Notes to the Financial Statements

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

(26) Deferred tax assets and deferred tax liabilities (Continued)

Deferred tax liabilities are recognized for temporary differences arising from investments in subsidiaries, jointly controlled entities and associates, except where the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, jointly controlled entities and associates will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognized.

Deferred tax assets and liabilities are offset when:

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

(27) Operating leases and finance leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

(a) Operating leases

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

(b) Finance leases

The leased asset is recorded at the amounts equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments is accounted for as unrecognized finance charge and is amortized using the effective interest method over the period of the lease. A long-term payable is recorded at the amount equal to the minimum lease payments less the unrecognized finance charge.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(28) Discontinued operations

Discontinued operations is one of the following conditions that can be distinguished separately and that component has been disposed of by the group or classified as holding for sale by the group: (i) this component represents an independent primary business or a separate area of main operation; (ii) this component is part of an associated plan to dispose of an independent primary business or a separate area of main operation; (iii) this component is a subsidiary acquired specifically for resale.

(29) Changes in significant accounting policies and accounting estimates

(a) Changes in accounting policies

- (i) Implement *Accounting Standards for Enterprises No. 42 – Held-for-trading Non-Current Assets, Disposal Groups and Discontinued Operations, Accounting Standards for Enterprises No. 16 – Government Grants* and The Ministry of Finance of the People's Republic of China issued *Circular on revising and issuing the format of financial statements for General Enterprises*.

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

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

The Ministry of Finance of the People's Republic of China issued *Circular on revising and issuing the format of financial statements for General Enterprises* in year 2017, and has revised the format of financial statements for general enterprises, which is applicable to the financial statements for the year ended 31 December 2017 and subsequent period.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

(a) Changes in accounting policies (Continued)

- (i) Implement *Accounting Standards for Enterprises No. 42 – Held-for-trading Non-Current Assets, Disposal Groups and Discontinued Operations, Accounting Standards for Enterprises No. 16 – Government Grants* and The Ministry of Finance of the People's Republic of China issued *Circular on revising and issuing the format of financial statements for General Enterprises*. (Continued)

The main impact of the Group's implementation of the provisions is as follows:

Content and changes of accounting policies	Vetting process	affected item and amount
(1) Government grants related to the normal business are measured into other income instead of non-operating Income. Comparative data was not adjusted.	Approved by board of directors	"Other income" amounted to RMB111,775,896.26
(2) Part of government grants related to the income has offset relevant cost expense. Comparative data was not adjusted.	Approved by board of directors	A decrease in the "General and administrative expense" item of RMB1,143,335.35 A decrease in the "Non-operation expense" item of RMB57,190,147.97
(3) "Net profit from continued operations" and "net profit from discontinued operations" are stated in the income statement respectively. Comparative data was adjusted accordingly.	Approved by board of directors	Stated net profit from continued operations for the year ended 31 December 2017 amounted to RMB2,118,755,620.90, for the year ended 31 December 2016 amounted to RMB1,558,673,995.17. Stated net profit from discontinued operations for the year ended 31 December 2017 amounted to RMB0, for the year ended 31 December 2016 amounted to RMB0.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(29) Changes in significant accounting policies and accounting estimates *(Continued)*

(a) Changes in accounting policies *(Continued)*

(ii) *Changes in accounting estimates*

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

(30) Correction of prior period's accounting errors

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

(31) Other significant accounting policies

(a) Segment information

The Group identifies operating segments based on the internal organization structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments. An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group.

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

(b) Dividend distribution

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(32) Critical accounting estimates and judgments

(a) Current and deferred income tax

The Group is subject to income taxes in the mainland of People's Republic of China and Hong Kong. Critical judgements required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized as management considers it is probable that the future taxable profit will be available against which the temporary differences or tax losses can be utilized. Where the expectation is different from the original estimate, such differences will impact recognition of deferred tax assets and business income tax in the period in which such estimate is changed.

4 TAXATION

(1) Major turnover tax and tax rate

Taxable item	Type	Tax rate
Sales of goods	VAT	11%,13%,17%
Income from sales of materials	VAT	17%
Income from rendering of services	VAT	6%
Rental income	VAT	5%, 11%
Income from transferring technology	VAT	3%, 6%
Balance of owner-occupied real estates	Real-estate tax	1.2%
Rental income	Real-estate tax	12%
Income from occupancy expenses of capital	VAT	6%
Sales of wine products	Consumption Tax	10%
Turnover tax	City maintenance & construction tax	7%
Turnover tax	Education surcharge	3%
Turnover tax	Local education surcharge	2%

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(All amounts in Renminbi yuan unless otherwise stated)

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4 TAXATION (Continued)

(2) Business income tax

The Group companies in the PRC pay the enterprise income tax in accordance with “PRC Enterprise Income Tax Law” and “Implementation Rules of PRC Enterprise Income Tax Law” and the applicable enterprise income tax rate of these entities is 25%.

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

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

The following subsidiaries of the Group, obtained the certificate of High/New Technology Enterprise, enjoy preferential tax rate of 15% in the current period. Including: The Company (No. GR201744003162), Xing Qun (No. GR201744011135), Zhong Yi (No. GR201744005343), Guangzhou Han Fang (No. GR201744008646), Jing Xiu Tang (No. GR201744000331), Pan Gao Shou (No. GR201744002878), Chen Li Ji (No. GR201744001501), Tian Xin (No. GR201744009163), Guang Hua (No. GR201544000485), Ming Xing (No. GR201744002496), Guangxi Ying Kang (No. GR201545000083), Wang Lao Ji Great Health (No. GR201644006480).

Qi Xing’s the certificate of High/New Technology Enterprise was issued in year 2014, and the validity period is 3 years. As the certificate of High/New Technology Enterprise has expired in year 2016, the certificate of High/New Technology Enterprise of this enterprise is in the process of being reconfirmed. At present, the temporary use of 15% preferential tax rate to declare prepaid enterprise income tax.

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

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	31 December 2017			31 December 2016		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash on hand -						
RMB			908,829.96			1,137,275.82
			<u>908,829.96</u>			<u>1,137,275.82</u>
Bank deposits						
RMB			11,562,603,722.83			12,678,716,010.18
US Dollars	711,740.20	6.5342	4,650,652.84	1,839,846.62	6.9370	12,763,016.00
HKD	6,577,694.40	0.8359	5,498,360.52	4,567,844.69	0.8945	4,085,982.75
			<u>11,572,752,736.19</u>			<u>12,695,565,008.93</u>
Other deposits -						
RMB			123,519,081.16			124,268,293.98
HKD	45,741.20	0.8359	38,235.53	41,700.49	0.8945	37,301.50
			<u>123,557,316.69</u>			<u>124,305,595.48</u>
			<u>11,697,218,882.84</u>			<u>12,821,007,880.23</u>
Including: overseas account			<u>7,793,845.14</u>			<u>9,476,334.55</u>

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Details of restricted cash are listed as follows:

	31 December 2017	31 December 2016
Cash deposit of notes payable	73,825,106.18	117,152,696.58
Blocked account	84,995,913.79	115,964,284.07
Housing fund	585,303.08	585,303.08
Deposit of letter of guarantee	1,973,540.00	835,809.99
Pledge	40,303,860.09	–
	201,683,723.14	234,538,093.72

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

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

	31 December 2017	31 December 2016
Financial assets held for trading	4,875,057.73	6,026,123.94
Including: Investments in equity instruments	4,875,057.73	6,026,123.94

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

(3) Notes receivable

(a) Classification of notes receivable

	31 December 2017	31 December 2016
Bank acceptance notes	1,650,289,946.92	1,584,422,063.73
Commercial acceptance notes	52,365,528.16	20,345,821.48
	1,702,655,475.08	1,604,767,885.21

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Notes receivable (Continued)

- (b) As at 31 December 2017 and 31 December 2016, there are no notes receivable that are being pledged of the Group.
- (c) As at 31 December 2017, notes receivable that are not matured at balance sheet date but have been discounted or endorsed are summarized as follows:

	Ending amount	Ending amount
Notes receivable that are not matured at balance sheet date but have been endorsed		
Bank acceptance notes	1,787,530,389.43	–
Commercial acceptance notes	–	11,379,330.00
	1,787,530,389.43	11,379,330.00
Notes receivable that are not matured at balance sheet date but have been discounted		
Bank acceptance notes	217,465,460.61	–
Commercial acceptance notes	–	–
	217,465,460.61	–

- (i) As at 31 December 2017, the bank acceptance notes receivable that are not matured but have been endorsed amounted to RMB1,787,530 thousand (as at 31 December 2016: RMB2,608,336 thousand), the top five of which are summarized as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2017-11-28	2018-05-28	26,000,000.00
Entity 2	2017-12-28	2018-06-28	20,123,330.57
Entity 3	2017-10-17	2018-04-17	15,000,000.00
Entity 4	2017-12-21	2018-06-21	14,167,241.62
Entity 5	2017-09-22	2018-03-22	12,030,773.44

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Notes receivable (Continued)

(c) As at 31 December 2017, notes receivable that are not matured at balance sheet date but have been discounted or endorsed are summarized as follows: (Continued)

(ii) As at 31 December 2017, commercial acceptance notes that are not matured but have been endorsed of the Group amounted to RMB11,379 thousand (as at 31 December 2016: nil), and the top three of which are summarized as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2017-07-31	2018-01-31	5,000,000.00
Entity 2	2017-07-31	2018-01-31	3,800,000.00
Entity 3	2017-10-17	2018-01-31	2,579,330.00

(iii) As at 31 December 2017, the bank acceptance notes that are not matured but have been discounted amounted to RMB217,465 thousand (as at 31 December 2016: RMB50,443 thousand), and the top five of which are summarized as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2017-12-20	2018-06-20	140,000,000.00
Entity 2	2017-10-19	2018-01-19	5,646,432.58
Entity 3	2017-11-24	2018-02-24	5,000,000.00
Entity 4	2017-10-10	2018-01-10	4,771,091.10
Entity 5	2017-10-20	2018-04-20	4,724,786.76

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

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

(e) As at 31 December 2017, balance of notes receivable will expire before 31 December 2018.

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Dividends receivable

Item	31 December 2016	Current increase	Current decrease	31 December 2017
Dividends receivable within 1 year aging	52,938,523.45	605,000,000.00	105,000,000.00	552,938,523.45
Including: Hutchison Whampoa				
Guangzhou Baiyunshan Chinese Medicine Company Limited (HWBYS)	–	150,000,000.00	100,000,000.00	50,000,000.00
Guangzhou Promise Biological Products Co.,Ltd (Nuo Cheng)	52,938,523.45	–	5,000,000.00	47,938,523.45
Guangzhou Pharmaceutical Corporation(GP Corp.)	–	455,000,000.00	–	455,000,000.00

(5) Accounts receivable

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

(a) Accounts receivable by aging are analyzed as follows:

	31 December 2017	31 December 2016
Within 1 year	1,025,013,019.97	982,667,101.58
1 to 2 years	16,408,005.59	36,338,691.74
2 to 3 years	14,051,869.29	138,822,487.95
3 to 4 years	118,686,993.67	9,523,619.45
4 to 5 years	6,469,782.39	2,646,065.97
Over 5 years	14,464,938.08	12,868,153.61
	1,195,094,608.99	1,182,866,120.30
Less: provision for bad debts	81,325,602.48	74,502,513.01
	1,113,769,006.51	1,108,363,607.29

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

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

	31 December 2017				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	152,057,063.19	12.72%	53,596,642.00	35.25%	98,460,421.19
Subject to provision by groups:					
Group 1	1,035,427,412.53	86.64%	20,380,674.85	1.97%	1,015,046,737.68
Individually insignificant but subject to separate provision	7,610,133.27	0.64%	7,348,285.63	96.56%	261,847.64
	1,195,094,608.99	100.00%	81,325,602.48	6.80%	1,113,769,006.51

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

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

(c) As at 31 December 2017, accounts receivable that are individually significant and subject to separate provision are analyzed as follows:

	Carrying amount	Provision for bad debts	Ratio	Reason
Customer 1	51,738,073.09	5,173,807.31	10.00%	Involving litigation, detail refers to Note16(1)(a)(i).
Customer 2	37,710,221.64	3,771,022.16	10.00%	Involving litigation, detail refers to Note16(1)(a)(i).
Customer 3	27,115,640.84	9,158,684.91	33.78%	No legal action, there is a possibility that the amount could not be fully recovered.
Customer 4	10,541,832.00	10,541,832.00	100.00%	Involving litigation, detail refers to Note16(1)(a)(i).
Customer 5	5,191,200.00	5,191,200.00	100.00%	Involving litigation, detail refers to Note16(1)(b)(i).
Customer 6	5,028,313.75	5,028,313.75	100.00%	The court has declared the company bankrupt, there is low possibility that the amount could be recovered.
Customer 7	4,971,878.60	4,971,878.60	100.00%	action is in execution.
Customer 8	4,344,549.96	4,344,549.96	100.00%	No legal action, there is a possibility that the amount could not be fully recovered.
Customer 9	3,203,387.50	3,203,387.50	100.00%	That company is difficult to repay, there is a possibility that the amount could not be recovered.
Customer 10	1,500,000.00	1,500,000.00	100.00%	Successful action in execution, there is low possibility that the amount could be recovered.
Customer 11	711,965.81	711,965.81	100.00%	As output tax paid, which cannot be return.
	<u>152,057,063.19</u>	<u>53,596,642.00</u>		

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

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

	31 December 2017			31 December 2016		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
Within 1 year	1,003,178,081.54	96.88%	10,031,780.80	969,656,864.13	95.41%	9,692,320.57
1 to 2 years	14,628,836.14	1.41%	1,462,883.62	33,176,752.76	3.26%	3,317,675.32
2 to 3 years	10,741,835.97	1.04%	3,222,550.80	5,235,052.48	0.52%	1,570,515.76
3 to 4 years	2,140,130.72	0.21%	1,070,065.38	2,744,890.37	0.27%	1,372,445.21
4 to 5 years	725,669.59	0.07%	580,535.68	1,687,305.18	0.17%	1,349,844.15
Over 5 years	4,012,858.57	0.39%	4,012,858.57	3,738,875.14	0.37%	3,738,875.14
	1,035,427,412.53	100.00%	20,380,674.85	1,016,239,740.06	100.00%	21,041,676.15

- (e) As at 31 December 2017, accounts receivable that are individually insignificant but subject to separate provision are analyzed as follows:

	Carrying amount	Provision for bad debts	Ratio	Reason
Customer 1	896,921.60	896,921.60	100.00%	It is expected that the amount could not be recovered.
Customer 2	523,695.28	261,847.64	50.00%	Litigation is being conducted, there is low possibility that the amount could be recovered.
Customer 3	508,889.00	508,889.00	100.00%	Won the lawsuit, which was enforced to be executed, there is low possibility that the amount could be recovered.
Customer 4	470,000.00	470,000.00	100.00%	It is expected that the amount could not be recovered.
Customer 5	467,462.40	467,462.40	100.00%	It is expected that the amount could not be recovered.
Customer 6	457,178.70	457,178.70	100.00%	accessed judicial procedures, it is expected that the amount could not be recovered.
Others	4,285,986.29	4,285,986.29	100.00%	It is expected that the amount could not be recovered.
	7,610,133.27	7,348,285.63		

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

- (f) As at 31 December 2017 and 31 December 2016, there is no material accounts receivable which have past due but not impaired.
- (g) Accounts receivable that are subject to full provision or in large proportion but have been reversed or collected in the current period are as below:

Receivable	Reason of transfer or recover	Basis of determination of original provision for bad debts	amount of provision for bad debts that are transferred or recovered	Recovered amount	amount of provision for bad debts that are transferred
Customer 1	The case is closed.	It is expected that the amount could not be recovered	1,429,342.54	7,203,235.04	1,429,342.54
Customer 2	The case is closed.	It is expected that the amount could not be recovered	434,949.23	4,349,492.31	434,949.23
Customer 3	The case is closed.	It is expected that the amount could not be recovered	334,219.00	334,219.00	334,219.00
Customer 4	Received money	It is expected that the amount could not be recovered	275,897.12	275,897.12	275,897.12
Customer 5	Strengthened the work of accounts receivable, recovered debts.	It is expected that the amount could not be recovered	77,008.55	77,008.55	77,008.55
Customer 6	Won the lawsuit, and the court has refund the payment.	It is expected that the amount could not be recovered	75,979.30	75,979.30	75,979.30
Customer 7	Negotiated with customers many times to recover payment.	It is expected that the amount could not be recovered	62,532.18	62,532.18	62,532.18
Customer 8	Strengthened the work of accounts receivable, recovered debts.	It is expected that the amount could not be recovered	54,930.09	54,930.09	54,930.09
Customer 9	Strengthened the work of accounts receivable, recovered debts.	It is expected that the amount could not be recovered	52,240.00	52,240.00	52,240.00
Customer 10	Strengthened the work of accounts receivable, recovered debts.	It is expected that the amount could not be recovered	51,565.00	51,565.00	51,565.00
Customer 11	Strengthened the work of accounts receivable, recovered debts.	It is expected that the amount could not be recovered	50,700.00	50,700.00	50,700.00
Others	Strengthened the work of accounts receivable, recovered debts.	It is expected that the amount could not be recovered	549,711.09	643,487.80	549,711.09
			3,449,074.10	13,231,286.39	3,449,074.10

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

- (h) There are no accounts receivable that have been collected by restructuring or other manners in the current period.
- (i) Accounts receivable that are written off in the current period amounted to RMB861 thousand, details are as below:

	Nature of accounts receivable	Amount	Reason	Procedure	Took place connected transaction or not
Guangzhou Hong Xin Trading Co., Ltd.	Payment	28,920.00	It is verified that the amount could not be recovered.	Approved by the company's management process	No
Bao De Pharmaceutical Factory, old department of import & export, mineral water plant	Payment	861,785.72	It is verified that the amount could not be recovered.	Approved by the company's management process	No
Qingxin County Pharmaceutical Company	Payment	(29,404.33)	Received the amount that is written-off.		No
		<u>861,301.39</u>			

- (j) As at 31 December 2017, the top five of accounts receivable are analyzed as follows:

	Relationship with the Company	Carrying amount	Aging	% of total balance	Ending balance of provision for bad debts
Customer 1	Related party	127,536,422.67	Within 1 year, 4-5 years, over 5 years	10.67%	1,744,923.79
Customer 2	Related party	108,315,583.96	Within 1 year, 1-2 years, over 5 years	9.06%	1,774,228.39
Customer 3 (Note 1)	Third party	51,738,073.09	3-4 years	4.33%	5,173,807.31
Customer 4 (Note 1)	Third party	37,710,221.64	3-4 years	3.16%	3,771,022.16
Customer 5	Related party	36,112,366.62	Within 1 year, 1-2 years, 2-3 years	3.02%	388,503.17
		<u>361,412,667.98</u>		<u>30.24%</u>	<u>12,852,484.82</u>

Note1: These 2 customers are involved in litigation, details refer to Note 16 (1)(a)(i).

- (k) There are no accounts receivables derecognized due to transfer of financial assets in the current period.
- (l) As at 31 December 2017, there are no securitizations that targeted at accounts receivable.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables

	31 December 2017	31 December 2016
Petty cash	6,021,769.47	7,951,413.85
Deposit	42,162,681.50	48,183,579.03
Staff advances	38,494,782.86	27,690,804.76
Receivables due from external parties	95,045,525.40	112,537,515.04
Receivables due from related parties (Note 12)	28,469,898.59	19,946,308.42
Tax refund for exports	2,217,254.24	2,342,851.84
Others	28,264,726.55	12,852,371.60
	240,676,638.61	231,504,844.54
Less: provision for bad debts	31,357,800.08	26,383,967.69
	209,318,838.53	205,120,876.85

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

	31 December 2017			31 December 2016		
	Carrying amount	% of total balance	Provision for bad debts	Carrying amount	% of total balance	Provision for bad debts
Within 1 year	182,107,335.49	75.66%	11,634,758.48	154,486,665.41	66.74%	6,245,579.28
1 to 2 years	18,485,632.66	7.68%	78,508.51	22,393,557.45	9.67%	1,164,789.92
2 to 3 years	7,959,823.28	3.31%	1,299,939.20	9,268,549.79	4.00%	457,582.17
3 to 4 years	4,942,069.18	2.05%	272,872.54	4,380,060.05	1.89%	580,556.91
4 to 5 years	2,932,681.53	1.22%	176,075.06	2,963,559.72	1.28%	614,506.62
Over 5 years	24,249,096.47	10.08%	17,895,646.29	38,012,452.12	16.42%	17,320,952.79
	240,676,638.61	100.00%	31,357,800.08	231,504,844.54	100.00%	26,383,967.69

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

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

	31 December 2017				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	24,836,921.65	10.32%	24,389,921.65	98.20%	447,000.00
Subject to provision by groups:					
Group 1	14,717,155.61	6.11%	2,352,219.24	15.98%	12,364,936.37
Group 2	81,671,633.76	33.93%	–	–	81,671,633.76
Group 3	28,292,445.77	11.76%	–	–	28,292,445.77
Group 4	86,542,822.63	35.96%	–	–	86,542,822.63
Individually insignificant but subject to separate provision	4,615,659.19	1.92%	4,615,659.19	100.00%	–
	240,676,638.61	100.00%	31,357,800.08	13.03%	209,318,838.53

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

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

	Carrying amount	Provision for bad debts	Ratio	Reason
Other receivables 1	10,315,700.00	10,315,700.00	100.00%	Involving litigation, detail refers to Note 16(1)(a)(i)
Other receivables 2	2,868,759.75	2,868,759.75	100.00%	as this company was ceased, it is expected that the amount could not be recovered.
Other receivables 3	2,000,000.00	2,000,000.00	100.00%	The aging is too long and the item did not meet expected progress.
Other receivables 4	1,800,957.60	1,800,957.60	100.00%	as this company was ceased, it is expected that the amount could not be recovered.
Other receivables 5	1,520,000.00	1,520,000.00	100.00%	as this company was ceased, it is expected that the amount could not be recovered.
Others	6,331,504.30	5,884,504.30	92.94%	It is expected that the amount could not be recovered.
	<u>24,836,921.65</u>	<u>24,389,921.65</u>		

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

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

	31 December 2017			31 December 2016		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	11,173,666.97	75.92%	111,736.68	9,833,640.18	65.82%	98,336.42
1 to 2 years	500,085.07	3.40%	50,008.51	1,602,102.94	10.72%	160,210.30
2 to 3 years	1,079,531.94	7.34%	323,859.58	634,826.81	4.25%	190,448.04
3 to 4 years	131,476.81	0.89%	65,738.41	1,161,613.82	7.77%	580,806.91
4 to 5 years	157,593.82	1.07%	126,075.06	224,763.87	1.50%	179,811.10
Over 5 years	1,674,801.00	11.38%	1,674,801.00	1,484,553.02	9.94%	1,484,553.02
	14,717,155.61	100.00%	2,352,219.24	14,941,500.64	100.00%	2,694,165.79

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

	Carrying amount	Provision for bad debts	Ratio	Reason
Other receivable 1	85,500.00	85,500.00	100.00%	It is expected that the amount could not be recovered
Other receivable 2	78,580.00	78,580.00	100.00%	It is expected that the amount could not be recovered
Other receivable 3	71,739.00	71,739.00	100.00%	It is expected that the amount could not be recovered
Other receivable 4	65,846.20	65,846.20	100.00%	It is expected that the amount could not be recovered
Other receivable 5	60,080.00	60,080.00	100.00%	It is expected that the amount could not be recovered
Others	4,253,913.99	4,253,913.99	100.00%	It is expected that the amount could not be recovered
	4,615,659.19	4,615,659.19		

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

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

Other receivable	Reason of transfer or recover	Basis of determination of original provision for bad debts	Amount of provision for bad debts that are transferred or recovered	Recovered amount	amount of provision for bad debts that are transferred
Other receivable 1	Fully recovered	It is expected that the amount could not be recovered	500,000.00	1,000,000.00	500,000.00
Other receivable 2	Fully recovered	It is expected that the amount could not be recovered	60,000.00	60,000.00	60,000.00
Other receivable 3	Fully recovered	It is expected that the amount could not be recovered	13,244.35	13,244.35	13,244.35
Other receivable 4	Fully recovered	It is expected that the amount could not be recovered	8,012.58	8,012.58	8,012.58
Other receivable 5	Fully recovered	It is expected that the amount could not be recovered	5,337.65	6,248.71	5,337.65
Other receivable 6	Fully recovered	It is expected that the amount could not be recovered	4,225.24	5,281.55	4,225.24
Other receivable 7	Fully recovered	It is expected that the amount could not be recovered	351.00	351.00	351.00
Other receivable 8	Fully recovered	It is expected that the amount could not be recovered	135.70	135.70	135.70
			591,306.52	1,093,273.89	591,306.52

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

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

- (i) As at 31 December 2017, the top five of the debt form the balance of other receivables is analyzed as follows:

	Relationship with the Company	Amount	Aging	% of total balance	Ending balance of provision for bad debts
Other receivables 1	Related party	20,542,631.61	Within 1 year, 2-3 years	8.54%	-
Other receivables 2	Third party	18,320,867.57	Within 1 year, 1-2 years, 3-4 years, over 5 years	7.61%	30.88
Other receivables 3	Third party	10,315,700.00	2-3 years	4.29%	10,315,700.00
Other receivables 4	Third party	9,846,448.77	Within 1 year	4.09%	-
Other receivables 5	Third party	5,612,424.61	Within 1 year	2.33%	-
		<u>64,638,072.56</u>		<u>26.86%</u>	<u>10,315,730.88</u>

- (j) There are no other receivables derecognized due to transfer of financial assets in the current period.
- (k) As at 31 December 2017, there are no securitizations that targeted at other receivables.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Advances to suppliers

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

	31 December 2017		31 December 2016	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	234,892,970.44	91.54%	404,729,338.67	97.74%
1 to 2 years	15,846,896.39	6.18%	4,322,832.06	1.04%
2 to 3 years	3,094,700.49	1.21%	1,969,316.74	0.48%
Over 3 years	2,737,190.69	1.07%	3,052,122.68	0.74%
	256,571,758.01	100.00%	414,073,610.15	100.00%

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

	Relationship with the Group	Amount	Aging	Reason of unsettlement
Supplier 1	Third party	39,136,766.51	Within 1 year	Normal purchases, goods are not yet received
Supplier 2	Third party	8,233,410.49	Within 1 year	Normal purchases, goods are not yet received
Supplier 3	Third party	8,215,600.00	Within 1 year	Normal purchases, goods are not yet received
Supplier 4	Third party	7,696,433.97	1-2 years	Normal purchases, goods are not yet received
Supplier 5	Third party	7,628,338.45	Within 1 year, 1-2 years	Normal purchases, goods are not yet received
		70,910,549.42		

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Inventories

(a) Classification of inventories:

	31 December 2017			31 December 2016		
	Ending balance	Provision for declines in value of inventories	Carrying amount	Ending balance	Provision for declines in value of inventories	Carrying amount
Raw materials	819,325,060.67	3,116,836.98	816,208,223.69	617,473,227.23	1,867,600.58	615,605,626.65
Work in progress	205,524,976.16	-	205,524,976.16	145,353,372.23	-	145,353,372.23
Semi-finished goods	160,977,472.82	891,968.80	160,085,504.02	123,806,242.81	891,968.80	122,914,274.01
Finished goods	1,789,796,974.81	14,030,936.79	1,775,766,038.02	1,094,080,138.38	15,169,840.97	1,078,910,297.41
Low-value consumables	7,216,360.33	3,273.00	7,213,087.33	8,070,757.95	-	8,070,757.95
Packaging materials	105,084,792.23	-	105,084,792.23	112,326,438.56	-	112,326,438.56
Goods In processing contract	20,184,055.77	-	20,184,055.77	15,875,163.96	-	15,875,163.96
Commodity Stocks	618,331,802.63	8,678,616.28	609,653,186.35	691,576,886.45	10,256,228.81	681,320,657.64
Others	503,032.44	-	503,032.44	1,119,123.04	-	1,119,123.04
	3,726,944,527.86	26,721,631.85	3,700,222,896.01	2,809,681,350.61	28,185,639.16	2,781,495,711.45

(b) Provision for declines in the value of inventories

Item	31 December 2016	Current amount	Current reductions		31 December 2017
			Reversal	Write-off	
Raw materials	1,867,600.58	5,340,900.80	4,091,664.40	-	3,116,836.98
Work in progress	891,968.80	-	-	-	891,968.80
Finished goods	15,169,840.97	5,688,474.47	2,518,411.29	4,308,967.36	14,030,936.79
Packaging materials	-	3,273.00	-	-	3,273.00
Commodity stocks	10,256,228.81	29,050.54	-	1,606,663.07	8,678,616.28
	28,185,639.16	11,061,698.81	6,610,075.69	5,915,630.43	26,721,631.85

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Inventories (Continued)

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

Item	Basis for provision	Reason for reversal	% of amount of reversal to the relevant inventory balance
Raw materials	Carrying amount over net realizable value	Increase in net realizable	0.50%
Finished goods	Carrying amount over net realizable value	Increase in market price	0.14%

(9) Other current assets

	31 December 2017	31 December 2016
Deductible Input VAT	7,156,406.20	9,499,111.01
Provisional Income Tax paid	180,427,954.70	104,647,042.86
Unverified input tax	29,694.28	3,397,599.64
Excess VAT paid	1,843,370.73	—
Unpaid VAT	184,948,392.40	76,637,211.58
Bank financing products	6,300,000.00	20,000,000.00
Structured deposits	1,850,000,000.00	270,000,000.00
Undisposed assets for whole relocation	35,799,561.27	35,719,734.27
Others	478,027.24	290,394.67
	2,266,983,406.82	520,191,094.03

In accordance with the notice of Haifuzhengfang [2015] No.2, Haizhengbankexiezi [2015 No. 01] and Haizhengbankexiezi [2016] No.1, Guangzhou Qi Xing Pharmaceutical Factory and Qing Xing, 2 subsidiaries of the Company, have stopped production and moved out of the building for whole relocation before September 2015. As the values of the lands and houses, machines and equipment and inventory for compensation shall be evaluated and issued report by evaluation company, as at 31 December 2017, evaluated amount is not yet confirmed, report is not yet issued.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Available-for-sale financial assets

(a) Details are as follows:

Item	31 December 2017			31 December 2016		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Available-for-sale equity instruments						
Including: Measured at fair value	886,902,502.31	–	886,902,502.31	25,932,151.59	–	25,932,151.59
Measured at cost	156,510,723.88	4,553,551.23	151,957,172.65	306,510,723.88	4,553,551.23	301,957,172.65
Total	1,043,413,226.19	4,553,551.23	1,038,859,674.96	332,442,875.47	4,553,551.23	327,889,324.24

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

Item	Available-for-sale equity instruments
Cost of equity instruments/amortized cost of liabilities	961,394,689.06
Fair value	886,902,502.31
Accumulated movement of fair value charged as other comprehensive income (written down related deferred income tax liabilities)	(63,354,775.43)
Accumulated movement of fair value charged as deferred tax assets	28,553,459.00
Accumulated movement of fair value charged as deferred tax liabilities	17,416,047.68
Impairment	–

Available-for-sale financial assets measured at fair value at the end of period are the shares of listed companies, of which fair value of non-restricted stock is recognized in accordance with the closing price at last transaction day, and the fair value of restricted stock is recognized in accordance with the evaluation price by the option pricing models (including B-S models of dividends) under market approach.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Investee	Book balance				Provision for impairment				% of Equity interest held	Current cash dividends
	Opening amount	Current increase	Current decrease	Ending amount	Opening amount	Current increase	Current decrease	Ending amount		
Shanghai Jiuhetang Chinese Medicine Co., Ltd.	547,193.71	-	-	547,193.71	-	-	-	-	9.53%	-
Beijing Imperial Court Cultural Development Company Ltd.	200,000.00	-	-	200,000.00	-	-	-	-	10.00%	-
Qi Xing Ma Zhong Pharmaceutical Co., Ltd. (Note 1)	362,826.38	-	-	362,826.38	-	-	-	-	40.00%	-
Indonesia San You Development Co., Ltd. (Note 1)	1,078,551.23	-	-	1,078,551.23	1,078,551.23	-	-	1,078,551.23	50.00%	-
Sales Store of Peking Road of Guangzhou Medicine Co., Ltd. (Note 1)	218,399.05	-	-	218,399.05	-	-	-	-	20.00%	-
Guangdong South China Innovative Pharmaceutical Co., Ltd.	10,000,000.00	-	-	10,000,000.00	-	-	-	-	11.12%	-
Shenzhen Zhong Lian Guang Shen Pharmaceutical Group Co., Ltd.	312,077.00	-	-	312,077.00	-	-	-	-	-	12,344.32
Guangzhou Zhong Ying Cambridge Technology Co., Ltd.	300,000.00	-	-	300,000.00	300,000.00	-	-	300,000.00	9.97%	-
Dongbei Pharmaceutical General Factory	750,000.00	-	-	750,000.00	750,000.00	-	-	750,000.00	-	-
Wuhan Pharmaceutical Holdings Co., Ltd.	2,000,000.00	-	-	2,000,000.00	2,000,000.00	-	-	2,000,000.00	2.80%	-
Securities of Enterprises activities Center	50,000.00	-	-	50,000.00	50,000.00	-	-	50,000.00	-	-
Guangzhou Dong Ning Pharmaceutical Co., Ltd.	275,000.00	-	-	275,000.00	275,000.00	-	-	275,000.00	5.00%	-
Guangzhou Nan Xin Pharmaceutical Co., Ltd.	7,677,876.51	-	-	7,677,876.51	-	-	-	-	13.00%	-
Guangzhou Yu Fa Medical Instrument Co., Ltd.	100,000.00	-	-	100,000.00	100,000.00	-	-	100,000.00	10.00%	-
Baxter Healthcare	82,338,800.00	-	-	82,338,800.00	-	-	-	-	12.50%	12,500,000.00
Guangzhou Bank of Commerce	100,000.00	-	-	100,000.00	-	-	-	-	-	-
Chongqing Pharmaceutical (Group) Holdings Co., Ltd. (Note 3)	150,000,000.00	-	150,000,000.00	-	-	-	-	-	-	-
Yi Lin Biological	200,000.00	-	-	200,000.00	-	-	-	-	10.00%	-
Zhong Yi Fund (Note 2)	50,000,000.00	-	-	50,000,000.00	-	-	-	-	24.75%	-
Total	306,510,723.88	-	150,000,000.00	156,510,723.88	4,553,551.23	-	-	4,553,551.23	-	12,512,344.32

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

Note 2: The Company participated in establishing Zhong Yi Funds, which is total amounted to RMB0.60606 billion, the contribution of the Company amounted to RMB150 million, accounting for 24.75%. Yi Lin Biological is general partner, and the Company is limited partner. Decision-making body is an investment decision committee, which is consists of 7 members, in accordance with the partnership agreement, there are no person in the committee from the Company. As at 31 December 2017, according to agreement, the Company contributed initial investment amounted to RMB50,000 thousand.

Note 3: The Company acquired 10 million shares of Chongqing Pharmaceutical Holdings Co., Ltd. (Chongqing Pharmaceutical) by investment in capital amounted to RMB150 million in year 2015. In year 2016, *ST Jianfeng (000950) proposed to carry out a material assets reorganization, to issue shares to the original shareholders of Chongqing Pharmaceutical in the form of non-public issuance of shares, and to acquire the shares of Chongqing Pharmaceutical accordingly. The evaluation value of Chongqing Pharmaceutical's 100% equity is RMB6.933 billion, *ST Jianfeng, this material assets reorganization issue price is RMB593 million, the Company holds 25,992,330 shares of Jianfeng Chemical, of which share proportion is 1.50%. This material assets reorganization was examined and verified by the China Securities Regulatory Commission (CSRC) on 25 May 2017 and approved by the CSRC on 25 July 2017. The new shares were listed on 16 October 2017. The limited sale period shall be 12 months from the date of listing of the shares. In the current period, the Company has converted the available-for-sale financial assets originally measured at the end of the period for Chongqing Pharmaceutical to those available-for-sale at fair value at the end of the period.

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

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Long-term equity investments

(a) Details of long-term equity investments:

Entity	Investment cost	31 December 2016	Movement of investment	Profit or loss of investment recognized by equity method	Adjustment for other comprehensive income	Movement of other equity	Distributed cash dividends	Others	31 December 2017	Provision for impairment	Current provision for impairment
1. Jointly controlled entities											
Guangzhou Pharmaceutical Corporation (GP Corp.)	396,589,139.78	1,269,733,819.29	-	120,102,628.49	20,429.81	-	(455,000,000.00)	-	934,856,877.59	-	-
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. ("Wang Lao Ji") (note1)	102,035,124.44	378,455,100.76	-	12,842,520.42	-	-	-	-	391,297,621.18	-	-
Nuo Cheng	42,000,000.00	81,955,813.17	-	59,271,578.70	-	-	-	-	141,227,391.87	-	-
HWBYS	100,000,000.00	416,467,068.40	-	67,422,274.00	-	-	(150,000,000.00)	-	333,889,342.40	-	-
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. (Baxter Qiaoguang)	37,000,000.00	36,324,856.06	-	3,122,520.03	-	-	-	-	39,447,376.09	-	-
2. Associates											
Guangzhou Jinshen Medical Co., Ltd.	765,000.00	-	-	-	-	-	-	-	0.00	-	-
Hangzhou Zheda Han Fang Chinese Medical Info. Engineering Co., Ltd.	440,000.00	-	-	-	-	-	-	-	0.00	-	-
Golden Eagle Fund Management Co., Ltd.	50,000,000.00	43,886,532.54	-	10,779,383.31	-	-	-	-	54,665,915.85	-	-
Wei Yi Co., Ltd.	2,020,000.00	1,996,197.47	-	17,838.47	-	-	-	-	2,014,035.94	-	-
Chuangmei Holdings Co., Ltd. ("Chuangmei")	60,823,012.51	61,624,075.01	-	-	-	-	-	(3,385,685.31)	58,238,389.70	-	-
Guangzhou Baiyunshan Southern antineoplastic Biological Products Holdings Co., Ltd.	50,225,000.00	-	50,225,000.00	(749,636.72)	-	-	-	-	49,475,363.28	-	-
Guangzhou Zhongcheng Medical apparatus Industry Development Co., Ltd.	3,400,000.00	-	3,400,000.00	(31,056.85)	-	-	-	-	3,368,943.15	-	-
Subtotal	845,297,276.73	2,290,443,462.70	53,625,000.00	272,778,049.85	20,429.81	-	(605,000,000.00)	(3,385,685.31)	2,008,481,257.05	-	-

Note 1: Wang Lao Ji's period of joint venture is for 10 years and expired on 25 January 2015. The Company applied for arbitration to Committee of South China International Economic and Trade arbitration (Shenzhen International Court of arbitration) ("arbitration Committee"), required Tongxing Pharmaceutical Co., Ltd. to transfer 48.0465% equity interest in Wang Lao Ji to the Company. arbitration Committee has accepted it (case No. SHENT2014811). Latest progress of the case refer to Note 16(1)(c)(viii). Pursuant to *Notice from Guangzhou administration Bureau for Industry and Commerce in respect of Guangzhou Wang Lao Ji Pharmaceutical Holdings Co., Ltd.* (SGSF[2015] No.49) issued by Guangzhou administration Bureau for Industry and Commerce on 27 February 2015, Wang Lao Ji should be in normal operation. as at reporting date, Wang Lao Ji is still in continuous and normal operation.

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Investment properties

(a) Investment properties measured at cost method:

	Buildings	Land use right	Total
1. Cost			
(1) Opening balance	381,220,482.99	18,344,900.69	399,565,383.68
(2) Current increase	–	–	–
(3) Current decrease	1,906,082.72	–	1,906,082.72
(i) Disposal or scrap	1,433,613.86	–	1,433,613.86
(ii) Changes of exchange rate	472,468.86	–	472,468.86
(4) Ending balance	379,314,400.27	18,344,900.69	397,659,300.96
2. accumulated depreciation and amortization			
(1) Opening balance	162,253,496.71	8,736,495.66	170,989,992.37
(2) Current increase	10,198,903.85	375,177.88	10,574,081.73
(i) Provision or amortization	10,198,903.85	375,177.88	10,574,081.73
(3) Current decrease	1,580,552.52	–	1,580,552.52
(i) Disposal or scrap	1,390,605.44	–	1,390,605.44
(ii) Changes of exchange rate	189,947.08	–	189,947.08
(4) Ending balance	170,871,848.04	9,111,673.54	179,983,521.58
3. Provision for impairment			
(1) Opening balance	–	–	–
(2) Current increase	–	–	–
(3) Current decrease	–	–	–
(4) Ending balance	–	–	–
4. Book value			
(1) Ending book value	208,442,552.23	9,233,227.15	217,675,779.38
(2) Opening book value	218,966,986.28	9,608,405.03	228,575,391.31

Notes to the Financial Statements

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

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

(12) Investment properties *(Continued)*

(a) Investment properties measured at cost method: *(Continued)*

- (i) Depreciation charges for the year ended 31 December 2017 amounted to RMB10,199 thousand. (For the year ended 31 December 2016: RMB10,514 thousand); amortization charges for the year ended 31 December 2017 amounted to RMB375 thousand (For the year ended 31 December 2016: RMB375 thousand).
- (ii) As for the year ended 31 December 2017, the decrease of original cost and accumulated depreciation of the investment properties arising from the fluctuations in exchange rate is RMB472 thousand and RMB190 thousand respectively (as for the year ended 31 December 2016: decrease RMB457 thousand and RMB172 thousand respectively).
- (iii) The land use right among the investment properties is located in Mainland China, and the useful life is 10-50 years.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Fixed assets and accumulated depreciation

(a) Fixed assets

	Buildings	Machinery and equipment	Motor vehicles	Electronic equipment	Office equipment	Decoration of fixed assets	Total
1. Original book value:							
(1) Opening balance	2,052,117,268.17	1,874,196,861.30	87,110,928.57	148,301,346.00	115,775,946.99	42,937,172.64	4,320,439,523.67
(2) Current increase	66,326,261.08	94,077,506.59	2,305,515.74	15,364,134.60	13,423,004.20	717,511.86	192,213,934.07
(i) Purchase	5,701,310.24	32,249,424.28	399,589.09	9,301,802.66	8,501,501.12	277,926.00	56,431,553.39
(ii) Reclassified from constructions in progress	60,371,757.33	55,351,872.91	1,905,926.65	6,062,331.94	4,921,503.08	439,585.86	129,052,977.77
(iii) Contribution from shareholders	-	6,476,209.40	-	-	-	-	6,476,209.40
(iv) Others	253,193.51	-	-	-	-	-	253,193.51
(3) Current decrease	4,286,937.59	77,175,965.73	3,325,733.66	13,514,577.54	3,156,814.48	3,031,482.77	104,491,511.77
(i) Disposal or scrap	3,765,813.94	77,088,314.66	3,325,733.66	13,504,577.54	2,945,449.34	3,031,482.77	103,661,371.91
(ii) Changes of exchange rate	521,123.65	-	-	-	38,775.78	-	559,899.43
(iii) Others	-	87,651.07	-	10,000.00	172,589.36	-	270,240.43
(4) Ending balance	2,114,156,591.66	1,891,098,402.16	86,090,710.65	150,150,903.06	126,042,136.71	40,623,201.73	4,408,161,945.97
2. Accumulated depreciation							
(1) Opening balance	815,072,952.13	1,115,870,840.62	59,983,474.95	96,595,516.78	77,769,522.29	25,810,411.64	2,191,102,718.41
(2) Current increase	59,313,617.01	122,395,852.31	4,461,196.91	10,659,777.81	11,338,202.52	4,237,090.45	212,405,737.01
(i) Provision	59,313,617.01	121,383,439.35	4,461,196.91	10,659,777.81	10,500,993.58	4,237,090.45	210,556,115.11
(ii) Others	-	1,012,412.96	-	-	837,208.94	-	1,849,621.90
(3) Current decrease	2,403,142.39	66,552,777.48	3,214,267.33	12,752,960.24	2,836,450.73	1,278,927.91	89,038,526.08
(i) Disposal or scrap	422,470.22	66,552,777.48	3,214,267.33	12,752,960.24	2,804,739.68	1,278,927.91	87,026,142.86
(ii) Changes of exchange rate	145,095.07	-	-	-	31,711.05	-	176,806.12
(iii) Others	1,835,577.10	-	-	-	-	-	1,835,577.10
(4) Ending balance	871,983,426.75	1,171,713,915.45	61,230,404.53	94,502,334.35	86,271,274.08	28,768,574.18	2,314,469,929.34
3. Provision for impairment							
(1) Opening balance	8,821,420.06	11,608,933.92	158,224.47	1,635,422.74	2,846.38	-	22,226,847.57
(2) Current increase	-	1,855,000.39	-	-	-	-	1,855,000.39
(i) Provision	-	1,855,000.39	-	-	-	-	1,855,000.39
(3) Current decrease	4,618,987.46	7,936,682.03	-	78,713.48	-	-	12,634,382.97
(i) Disposal or scrap	4,618,987.46	7,936,682.03	-	78,713.48	-	-	12,634,382.97
(4) Ending balance	4,202,432.60	5,527,252.28	158,224.47	1,556,709.26	2,846.38	-	11,447,464.99
4. Book value							
(1) Ending book value	1,237,970,732.31	713,857,234.43	24,702,081.65	54,091,859.45	39,768,016.25	11,854,627.55	2,082,244,551.64
(2) Opening book value	1,228,222,895.98	746,717,086.76	26,969,229.15	50,070,406.48	38,003,578.32	17,126,761.00	2,107,109,957.69

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(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Fixed assets and accumulated depreciation (Continued)

(a) Fixed assets (Continued)

- (i) As for the year ended 31 December 2017, the fixed assets transferred from construction in progress amounted to RMB129,053 thousand (For the year ended 31 December 2016: RMB343,536 thousand).
- (ii) As for the year ended 31 December 2017, the decrease of original cost and accumulated depreciation of fixed assets is due to fluctuations in exchange rate amounted to RMB560 thousand and RMB177 thousand respectively (For the year ended 31 December 2016: RMB550 thousand and RMB171 thousand respectively).
- (iii) Depreciation expenses for the year ended 31 December 2017 amounted to RMB210,556 thousand in total (For the year ended 31 December 2016: RMB207,308 thousand), of which RMB138,501 thousand, RMB2,874 thousand and RMB69,181 thousand were charged to cost of sales, selling and distribution expenses and general and administrative expenses, respectively (For the year ended 31 December 2016: RMB135,626 thousand, RMB3,105 thousand and RMB68,577 thousand respectively).

- (b) As at 31 December 2017, fixed assets are temporarily idle, which are analysed as follows:

	Original book value	Accumulated depreciation	Provision for impairment	Carrying amount
Buildings	923,526.05	405,645.72	517,880.33	–
Electrical equipment	1,099,608.00	641,595.13	458,012.87	–

- (c) As at 31 December 2017, fixed assets which were lack of ownership certificate are summarised as follows:

	Carrying amount	Reason	Estimated date of obtaining the ownership certificate
Buildings	32,493,651.92	Procedures are not completed, certificates are not handled	Uncertain

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(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Fixed assets and accumulated depreciation (Continued)

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

	31 December 2017	31 December 2016
	Carrying amount	Carrying amount
Buildings	7,769,341.36	11,292,912.78

(e) As at 31 December 2017, Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, acquired the overdraft amounted to HKD300 thousand, letter of credit and 90 days credit total amounted to HKD100,000 thousand from Bank of China (Hong Kong) Co., Ltd., secured by the original value amounted to HKD8,893 thousand, the net value HKD6,355 thousand of the buildings of fixed assets and the original value amounted to HKD6,843 thousand, the net value amounted to HKD3,762 thousand of investment properties, and the issued undue L/C amounted to EUR162 thousand, USD650 thousand, JPY15,325 thousand.

(14) Construction in progress

	31 December 2017			31 December 2016		
	Book balance	Provision for impairment	Carrying amount	Provision for impairment	Carrying amount	Book balance
Construction in progress	284,923,861.83	251,734.38	284,672,127.45	256,397,154.04	1,121,052.88	255,276,101.16

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(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Construction in progress (Continued)

(a) Movement of construction in progress

	Budget	31 December 2016	Current increase	Current decrease		31 December 2017	Source of funds	% contribution in budget
				Transferred to fixed assets	Other decrease			
3rd GMP construction of modernization of traditional Chinese medicine	82,894,600.00	-	1,135,547.17	-	-	1,135,547.17	Self-funded, loan from financial institution	1.37%
Pill making line of water-honeyed pill and piller	3,500,000.00	1,084,000.00	1,434,000.00	-	1,084,000.00	1,434,000.00	Self-funded	71.94%
HMPL-004 special production line	3,000,000.00	218,363.76	-	-	-	218,363.76	Self-funded	7.28%
Project of rebuilding raw-food materials with characteristic function and product workshop	5,905,000.00	125,833.39	148,571.17	-	-	274,404.56	Self-funded	4.65%
New project of warehouse	17,056,000.00	164,150.94	4,041,988.46	-	-	4,206,139.40	Self-funded	24.66%
Project of special medical use formula food production line	42,400,000.00	-	9,558,497.00	-	-	9,558,497.00	Self-funded	22.54%
Project of No.5, No.36 Saiba Rd (iron warehouse)	10,442,701.89	-	712,629.88	-	-	712,629.88	Self-funded	6.82%
Office building	10,000,000.00	313,237.78	896,519.84	1,209,757.62	-	-	Self-funded	12.10%
Decoction center	2,800,000.00	2,187,199.19	-	-	-	2,187,199.19	Self-funded	78.11%
Meizhou production and service base project of industrialization of traditional Chinese medicine	130,000,000.00	-	17,215,842.20	-	-	17,215,842.20	Self-funded	13.24%
Si Ai Pu	15,000,000.00	4,731,245.97	4,288,646.98	-	-	9,019,892.95	Self-funded	66.35%
Research of Bio Vaccine & Industrialization Platform	29,300,000.00	15,937,838.57	1,737,597.58	16,815,122.98	860,313.17	-	Self-funded	97.90%
Wang Lao Ji Ya'an manufacturing project	298,000,000.00	948,663.89	-	948,663.89	-	-	Self-funded	70.79%
Properties in Nansha district	10,000,000.00	7,476,840.11	469,759.25	7,713,960.65	213,163.11	19,475.60	Self-funded	79.47%
Base of Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd.	400,000,000.00	17,498,200.32	6,791,398.57	-	17,498,200.32	6,791,398.57	Self-funded	6.07%
GMP improvement project of 4 workshops	6,920,000.00	25,014.44	-	-	14,000.00	11,014.44	Self-funded	73.74%
Tongtai Building	8,000,000.00	3,516,481.46	421,173.30	340.00	3,766,624.47	170,690.29	Self-funded	49.22%
Recover Building C	30,000,000.00	764,640.85	16,275,487.31	-	-	17,040,128.16	Self-funded	56.80%
Program of a building with 6 floors	3,500,000.00	3,064,795.73	750,879.16	494,640.00	3,253,968.19	67,066.70	Self-funded	109.02%
Tibetan Health Castle Project	45,000,000.00	34,375,364.88	5,558,502.47	28,374,043.38	11,559,823.97	-	Self-funded	88.74%
Chinese medicine treatment before extraction of the modernization of products of stage 1 of GMP improvement	97,564,100.00	1,866,220.53	14,699,394.55	2,124,533.13	70,736.04	14,370,345.91	Self-funded	105.07%
Oral cephalosporins workshop GMP improvement	47,800,000.00	478,027.80	24,332,846.56	15,099,998.33	-	9,710,876.03	Self-funded	73.65%

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Construction in progress (Continued)

(a) Movement of construction in progress (Continued)

	Budget	31 December 2016	Current increase	Current decrease		31 December 2017	Source of funds	% contribution in budget
				Transferred to fixed assets	Other decrease			
Zhongluotan Wulonggang aB0807098-1 block	159,750,000.00	2,948,549.00	308,569.81	-	-	3,257,118.81	Self-funded	17.37%
Li Wan oculentum GMP improvement (2017)	11,600,000.00	-	5,719,820.54	-	-	5,719,820.54	Self-funded	51.16%
Xinshi factory VI improvement	2,800,000.00	-	1,583,156.14	-	-	1,583,156.14	Self-funded	64.62%
Tian Xin Wei D 2 Tartaric Acid Inj.	15,000,000.00	200,000.00	-	-	200,000.00	-	Self-funded	100.00%
Tian Xin Powder Injector & Screw arbor Line	19,800,000.00	600,000.00	-	-	-	600,000.00	Self-funded	8.87%
Technology improvement for penicillin oral solid dosage forms workshop	3,000,000.00	10,387.87	2,082,368.62	-	-	2,092,756.49	Self-funded	69.76%
Productivity improvement for oral solid dosage forms workshop	5,130,000.00	-	371,200.00	-	-	371,200.00	Self-funded	7.24%
Ming Xing equipment improvement	67,430,000.00	621,817.77	3,353,347.35	3,373,746.77	4,854.37	596,563.98	Self-funded	92.00%
Ming Xing Decoration	17,200,000.00	189,611.10	-	-	-	189,611.10	Self-funded	25.00%
Ming Xing relocation improvement	475,620,000.00	81,516,983.64	3,768,326.74	-	-	85,285,310.38	Self-funded	17.93%
Construction of Guangyao Baiyunshan Chemical Pharmaceutical (Zhuhai) Co., Ltd.	722,689,100.00	-	3,810,922.63	-	-	3,810,922.63	Self-funded	0.53%
Sterile production line	103,540,000.00	40,216,189.51	13,341,007.55	-	3,453,069.20	50,104,127.86	Self-funded	51.73%
Construction project of biological island research and development headquarters	800,000,000.00	-	100,084.09	-	-	100,084.09	Self-funded, public offering	0.01%
Others	151,834,141.24	35,317,495.54	66,594,182.39	52,898,171.02	11,943,828.91	37,069,678.00	Self-funded	
		<u>256,397,154.04</u>	<u>211,502,267.31</u>	<u>129,052,977.77</u>	<u>53,922,581.75</u>	<u>284,923,861.83</u>		

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Construction in progress (Continued)

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

(c) Provision for impairment of construction in progress

Name of construction	31 December 2016	Current increase	Current decrease	31 December 2017	Reason
General factory veterinary drugs workshop GMP improvement	869,318.50	-	869,318.50	-	Project stopped
Guanghua sewage expansion project	251,734.38	-	-	251,734.38	Project stopped
Total	1,121,052.88	-	869,318.50	251,734.38	

(d) Schedule of significant constructions in progress are as below:

	Progress
Project of base of Cai Zhi Lin Meizhou Chinese medicine industrial service	In construction stage
Project of manufacturing base of Wang Lao Ji in Ya'an	Project completed
Base of Wang Lao Ji Great Health (Meizhou) Co., Ltd.	In construction stage
Zhongluotan Wulonggang aB0807098-1 block	In construction stage
Ming Xing relocation improvement	In construction stage
Construction of Guangyao Baiyunshan Chemical Pharmaceutical (Zhuhai) Co., Ltd.	In construction stage
Sterile production line	In construction stage
Construction project of biological island research and development headquarters	In construction stage
1 st GMP construction of modernization of traditional Chinese medicine	In debugging stage

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Intangible assets

(a) Details of intangible assets:

	Land use right	Industrial property & proprietary technology	Non-Patents	Trademark	Others	Total
1. Original book value						
(1) Opening balance	620,802,632.45	15,801,190.39	28,648,857.20	159,241,280.74	20,010,769.21	844,504,729.99
(2) Current increase	29,058,574.29	960,000.00	35,970,282.97	13,050,000.00	4,522,171.15	83,561,028.41
(i) Purchase	29,058,574.29	960,000.00	35,970,282.97	–	4,178,706.08	70,167,563.34
(ii) Internal research & development	–	–	–	–	317,046.84	317,046.84
(iii) Others	–	–	–	13,050,000.00	26,418.23	13,076,418.23
(3) Current decrease	–	–	26,418.23	–	139,936.74	166,354.97
(i) Disposal	–	–	–	–	139,936.74	139,936.74
(ii) Others	–	–	26,418.23	–	–	26,418.23
(4) Ending balance	649,861,206.74	16,761,190.39	64,592,721.94	172,291,280.74	24,393,003.62	927,899,403.43
2. accumulated amortization						
(1) Opening balance	105,117,438.14	8,722,423.87	15,116,448.94	32,595,688.44	13,610,663.46	175,162,662.85
(2) Current increase	14,847,486.51	737,743.01	5,312,555.86	–	2,917,301.87	23,815,087.25
(i) Provision	14,847,486.51	737,743.01	5,312,555.86	–	2,917,301.87	23,815,087.25
(3) Current decrease	–	–	–	–	124,533.00	124,533.00
(i) Disposal	–	–	–	–	124,533.00	124,533.00
(4) Ending balance	119,964,924.65	9,460,166.88	20,429,004.80	32,595,688.44	16,403,432.33	198,853,217.10
3. Provision for impairment						
(1) Opening balance	–	453,343.04	–	583,573.00	–	1,036,916.04
(2) Current increase	–	–	–	–	–	–
(3) Current decrease	–	–	–	–	–	–
(4) Ending balance	–	453,343.04	–	583,573.00	–	1,036,916.04
4. Book value						
(1) Ending book value	529,896,282.09	6,847,680.47	44,163,717.14	139,112,019.30	7,989,571.29	728,009,270.29
(2) Opening book value	515,685,194.31	6,625,423.48	13,532,408.26	126,062,019.30	6,400,105.75	668,305,151.10

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Intangible assets (Continued)

(a) Details of intangible assets: (Continued)

In the current period, the amortization of intangible assets amounted to RMB23,815 thousand (For the year ended 31 December 2016: RMB17,329 thousand), which were recognized in profit or loss for the current period. The land use right of the intangible assets is located in Mainland China, and the useful life is 10-50 years.

The recoverable amount of trademarks without useful life is calculated at income method, which is to evaluate the present value of perspective incomes for target trademark assets by appropriate discount rate. Perspective income is calculated with the following formula: Perspective income $R_i = (\text{Charging base of trademark use} \times \text{trademark use rate}) - \text{taxes and surcharges} - \text{business income taxes}$. The key parameter including: (1) Discount rate here is 14%; (2) Rate of increase for sales income is generally 2%, and 10%-15% for a few enterprises; (3) Supernormal profit rate multiplied by trademark contribution rate is trademark use rate, supernormal profit rate is the average of historical data for recent 4 years, trademark contribution rate is calculated by analytic hierarchy process (aHP), and trademark use rate is between 0.90%-1.20% accordingly.

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

(16) Development costs

	31 December 2016	Current increase	Current transferred-out		31 December 2017	
		Internal research expenses	Recognized in current profit or loss	Recognized as intangible assets		Others
Capitalized expenditures	3,017,046.84	-	900,000.00	317,046.84	1,000,000.00	800,000.00
Expensed expenditures	-	373,287,521.71	373,287,521.71	-	-	-
	3,017,046.84	373,287,521.71	374,187,521.71	317,046.84	1,000,000.00	800,000.00

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(17) Goodwill

(a) Original book value of goodwill

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

(b) Provision for impairment of goodwill

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

The Company calculated Guangyao Haima, a subsidiary of the Company, as a group of assets, on the basis of the free net cash flow in certain years calculated by industry qualification, target market, historical financial data, earnings forecast in next 5 years of Guangyao Haima, management of the Company obtained total value of shareholders' equity using the following method: a sum of the value of business assets which calculated at appropriate discount rate, value of surplus assets and value of non-business assets minus interest-bearing debts and non-business liabilities equals total value of shareholders' equity. The discount rate here is 14.93%. After tests, there are no impairments of the goodwill arising from purchasing stock right of Guangyao Haima.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(17) Goodwill (Continued)

(b) Provision for impairment of goodwill (Continued)

The Company calculated Guangzhou Baiyunshan Hospital, a subsidiary of the Company, as a group of assets, on the basis of the free net cash flow in certain years calculated by industry qualification, target market, historical financial data, earnings forecast in next 5 years of Guangzhou Baiyunshan Hospital, management of the Company obtained total value of shareholders' equity using the following method: a sum of the value of business assets which calculated at appropriate discount rate, value of surplus assets and value of non-business assets minus interest-bearing debts and non-business liabilities equals total value of shareholders' equity. The discount rate here is 12.81%.

After tests, there are no impairments of the goodwill arising from purchasing stock right of Guangzhou Baiyunshan Hospital.

(18) Long-term prepaid expenses

	31 December 2016	Current increase	Current amortization	Current other movement	31 December 2017
Building decoration and fixtures	20,489,491.84	14,558,527.52	6,511,461.24	4,812,719.16	33,349,277.28
GMP improvement fee	2,958,511.59	1,760,458.39	958,808.34	–	3,760,161.64
Maintaining and decoration for outer wall of raw-materials warehouse	326,666.75	–	111,999.96	–	214,666.79
Installation for electric wire of Lishui warehouse	111,055.52	–	111,055.52	–	–
Authentication of AAALAC	192,068.39	–	45,192.60	–	146,875.79
Verify project of building ABC (rectify and reform for houses)	5,487,801.19	–	318,133.44	–	5,169,667.75
Decoration of Tongtai building	3,310,998.28	–	–	(3,310,998.28)	–
Expense for computer system	119,234.80	700,355.75	157,606.46	–	661,984.09
Others	4,943,616.06	3,857,317.90	1,535,200.90	(1,501,720.88)	5,764,012.18
Total	37,939,444.42	20,876,659.56	9,749,458.46	–	49,066,645.52

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(a) Deferred income tax assets that are not offset

	31 December 2017	31 December 2016
Provision for impairment of construction in progress	37,760.16	168,157.94
Provision for declines in values of inventories	4,230,883.10	4,567,617.66
Provision for bad debts	24,860,987.73	23,202,539.89
Long-term prepaid expenses	73,617.86	32,819.69
Provision for impairment of fixed assets	1,236,103.30	2,871,576.11
Difference arising from accounting and tax depreciations of fixed assets	1,622,838.20	1,968,924.35
Financial assets held for trading	95,447.63	–
Movement of fair value for financial assets available-for-sale	28,553,459.00	–
Provision for impairment of available-for-sale financial assets	587,551.22	587,551.22
Employee benefits payable	8,409,961.32	10,082,002.00
Provisions	28,281,517.30	15,031,508.28
Other payables	198,774,920.91	278,416,886.29
Deferred income	17,555,957.88	17,957,060.69
Deductible tax losses	41,207,417.36	29,471,228.92
Difference arising from accounting and tax amortizations of intangible assets	191,864.20	267,985.07
Elimination of unrealized profits arising from the inter-company transaction	31,854,782.14	31,725,375.71
Others	1,275,670.00	807,948.95
	388,850,739.31	417,159,182.77

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(b) Deferred income tax liabilities that are not offset

	31 December 2017	31 December 2016
Other receivables-rental	–	496,781.73
Changes in fair value of financial assets held for trading	–	77,212.30
Changes in fair value of available-for-sale financial assets	17,416,047.68	2,267,921.73
Depreciation balance of fixed assets revaluation	280,931.40	295,074.00
Difference arising from accounting and tax depreciations of fixed assets	110,824.35	127,590.07
Compensation from relocation	53,241,222.90	47,457,299.79
Amortization balance of intangible assets revaluation	1,220,053.20	1,254,912.00
Other receivables-distribution of income	42,428,621.00	24,512,466.00
Others	90,563.64	92,102.53
	114,788,264.17	76,581,360.15

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

	31 December 2017	31 December 2016
Deductible temporary differences	729,081.54	45,652,907.61
Deductible tax losses	158,967,809.87	128,623,767.45
	159,696,891.41	174,276,675.06

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

	31 December 2017	31 December 2016
2017	–	11,583,901.80
2018	13,108,321.95	24,726,169.44
2019	25,792,065.32	25,792,065.32
2020	31,102,837.77	31,102,837.77
2021	35,399,376.92	35,418,793.12
2022	53,565,207.91	–
	158,967,809.87	128,623,767.45

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

	31 December 2017	31 December 2016
Provision of impairment of construction in progress	251,734.38	1,121,052.88
Provision for declines in values of inventories	22,535,115.85	23,689,651.32
Provision for bad debts	107,888,189.11	100,499,470.33
Long-term prepaid expenses	490,785.73	218,797.93
Provision of impairment of fixed assets	8,092,295.32	18,871,677.90
Difference arising from accounting and tax depreciations of fixed assets	10,818,921.31	11,514,000.38
Financial assets held for trading	636,317.57	–
Movement of fair value for financial assets available-for-sale	190,356,393.34	–
Provision for impairment of available-for-sale financial assets	3,610,204.88	3,610,204.88
Employee benefits payable	54,161,289.28	58,682,808.73
Other payables	1,024,052,498.80	1,370,684,511.76
Deferred income	113,573,052.60	116,994,141.52
Deductible tax losses	210,484,213.33	190,054,170.81
Elimination of unrealized profits arising from the inter-company transaction	130,409,689.36	128,608,754.50
Difference arising from accounting and tax amortizations of intangible assets	1,279,094.64	1,589,876.35
Provisions	188,543,448.64	100,210,055.19
Others	8,504,466.68	5,386,326.35
	2,075,687,710.82	2,131,735,500.83

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

	31 December 2017	31 December 2016
Other receivables – rental	–	3,311,878.17
Changes in fair value of financial assets held for trading	–	514,748.64
Changes in fair value of available-for-sale financial assets	115,864,206.59	14,350,072.78
Depreciation balance of fixed assets revaluation	1,872,876.00	1,967,160.00
Difference arising from accounting and tax depreciations of fixed assets	738,829.02	850,600.48
Compensation from relocation amortization balance of intangible assets revaluation	316,040,628.57	277,481,141.16
Other receivables-distribution of income	8,133,688.00	8,366,080.00
Others	169,714,484.00	98,049,864.00
	603,757.57	614,016.87
	612,968,469.75	405,505,562.10

(20) Other non-current assets

	31 December 2017	31 December 2016
Specialized Technologies for medical manufacture	–	35,970,282.97

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

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(21) Provision for impairment of assets

	31 December 2016	Current increase	Other decrease			31 December 2017
			Reversal	Written-off	Other decrease	
Provision for bad debts	100,886,480.70	17,696,725.01	4,040,380.62	861,301.39	998,121.14	112,683,402.56
Provision for declines in value of inventories	28,185,639.16	11,061,698.81	6,610,075.69	5,915,630.43	-	26,721,631.85
Provision for impairment of available for sale financial assets	4,553,551.23	-	-	-	-	4,553,551.23
Provision for impairment of fixed assets	22,226,847.57	1,855,000.39	-	12,634,382.97	-	11,447,464.99
Provision for impairment of construction in progress	1,121,052.88	-	-	869,318.50	-	251,734.38
Provision for impairment of intangible assets	1,036,916.04	-	-	-	-	1,036,916.04
Provision for impairment of goodwill	475,756.92	-	-	-	-	475,756.92
	<u>158,486,244.50</u>	<u>30,613,424.21</u>	<u>10,650,456.31</u>	<u>20,280,633.29</u>	<u>998,121.14</u>	<u>157,147,457.97</u>

(22) Short-term borrowings

	31 December 2017	31 December 2016
Credit borrowings	-	50,000.00
Discount of commercial acceptance notes	11,500,000.00	15,000,000.00
Inward documentary bills	-	10,165,424.88
	<u>11,500,000.00</u>	<u>25,215,424.88</u>

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

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(23) Notes payable

	31 December 2017	31 December 2016
Bank acceptance notes	248,748,721.95	277,890,397.46
Commercial acceptance notes	3,477,662.87	42,921,124.52
	252,226,384.82	320,811,521.98

As at 31 December 2017, notes payable amounted to RMB252,226 thousand were expected to be due within 1 year (as at 31 December 2016: RMB320,812 thousand).

(24) Accounts payable

(a) Details of accounts payable:

	31 December 2017		31 December 2016	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	2,625,069,157.32	93.68%	2,073,358,531.89	91.45%
Over 1 year	177,131,538.96	6.32%	193,920,535.98	8.55%
	2,802,200,696.28	100.00%	2,267,279,067.87	100.00%

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(24) Accounts payable (Continued)

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

Item	Ending balance	Reason of outstanding or transfer
Supplier 1	47,405,089.60	Involving litigation, detail refers to Note 16(1)(a)(i)
Supplier 2	22,576,000.00	Involving litigation, detail refers to Note 16(1)(a)(i)
Supplier 3	18,440,000.00	Involving litigation, detail refers to Note 16(1)(a)(i)
	88,421,089.60	

(25) Advances from customers

- (a) Details of advances from customers:

	31 December 2017		31 December 2016	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	1,848,907,575.86	97.88%	1,519,493,443.20	97.85%
Over 1 year	39,984,901.11	2.12%	33,392,288.20	2.15%
	1,888,892,476.97	100.00%	1,552,885,731.40	100.00%

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

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(26) Employee benefits payable

	31 December 2016	Current increase	Current decrease	31 December 2017
1. Short-term employee benefits	543,036,794.16	3,030,334,456.08	2,954,968,915.90	618,402,334.34
Wages and salaries, bonuses, allowances and subsidies	517,312,049.34	2,582,419,843.10	2,504,546,213.61	595,185,678.83
Including: Service fee	86,163,929.68	408,188,288.84	395,596,066.46	98,756,152.06
Staff welfare	–	115,245,713.89	115,245,713.89	–
Including: Funds of bonus and welfare of Foreign Invested Enterprises	–	–	–	–
Social insurances	285,454.63	121,861,274.11	121,882,458.42	264,270.32
Including: Medical insurance	291,371.42	108,565,396.71	108,585,670.87	271,097.26
Work injury insurance	1,850.24	5,101,936.02	5,101,305.67	2,480.59
Maternity insurance	(7,767.03)	8,193,941.38	8,195,481.88	(9,307.53)
Housing funds	217,189.70	151,236,126.82	151,473,232.82	(19,916.30)
Labor union funds	5,019,977.19	29,064,285.51	28,995,627.26	5,088,635.44
Employee education funds	3,735,346.18	14,704,298.19	14,589,087.92	3,850,556.45
Non-monetary welfare	–	–	–	–
Housing allowance	15,048,942.84	15,733,317.55	16,965,253.46	13,817,006.93
Staff reward and welfare funds	–	–	–	–
Short-term paid absences	–	29,525.39	29,525.39	–
Other short-term benefits	1,417,834.28	40,071.52	1,241,803.13	216,102.67
2. Post-employment benefits	3,486,586.71	284,342,990.68	275,321,101.11	12,508,476.28
Defined contribution plans	3,486,586.71	284,342,990.68	275,321,101.11	12,508,476.28
Including: Basic pension insurance	172,245.61	197,494,679.60	197,545,360.27	121,564.94
Unemployment	4,341.10	7,000,475.63	6,975,489.46	29,327.27
Annuity	3,310,000.00	62,374,400.94	54,299,509.70	11,384,891.24
Others	–	17,473,434.51	16,500,741.68	972,692.83
Defined benefits plans	–	–	–	–
3. Termination benefits	–	2,034,997.81	1,774,997.81	260,000.00
Compensation for lay-off	–	2,034,997.81	1,774,997.81	260,000.00
Others	–	–	–	–
4. Other long-term employee benefits	–	–	–	–
Long-term paid absences	–	–	–	–
Long-term disability benefits	–	–	–	–
Long-term profit-sharing scheme	–	–	–	–
Other long-term benefits	–	–	–	–
	546,523,380.87	3,316,712,444.57	3,232,065,014.82	631,170,810.62

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(26) Employee benefits payable (Continued)

As at 31 December 2017, employee benefits payable mainly include the wages, bonus and service fee of December 2017 which were accrued but have not been paid. No defaulted payables are included in the employee benefits and the balance is estimated to be used up in year 2018.

(27) Taxes payable

	31 December 2017	31 December 2016
VAT	44,901,789.32	94,792,580.01
Business tax	–	33,574.53
City maintenance and construction tax	3,720,978.49	6,174,412.56
Education surcharge	1,642,194.87	2,647,120.75
Local education surcharge	1,016,472.23	1,767,074.63
Enterprise income tax	125,580,026.87	267,270,554.20
Individual income tax	9,479,261.76	8,734,156.41
Real-estate tax	11,057,545.06	1,496,755.63
Land use tax	7,468,053.71	113,683.34
Stamp duty	1,594,305.76	1,161,430.85
Others	1,448.87	812.48
	206,462,076.94	384,192,155.39

(28) Interest payable

Item	31 December 2017	31 December 2016
Interest payable of long-term borrowings	253,966.40	257,658.10

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(29) Dividends payable

	31 December 2017	31 December 2016
Investor		
Public shares	477,407.10	224,254.46
BYS Group	45.01	45.01
Minority shareholders	44,968,565.68	57,077,241.55
	45,446,017.79	57,301,541.02

(30) Other payables

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

	31 December 2017	31 December 2016
Within 1 year	2,213,377,523.13	2,102,824,489.13
Over 1 year	186,016,954.37	165,157,031.56
	2,399,394,477.50	2,267,981,520.69

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

	31 December 2017	31 December 2016
Deposits	164,129,875.02	103,478,187.84
Technology development expenses	450,896.78	334,955.10
Rental expenses	3,748,736.05	1,248,612.55
Payables to third parties	220,462,889.83	140,980,833.21
amount due to employees	10,189,611.56	21,515,364.61
Payables to related parties (Note 12)	48,866,587.27	36,163,673.93
accruals for purchase of fixed assets	26,776,270.31	21,525,224.68
Sales rebate	624,591,585.51	849,082,213.00
accrued expenses	1,260,413,310.58	1,063,800,929.12
Others	39,764,714.59	29,851,526.65
	2,399,394,477.50	2,267,981,520.69

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(30) Other payables (Continued)

(c) Details of accrued expenses:

	31 December 2017	31 December 2016
Rental expenses	10,084,679.88	4,522,268.70
Agent fees	11,765,279.49	701,560.82
Advertising and promotional expenses	169,831,180.97	732,272,953.34
Utilities	6,982,581.16	7,392,034.18
Transportation expenses	151,285,018.17	153,637,191.96
Conference expenses	4,150,209.40	4,832,154.62
Research and development expenses	17,287,664.24	29,014,068.19
Marketing expenses	809,551,481.82	27,936,624.70
Travelling expenses	21,656,537.14	15,104,647.64
Consulting expenses	–	1,235,000.00
Trademark expenses	3,900,000.00	3,900,000.00
Others	53,918,678.31	83,252,424.97
	1,260,413,310.58	1,063,800,929.12

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

(31) Current portion of non-current liabilities

Category of borrowings	31 December 2017	31 December 2016
Long-term borrowings due within 1 year	31,307,337.23	–

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

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(32) Long-term borrowings

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

(33) Long-term payables

	31 December 2017	31 December 2016
State fund	16,902,425.90	17,208,759.82
Department of Finance of Guangxi Zhuang Autonomous Region	2,264,426.47	2,264,426.47
State Pharmaceutical administration	305,000.00	305,000.00
Others	699,957.36	780,597.36
	20,171,809.73	20,558,783.65

(34) Payables for specific projects

	31 December 2016	Current increase	Current decrease	31 December 2017	Reason
Compensation of relocation due to policies	16,842,773.80	–	1,887,918.41	14,954,855.39	Compensation of relocation due to policies

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(35) Provisions

	31 December 2017	31 December 2016	Reason
Provisions of rejection on goods	500,191.19	500,191.19	Estimated by the disposal assets agreement, both parties have not yet settled.
Employee benefits from restructuring of Guangyao General Institute	51,241,106.85	52,344,808.84	Note 1
Unemployed fee for relocation of Qi Xing	3,607,287.28	6,540,873.12	Note 2
Economic compensation for staffs of Jing Xiu Tang	–	1,660,000.00	
	55,348,585.32	61,045,873.15	

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

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

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(36) Deferred income

Item	31 December 2016	Current increase of grants	Current revenue from non-operation	Current charge into other income	Current offset to costs	For cooperation	Other movement	31 December 2017	Reason
Government grants related to assets:	127,075,005.02	30,255,436.67	5,046,566.46	21,195,253.87	1,737,085.35	824,000.00	2,280,413.10	130,807,949.11	
Including:									
Technology funds granted by government	74,403,677.31	12,489,300.00	-	15,719,489.26	-	824,000.00	(13,177,201.92)	57,172,286.13	Received appropriation from government
Relocation compensation	1,625,989.81	-	365,644.44	-	-	-	(492,682.55)	767,662.82	Received appropriation from government
Financial discount	1,737,085.35	-	-	-	1,737,085.35	-	-	-	Received appropriation from government
Special fund of environmental protection	3,227,672.55	-	10,687.50	1,046,508.32	-	-	492,682.55	2,663,159.28	Received appropriation from government
Innovating platform construction	12,746,966.62	261,836.67	-	2,063,567.79	-	-	1,834,927.65	12,780,163.15	Received appropriation from government
Land support fund from government	9,438,741.01	16,706,300.00	-	-	-	-	-	26,145,041.01	Received appropriation from government
Support fund for industrial development	18,000,000.00	-	-	965,586.12	-	-	-	17,034,413.88	Received appropriation from government
Others	5,894,872.37	798,000.00	4,670,234.52	1,400,102.38	-	-	13,622,687.37	14,245,222.84	Received appropriation from government
Government grants related to income:	485,009,157.56	116,069,229.48	54,726,375.51	90,580,642.39	56,596,397.97	443,900.00	(2,648,651.31)	396,082,419.86	
Including:									
Technology funds granted by government	65,464,151.84	75,527,456.65	-	63,308,279.42	-	443,900.00	(290,486.21)	76,948,942.86	Received appropriation from government
Special fund of technology exports	94,962.06	-	-	-	-	-	-	94,962.06	Received appropriation from government
Medical industrial research project	9,488,092.34	6,930,763.33	-	8,813,472.10	-	-	(2,033,929.64)	5,571,453.93	Received appropriation from government
Special fund of energy-saving improvement	696,150.00	-	-	12,600.00	-	-	-	683,550.00	Received appropriation from government
Special fund of innovative firms	3,650.68	-	-	-	-	-	(3,650.68)	-	Received appropriation from government
Compensation of relocation	407,346,436.46	-	38,766,556.51	-	57,190,147.97	-	-	311,389,731.98	Received appropriation from government
Enterprise development fund	-	27,239,819.00	15,959,819.00	11,280,000.00	-	-	-	-	Received appropriation from government
Others	1,915,714.18	6,371,190.50	-	7,166,290.87	(593,750.00)	-	(320,584.78)	1,393,779.03	Received appropriation from government
Total	612,084,162.58	146,324,666.15	59,772,941.97	111,775,896.26	58,333,483.32	1,267,900.00	(368,238.21)	526,890,368.97	

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(37) Long-term employee benefits payable

Item	31 December 2017	31 December 2016
Post-employment benefits – Provision for long-term service bonus	326,532.02	316,733.72

(38) Other non-current liabilities

Item	31 December 2017	31 December 2016
Confirmed the obligations of investment on Southern Antineoplastic Company	50,225,000.00	–

A subsidiary of the Company has acquired 50% equity of Southern Antineoplastic Company and fulfilled their obligations in accordance with the agreement and articles of association.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(39) Share capital

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

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(39) Share capital

	31 December 2015		Current increase (+) decrease (-)				31 December 2016		
	amount	% of the total balance	Issued shares	Stock distribution	Capitalizing of capital reserves	Others	Subtotal	amount	Ratio (%)
Shares subject to selling restrictions -									
State-owned shares	-	-	-	-	-	-	-	-	-
State-owned legal person shares	34,839,645.00	2.70	236,315,006.00	-	-	(34,839,645.00)	201,475,361.00	236,315,006.00	14.54
Other domestic shares	-	-	98,396,693.00	-	-	-	98,396,693.00	98,396,693.00	6.05
Including:									
Domestic non-state-owned legal person shares	-	-	-	-	-	-	-	-	-
Domestic natural person shares	-	-	-	-	-	-	-	-	-
Others	-	-	98,396,693.00	-	-	-	98,396,693.00	98,396,693.00	6.05
Foreign shares	-	-	-	-	-	-	-	-	-
Including:									
Foreign legal person shares	-	-	-	-	-	-	-	-	-
Foreign natural person shares	-	-	-	-	-	-	-	-	-
Shares subject to selling restrictions - subtotal	34,839,645.00	2.70	334,711,699.00	-	-	(34,839,645.00)	299,872,054.00	334,711,699.00	20.59
Shares subject to no selling restrictions:									
RMB ordinary shares	1,036,339,605.00	80.27	-	-	-	34,839,645.00	34,839,645.00	1,071,179,250.00	65.88
Foreign shares listed in the PRC	-	-	-	-	-	-	-	-	-
Foreign shares listed out of the PRC	219,900,000.00	17.03	-	-	-	-	-	219,900,000.00	13.53
Others	-	-	-	-	-	-	-	-	-
Shares subject to no selling restrictions - subtotal	1,256,239,605.00	97.30	-	-	-	34,839,645.00	34,839,645.00	1,291,079,250.00	79.41
Total share capital	1,291,079,250.00	100.00	334,711,699.00	-	-	-	334,711,699.00	1,625,790,949.00	100.00

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(40) Capital surplus

	31 December 2016	Current increase	Current decrease	31 December 2017
Share premium	9,058,363,544.42	–	–	9,058,363,544.42
Other capital surplus	816,809,040.26	5,373.75	–	816,814,414.01
Including: Transfer of capital surplus recognized under the previous accounting system	24,955,836.66	–	–	24,955,836.66
	<u>9,875,172,584.68</u>	<u>5,373.75</u>	<u>–</u>	<u>9,875,177,958.43</u>

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

Reason of the movement of capital surplus in the current period: Xing Zhu, a subsidiary of the Company, received additional share at a premium amounted to RMB7,165 from minority shareholders in the current period, and capital surplus amounted to RMB5,373.75 was recognized by shareholding ratio.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(41) Other comprehensive income

Item	Opening balance	Current amount					Ending balance
		Current pre-tax	Less: profit or loss transferred by other comprehensive income at last period	Less: income tax	After-tax attributable to parent company	After-tax attributable to minority shareholders	
1. Items will not be classified into profit or loss at following accounting period	1,448,181.81	-	-	-	-	-	1,448,181.81
Including: Portion of items will not be classified into profit or loss when under equity method	1,448,181.81	-	-	-	-	-	1,448,181.81
2. Items will be classified into profit or loss at following accounting period.	8,339,885.16	(93,394,816.76)	-	(13,406,378.03)	(79,995,005.24)	6,566.51	(71,655,120.08)
Including: Portion of items will be classified into profit or loss when under equity method	196,496.73	20,429.81	-	-	20,429.81	-	216,926.54
Profit or loss arising from the changes in fair value of available for sale financial assets	12,387,506.92	(89,175,424.93)	-	(13,406,378.03)	(75,775,613.41)	6,566.51	(63,388,106.49)
Differences arising from translation of foreign currency	(4,244,118.49)	(4,239,821.64)	-	-	(4,239,821.64)	-	(8,483,940.13)
Total other comprehensive income	9,788,066.97	(93,394,816.76)	-	(13,406,378.03)	(79,995,005.24)	6,566.51	(70,206,938.27)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(42) Surplus reserve

	31 December 2016	Current increase	Current decrease	31 December 2017
Statutory surplus reserve	933,108,801.48	102,727,774.44	–	1,035,836,575.92
Discretionary surplus reserve	118,925,617.49	–	–	118,925,617.49
	<u>1,052,034,418.97</u>	<u>102,727,774.44</u>	<u>–</u>	<u>1,154,762,193.41</u>

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

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

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

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(43) Undistributed profits

	For the year ended 31 December 2017	For the year ended 31 December 2016
Undistributed profits at the beginning of the year (before adjustments)	4,782,293,720.24	3,883,510,490.48
Adjustments of undistributed profits at the beginning of the year (add: positive; Less: negative)	—	—
Undistributed profits at the beginning of the year (after adjustments)	4,782,293,720.24	3,883,510,490.48
Add: Net profit for current period	2,061,651,929.01	1,508,032,671.07
Less: appropriation for surplus reserve	102,727,774.44	121,512,156.61
Less: Distributed dividends	455,221,465.72	487,737,284.70
Less: Others	—	—
Undistributed profits at the end of period	6,285,996,409.09	4,782,293,720.24

- (a) As at 31 December 2017, surplus reserves of the Company's subsidiaries amounted to RMB753,467 thousand was included in undistributed profits (as at 31 December 2016: RMB592,865 thousand).
- (b) Pursuant to the resolution of extraordinary shareholders meeting of 2016 on 23 June 2017, the Company distributed cash dividends amounted to RMB455,221 thousand which was calculated by issued shares amounted to 1,625,790,949 to all shareholders, total distributed cash dividends was RMB0.28 (include tax) per share.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(44) Minority interests

Investee	Investment relationship with the Company	31 December 2017	31 December 2016
Xing Qun	Direct subsidiary	25,526,996.16	22,505,216.93
Guangzhou Chen Li Ji Great Health Industry Co., Ltd.	Indirect subsidiary	4,488,081.92	–
Guangzhou Han Fang	Direct subsidiary	77,717.50	69,558.44
Jing Xiu Tang	Direct subsidiary	19,231,429.97	17,633,764.53
Pan Gao Shou	Direct subsidiary	26,819,776.09	24,683,887.64
Tibet Lin Zhi Guangyao Development Co., Ltd.	Indirect subsidiary	168,374.96	167,591.71
Guangxi Ying Kang	Direct subsidiary	18,588,095.67	16,358,401.99
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd.	Indirect subsidiary	4,072,239.87	3,289,403.54
Yi Gan	Direct subsidiary	(682,790.11)	278,706.31
Xing Zhu	Direct subsidiary	23,424,278.65	17,860,472.70
Tian Xin	Direct subsidiary	43,732,326.89	34,222,695.43
Guang Hua	Direct subsidiary	29,856,585.41	20,573,323.98
Baiyunshan Pharmaceutical Technology	Direct subsidiary	108,917,961.61	83,570,171.43
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	195,877.25	109,389.22
Wang Lao Ji Dazhai Beverage Co., Ltd.	Indirect subsidiary	15,789,387.84	–
Jingyu Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	2,396,617.91	2,468,409.89
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	2,275,733.58	2,216,957.28
Heilongjiang Sen Gong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	1,497,651.56	1,351,437.12
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	1,917,707.38	1,469,848.81
Zhejiang Guang Kang Hospital Co., Ltd.	Indirect subsidiary	23,010,593.25	20,187,323.86
Guang Hua Health	Indirect subsidiary	464,823.85	236,160.45
Guangzhou Baiyunshan Hospital	Indirect subsidiary	38,380,063.85	37,565,360.55
WLJ Catering	Indirect subsidiary	1,474,378.45	1,892,626.60
		391,623,909.51	308,710,708.41

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(45) Revenue and cost of operation

	For the year ended 31 December 2017		
	Principal operation	Other operation	Subtotal
Revenue	20,789,416,101.26	164,809,088.27	20,954,225,189.53
Cost of operation	13,023,397,768.72	39,831,579.56	13,063,229,348.28
Gross profit	7,766,018,332.54	124,977,508.71	7,890,995,841.25

	For the year ended 31 December 2016		
	Principal operation	Other operation	Subtotal
Revenue	19,875,179,176.98	160,502,322.39	20,035,681,499.37
Cost of operation	13,372,297,606.33	39,765,289.70	13,412,062,896.03
Gross profit	6,502,881,570.65	120,737,032.69	6,623,618,603.34

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

	Revenue of principal operation		Cost of principal operation	
	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ended 31 December 2016
Great Southern TCM	7,795,967,320.80	6,906,387,390.92	4,256,274,924.46	3,893,998,424.65
Great Health	8,573,656,297.09	7,769,431,121.54	4,694,132,517.36	4,601,044,716.98
Great Commerce	4,328,826,261.87	5,148,330,618.04	4,002,443,482.09	4,839,248,695.98
Other	90,966,221.50	51,030,046.48	70,546,844.81	38,005,768.72
	20,789,416,101.26	19,875,179,176.98	13,023,397,768.72	13,372,297,606.33

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(45) Revenue and cost of operation (Continued)

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

	Revenue of principal operation		Cost of principal operation	
	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ended 31 December 2016
Southern China	11,487,792,037.27	10,819,594,823.69	7,599,784,427.84	7,645,736,840.02
Eastern China	3,642,066,823.73	3,563,652,859.23	2,083,507,350.23	2,291,061,377.58
Northern China	2,098,027,979.04	2,262,849,495.94	1,132,840,394.01	1,310,359,644.10
Northeast China	387,187,836.18	335,257,327.86	218,361,767.80	206,754,742.02
Southwest China	2,468,998,109.64	2,194,768,076.04	1,598,859,047.48	1,495,606,618.93
Northwest China	654,256,814.80	629,943,001.02	340,150,855.44	355,340,328.79
Other countries	51,086,500.60	69,113,593.20	49,893,925.92	67,438,054.89
	20,789,416,101.26	19,875,179,176.98	13,023,397,768.72	13,372,297,606.33

(c) Top five of the revenue of the Group amounted to RMB2,402,240 thousand in total (For the year ended 31 December 2016: RMB2,592,605 thousand), which accounts for 11.56% of the total revenue of the Group (For the year ended 31 December 2016: 13.04%).

	Revenue of the principal operation	Percentage of the total revenue of the principal operation of the Group
Customer 1	1,019,758,204.85	4.91%
Customer 2	562,242,250.42	2.70%
Customer 3	326,372,536.13	1.57%
Customer 4	209,169,141.32	1.01%
Customer 5	284,697,602.61	1.37%
	2,402,239,735.33	11.56%

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(45) Revenue and cost of operation (Continued)

(d) Revenue from other operation

	For the year ended 31 December 2017	For the year ended 31 December 2016
Leases of assets	79,540,199.79	83,341,808.19
Sales of materials	1,858,165.61	1,197,965.26
Trademark fee income	15,883,059.86	12,282,912.62
Consulting fee income	1,500,523.95	3,711,613.33
Medicine slotting fee income	776,218.31	465,968.26
Technology services income	1,381,812.54	282,319.82
Utilities expense collected on behalf	8,432,223.27	11,350,575.24
Management fee	9,571,161.05	6,865,767.18
Labor income	3,051,211.69	1,166,386.22
License fee	30,586,953.27	25,062,055.66
Others	12,227,558.93	14,774,950.61
	164,809,088.27	160,502,322.39

(e) Expenses from other operation

	For the year ended 31 December 2017	For the year ended 31 December 2016
Depreciation of assets leased out	16,969,230.36	17,176,070.34
Cost of materials sold	35,310.28	630,558.41
Service fee for technology	2,466,115.03	72,863.64
Utilities expense collected on behalf	10,145,844.16	12,678,454.30
Labor fee	4,451,745.47	4,056,433.72
Management fee	904,846.13	72,700.34
Others	4,858,488.13	5,078,208.95
	39,831,579.56	39,765,289.70

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(46) Taxes and surcharges

	For the year ended 31 December 2017	For the year ended 31 December 2016
Business tax	–	3,685,687.89
City maintenance and construction tax	85,512,430.13	79,565,834.69
Education surcharge	36,923,466.75	34,415,152.91
Local education surcharge	24,610,692.58	22,916,119.16
Real-estate tax	26,259,030.31	22,461,303.90
Vehicle and vessel use tax	196,111.72	564,594.46
Land use tax (fee)	8,849,122.21	7,807,153.66
Stamp duty	21,421,427.29	17,604,037.18
Others	316,523.04	289,273.14
	204,088,804.03	189,309,156.99

Basis of calculation: refer to Note 4

(47) Selling and distribution expenses

	For the year ended 31 December 2017	For the year ended 31 December 2016
Employee benefit	1,702,286,828.76	1,722,045,917.36
Sales service fee	1,279,604,585.41	806,928,622.76
Travel expenses	130,483,954.15	148,157,757.14
Office expenses	19,044,765.06	18,431,753.12
Freight and miscellaneous charges	458,579,746.26	497,022,503.90
Rental expenses	31,644,960.58	19,587,154.57
Conference expenses	46,435,688.58	42,622,105.80
Advertising and promotion fees	567,035,137.63	511,152,206.86
Consulting fees	12,381,167.15	5,465,864.57
Depreciation charges	2,874,346.97	3,104,655.26
Others	35,578,172.91	49,070,948.85
	4,285,949,353.46	3,823,589,490.19

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(48) General and administrative expenses

	For the year ended 31 December 2017	For the year ended 31 December 2016
Employee benefit	742,789,551.41	656,477,090.12
Insurance premium	2,641,589.61	2,788,052.96
Depreciation charges	51,531,515.74	52,371,382.36
Utilities	10,844,554.57	10,427,918.37
Administrative expenses	44,014,041.85	38,789,989.72
Travelling expenses	21,377,406.36	14,694,617.90
Freight and miscellaneous charges	14,997,913.64	15,800,365.72
Repairing expenses	21,362,249.05	15,399,045.81
Rental expenses	36,965,594.95	37,847,526.80
Conference expenses	5,191,997.30	4,906,348.24
Research and development expenses	373,287,521.71	330,367,834.40
Taxation charges	–	12,860,034.65
amortization	31,816,477.32	27,896,685.59
Professional service fees	19,667,982.61	12,650,071.10
Including: audit fees	2,553,000.00	2,443,000.00
Consulting fees	6,318,727.68	5,783,774.20
Trademark License fees	105,449,398.35	93,919,705.53
Others	91,325,986.78	106,753,869.00
	1,579,582,508.93	1,439,734,312.47

(49) Financial expenses

	For the year ended 31 December 2017	For the year ended 31 December 2016
Interest expenses	1,364,023.09	16,657,530.56
Discount interest expenses of notes	5,757,678.99	4,026,530.44
Interest income	(218,821,732.64)	(122,186,583.37)
Exchange (gains)/losses	(1,758,873.67)	917,249.77
Bank charges	2,680,535.69	3,710,856.84
other	207,069.10	354,156.79
	(210,571,299.44)	(96,520,258.97)

The interest expenses for the year ended 31 December 2017 and for the year ended 31 December 2016 is the last term of interest on borrowings which repayment date within 5 years.

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(50) Losses on impairment of assets

	For the year ended 31 December 2017	For the year ended 31 December 2016
Losses for bad debts	13,656,344.39	(2,719,705.07)
Losses for declines in values of inventories	4,451,623.12	9,448,598.91
Losses for impairment of fixed assets	1,855,000.39	–
	19,962,967.90	6,728,893.84

(51) Profit arising from changes in fair value

	For the year ended 31 December 2017	For the year ended 31 December 2016
Gains arising from changes in fair value of listed shares of Zhongzhi	(109,260.90)	(249,161.10)
Gains arising from changes in fair value of listed shares of Harbin Pharmaceutical Group Co., Ltd. held by the Group	(1,041,805.31)	(224,504.56)
	(1,151,066.21)	(473,665.66)

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(52) Investment income

(a) Details of investment incomes:

	For the year ended 31 December 2017	For the year ended 31 December 2016
Investment income from financial assets:		
Investment income in the period of holding of financial assets based on fair value to confirm profit or loss	201,347.70	14,452.60
Investment income in the period of holding of available-for-sale financial assets	13,230,314.11	12,460,498.13
Investment income from the disposal of available-for-sale financial assets	–	(612,913.50)
Income from wealth finance products and structured deposits interest	43,666,279.98	–
	57,097,941.79	11,862,037.23
Income from long-term equity investment:		
Income from long-term equity investment measured by equity method	281,264,687.40	194,459,911.23
	281,264,687.40	194,459,911.23
	338,362,629.19	206,321,948.46

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(53) Other income

Item	Current amount	Prior amount	Related to assets/income
Technology funds granted from government	15,719,489.26	–	Related to assets
Specific funds of environmental protection	1,046,508.32	–	Related to assets
Innovating platform construction	2,063,567.79	–	Related to assets
Enterprise development fund	965,586.12	–	Related to assets
Others	1,400,102.38	–	Related to assets
Subtotal	<u>21,195,253.87</u>	<u>–</u>	
Technology funds granted by government	63,308,279.42	–	Related to income
Medical industrial research project	8,813,472.10	–	Related to income
Special fund of energy-saving improvement	12,600.00	–	Related to income
Enterprise development fund	11,280,000.00	–	Related to income
Others	7,166,290.87	–	Related to income
Subtotal	<u>90,580,642.39</u>	<u>–</u>	
Total	<u>111,775,896.26</u>	<u>–</u>	

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(54) Non-operating income

	For the year ended 31 December 2017	For the year ended 31 December 2016
Government grants	59,772,941.97	496,823,863.14
Penalty income	487,018.84	251,471.14
Sales of scraps	3,937,105.85	4,233,100.22
Waived funds	2,150,627.20	4,151,775.58
Compensation for relocation	2,113,626.18	19,727,059.79
Expatriates benefits	1,953,014.82	5,397,371.30
Gains on damage and scrap of non-current assets	457,099.43	17,866,008.79
Others	5,632,714.24	6,341,892.34
	76,504,148.53	554,792,542.30

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(54) Non-operating income (Continued)

Details of government grants are as below:

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Government grants related to assets:		
Including:		
Technology funds granted from government	–	13,585,687.19
Compensation for relocation	365,644.44	365,644.44
Financial discount	–	71,866.92
Specific funds of environmental protection	10,687.50	808,754.82
Innovating platform construction	–	2,265,876.16
Government grants for land	–	811,300.41
Others	4,670,234.52	722,168.64
	5,046,566.46	18,631,298.58
Government grants related to income:		
Including:		
Technology funds granted from government	–	53,318,739.14
Special funds of technology export	–	56,666.66
Special funds for project of medical industrial research	–	9,192,608.63
Special funds of reconstruction for energy saving	–	12,600.00
Special funds of innovating enterprises	–	54,060.08
Compensation of relocation	38,766,556.51	275,726,044.48
Supporting funds for industrial development	15,959,819.00	–
Special funds for “Enterprises Development”	–	130,480,000.00
Others	–	9,351,845.57
	54,726,375.51	478,192,564.56
Total	59,772,941.97	496,823,863.14

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(55) Non-operating expenses

	For the year ended 31 December 2017	For the year ended 31 December 2016
Public welfare donations	7,076,366.67	6,501,128.78
Losses on relocation	–	59,663,128.43
Penalty and overdue fines	1,344,601.25	2,154,142.71
Reward of family planning	238,809.39	247,975.07
Losses on damage and scrap of non-current assets	2,140,625.46	2,622,479.73
Provision for court decision (Note)	26,376,110.52	–
Others	7,322,464.15	5,175,580.86
	44,498,977.44	76,364,435.58

Note: Details refer to Note 16(1)(c)(vi).

(56) Income tax expenses

	For the year ended 31 December 2017	For the year ended 31 December 2016
Current income tax	294,299,835.26	425,896,218.16
Deferred income tax	79,920,680.54	(39,516,814.99)
	374,220,515.80	386,379,403.17

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(56) Income tax expenses (Continued)

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	For the year ended 31 December 2017	For the year ended 31 December 2016
Total profit	2,492,976,136.70	1,945,053,398.34
Income tax expenses calculated at 25%	623,244,034.18	486,263,349.59
Tax effect of different rates applicable to subsidiaries	(215,557,923.60)	(162,646,170.96)
adjust effect for income tax of previous period	(4,037,095.68)	(2,936,163.85)
Gain or loss belong to associates & joint venture	(47,561,894.63)	(29,508,374.06)
Non-taxable revenue	(3,073,017.26)	(2,025,468.61)
Expenses not deductible for tax purposes	7,051,277.45	4,420,280.84
Effect for the balance of deferred income tax in initial stage of changes on tax rate	3,601,678.10	84,252,750.07
Tax effect of deductible temporary differences & deductible loss which are not recognized in the current period	10,911,289.37	8,854,698.28
Tax effect of unrecognized deferred income tax assets	(357,832.13)	(295,498.13)
Income tax expenses	374,220,515.80	386,379,403.17

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(57) Earnings per share

(a) Basic earnings per share

(i) Weighted average basic earnings per share

Weighted average basic earnings per share is calculated by dividing consolidated net profit for the current year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding:

	For the year ended 31 December 2017	For the year ended 31 December 2016
Consolidated net profit attributable to ordinary shareholders of the Company	2,061,651,929.01	1,508,032,671.07
Weighted average number of ordinary shares outstanding:	1,625,790,949	1,402,649,816
Weighted average basic earnings per share	1.268	1.075

(ii) Overall diluted basic earnings per share

Overall diluted basic earnings per share is calculated by dividing consolidated net profit for the current year attributable to ordinary shareholders of the Company by the number of ordinary shares outstanding:

	For the year ended 31 December 2017	For the year ended 31 December 2016
Consolidated net profit attributable to ordinary shareholders of the Company	2,061,651,929.01	1,508,032,671.07
Number of ordinary shares outstanding:	1,625,790,949	1,625,790,949
Overall diluted basic earnings per share	1.268	0.928

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(57) Earnings per share (Continued)

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing adjusted consolidated net profit for the current year attributable to ordinary shareholders by the adjusted weighted average number of ordinary shares outstanding. For the year ended 31 December 2017, there were no potential ordinary shares (For the year ended 31 December 2016: nil), diluted earnings per share is equal to basic earnings per share.

(58) Notes to the cash flow statement

(a) Cash received relating to other operating activities:

	For the year ended 31 December 2017	For the year ended 31 December 2016
Non-operating income	14,123,479.94	35,927,515.28
Other operation income	164,809,088.27	160,502,322.39
Government grants	146,324,666.15	912,458,570.47
Interest income	218,821,732.64	122,186,583.37
Received guarantee and others	60,651,687.18	–
	604,730,654.18	1,231,074,991.51

(b) Cash paid relating to other operating activities:

	For the year ended 31 December 2017	For the year ended 31 December 2016
Cash payments of selling and distribution expenses	2,180,112,251.00	1,932,276,280.43
Cash payments of general and administrative expenses	562,357,630.15	505,390,363.53
Financial expenses – bank charges	2,680,535.69	3,710,856.84
Others	150,984,317.45	107,688,676.75
	2,896,134,734.29	2,549,066,177.55

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(c) Cash received relating to other investing activities:

	For the year ended 31 December 2017	For the year ended 31 December 2016
Net cash received from acquire subsidiaries	–	5,391,663.23
Interest return	30,116.53	3,221.18
Interest received from internal borrowings	619,962.45	2,520,201.23
	650,078.98	7,915,085.64

(d) Cash paid relating to other investing activities:

	For the year ended 31 December 2017	For the year ended 31 December 2016
Business tax and surcharge for payment of entrusted loans and interests of internal borrowings	–	1,990,385.70
	–	1,990,385.70

(e) Cash paid relating to other financing activities:

	For the year ended 31 December 2017	For the year ended 31 December 2016
Withholding tax paid for overseas financing	–	307,223.86
	–	307,223.86

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(59) Supplementary information of cash flow statements

(a) Supplementary information of cash flow statements

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

	For the year ended 31 December 2017	For the six months ended 30 June 2016
Net profit	2,118,755,620.90	1,558,673,995.17
Add: Provision for assets impairment	19,962,967.90	6,728,893.84
Depreciation of fixed assets, and depreciation and amortization of Investment properties	221,130,196.83	218,197,741.96
Amortization of intangible assets	23,815,087.25	17,328,545.18
Amortization of long-term prepaid expenses	9,749,458.46	7,418,478.02
Loss (less: gain) on disposal of fixed assets, intangible assets and other long-term assets	1,683,526.03	(15,243,529.06)
Loss on scrapping of fixed assets	-	-
Loss (less: gain) on changes in fair value	1,151,066.21	473,665.66
Financial expenses (less: increase)	6,829,666.15	22,053,415.38
Investment gain (less: increase)	(338,362,629.19)	(206,321,948.46)
Decrease (less: increase) in deferred tax assets	43,459,704.05	(87,383,128.45)
Increase (less: decrease) in deferred tax liabilities	36,460,976.49	47,866,313.46
Decrease in inventories (less: increase)	(917,263,177.25)	(246,797,412.27)
Decrease of operating receivables (less: increase)	35,182,106.13	(341,768,245.74)
Increase of operating payables (less: decrease)	571,136,155.61	1,563,444,843.38
Others	-	-
Net cash flows from operating activities	1,833,690,725.57	2,544,671,628.07

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

	For the year ended 31 December 2017	For the year ended 31 December 2016
Conversion of debt into capital Convertible company bonds due within one year	–	–
Fixed assets held under finance leases	–	–

(iii) Net movement in cash and cash equivalents

	For the year ended 31 December 2017	For the year ended 31 December 2016
Cash at the end of period	11,495,535,159.70	12,586,469,786.51
Less: Cash at the beginning of year	12,586,469,786.51	3,807,603,553.98
Add: Cash equivalents at end of the period	–	–
Less: Cash equivalents at beginning of the year	–	–
Net movement in cash and cash equivalents	<u>(1,090,934,626.81)</u>	<u>8,778,866,232.53</u>

The cash and cash equivalents do not include housing fund amounted to RMB585 thousand, the pledge funds RMB40,304 thousand, guarantee of notes payable amounted to RMB73,825 thousand, frozen account amounted to RMB84,996 thousand, Guarantee deposit RMB1,974 thousand.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(b) Details of cash and cash equivalents:

	31 December 2017	31 December 2016
Cash	11,495,535,159.70	12,586,469,786.51
Including: Cash on hand	908,829.96	1,137,275.82
Bank deposits that are readily available for payment	11,487,756,822.40	12,579,600,724.86
Other cash that are readily available for payment	6,869,507.34	5,731,785.83
Cash equivalents	—	—
Total cash and cash equivalent	11,495,535,159.70	12,586,469,786.51
Including: Cash and cash equivalents that are restricted	—	—
	31 December 2017	31 December 2016
Balance of cash at bank and on hand	11,697,218,882.84	12,821,007,880.23
Less: Balance of cash at bank and on hand that are restricted to use	201,683,723.14	234,538,093.72
Balance of cash and cash equivalents	11,495,535,159.70	12,586,469,786.51

(60) Assets that restricted for ownership or use right

	31 December 2017	31 December 2016
Cash at bank and on hand	201,683,723.14	234,538,093.72

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(61) Monetary items denominated in foreign currency

(a) Monetary items denominated in foreign currency

	Ending balance	Exchange rate	Converted to RMB
Cash at bank and on hand			10,187,248.89
Including: USD	711,740.20	6.5342	4,650,652.84
HKD	6,623,435.60	0.83591	5,536,596.05
Other receivable			516,764.75
Including: HKD	618,206.21	0.83591	516,764.75
accounts receivable			26,545,890.62
Including: USD	3,309,462.31	6.5342	21,624,688.63
HKD	5,887,239.04	0.83591	4,921,201.99
advances to suppliers			936,351.27
Including: USD	143,300.06	6.5342	936,351.27
Other payable			980,294.04
Including: HKD	1,172,726.77	0.83591	980,294.04
accounts payable			13,890,397.99
Including: USD	1,237,760.71	6.5342	8,087,776.03
HKD	1,209,762.83	0.83591	1,011,252.85
JPY	82,776,793.00	0.057883	4,791,369.11
advances from customers			156,950.18
Including: USD	4,793.92	6.5342	31,324.43
HKD	150,286.22	0.83591	125,625.75
Current portion of non-current liabilities			31,307,337.23
Including: HKD	37,453,000.00	0.83591	31,307,337.23

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

Notes to the Financial Statements

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

6 CHANGES IN SCOPE OF CONSOLIDATION

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

The reasons for the addition of 6 companies in scope of consolidation comparing to the previous period are:

- (a) Chen Li Ji, a subsidiary of the Company, Guangdong Ju Xiang Zhai Great Health Industry Holdings Co., Ltd. and Guangzhou Pu Sheng Da Zheng Pharmaceutical Co., Ltd. established Guangzhou Chen Li Ji Great Health Industry Co., Ltd. in January 2017, capital contribution of Chen Li Ji accounts for 44% of registered capital amounted to RMB15 million. Guangzhou Chen Li Ji Great Health Industry Co., Ltd. is in the scope of consolidation as Chen Li Ji has the control right to it.
- (b) The 2 subsidiaries of the Company including WLJ Great Health and WLJ Investment, established Wang Lao Ji Dazhai Beverages Co., Ltd. with Shanxi Dazhai Beverages Co., Ltd. in January 2017, capital contribution of WLJ Great Health accounts for 40% of registered capital amounted to RMB50 million and capital contribution of WLJ Investment accounts for 20% of registered capital.
- (c) Wang Lao Ji Dazhai Beverages Co., Ltd., a subsidiary of the Company, established Guangzhou Wang Lao Ji Dazhai Beverages Co., Ltd. in February 2017, capital contribution of Wang Lao Ji Dazhai Beverages Co., Ltd. accounts for 100% of registered capital amounted to RMB35 million.
- (d) WLJ Great Health, a subsidiary of the Company, established Guangzhou Wang Lao Ji Great Health E-commercial Co., Ltd. in August 2017, capital contribution of WLJ Great Health accounts for 100% of registered capital amounted to RMB10 million.
- (e) Cai Zhi Lin, a subsidiary of the Company, established Meizhou Guangyao Cai Zhi Lin Pharmaceutical Co., Ltd. in August 2017, capital contribution of Cai Zhi Lin accounts for 100% of registered capital amounted to RMB10 million.
- (f) The Company established Guangzhou Baiyunshan Medical Instrument Investment Company in April 2017, capital contribution of the Company accounts for 100% of registered capital amounted to RMB10 million.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

7 EQUITY IN OTHER ENTITIES

(1) Equity in subsidiaries

(a) Details of the Group:

Name of subsidiary	Principal place of business	Registration place	Nature of business	Registered capital ('0000)	% equity interest held		% voting rights held		Acquisition method
					Direct	Indirect	Direct	Indirect	
Xing Qun	Guangzhou	Guangzhou	Pharmaceutical manufacturing	7,717.00	88.99		88.99		Establishment or Investment
Zhong Yi	Guangzhou	Guangzhou	Pharmaceutical manufacturing	21,741.00	100.00		100.00		Establishment or Investment
Chen Li Ji	Guangzhou	Guangzhou	Pharmaceutical manufacturing	11,285.00	100.00		100.00		Establishment or Investment
Guangzhou Han Fang (1)	Guangzhou	Guangzhou	Pharmaceutical manufacturing	24,606.00	99.96		100.00		Establishment or Investment
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	8,242.00	100.00		100.00		Establishment or Investment
Jing Xiu Tang	Guangzhou	Guangzhou	Pharmaceutical manufacturing	8,623.00	88.40		88.40		Establishment or Investment
Pan Gao Shou	Guangzhou	Guangzhou	Pharmaceutical manufacturing	6,544.00	87.77		87.77		Establishment or Investment
Cai Zhi Lin	Guangzhou	Guangzhou	Pharmaceutical trading	9,192.69	100.00		100.00		Establishment or Investment
Pharmaceutical Import & Export	Guangzhou	Guangzhou	Pharmaceutical trading	2,400.00	100.00		100.00		Establishment or Investment
Guangzhou Bai Di	Guangzhou	Guangzhou	Pharmaceutical manufacturing	13,160.00	100.00		100.00		Establishment or Investment
WJ Great Health	Guangzhou	Guangzhou	Food manufacturing	90,000.00	100.00		100.00		Establishment or Investment
Yi Gan	Guangzhou	Guangzhou	Pharmaceutical manufacturing	2,950.00	60.00		60.00		Establishment or Investment
Xing Zhu	Guangzhou	Guangzhou	Pharmaceutical manufacturing	10,919.00	75.00		75.00		Establishment or Investment
Baiyunshan Medical and Healthcare Industry Company	Guangzhou	Guangzhou	Commercial services	10,650.00	100.00		100.00		Establishment or Investment

Notes to the Financial Statements

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

7 EQUITY IN OTHER ENTITIES (Continued)

(1) Equity in subsidiaries (Continued)

(a) Details of the Group: (Continued)

Name of subsidiary	Principal place of business	Registration place	Nature of business	Registered capital ('0000)	% equity interest held		% voting rights held		Acquisition method
					Direct	Indirect	Direct	Indirect	
Guangzhou Baiyunshan Chemical Medicine Technology Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	6,347.00	100.00		100.00		Establishment or Investment
Baiyunshan Pharmaceutical Marketing	Guangzhou	Guangzhou	Pharmaceutical trading	4,000.00	100.00		100.00		Establishment or Investment
Guangzhou Baiyunshan Medical Instrument Investment Company	Guangzhou	Guangzhou	Commercial services	1,000.00	100.00		100.00		Establishment or Investment
Qi Xing	Guangzhou	Guangzhou	Pharmaceutical manufacturing	10,000.00		100.00		100.00	Establishment or Investment
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd. ⁽¹⁾	Guangzhou	Guangzhou	Pharmaceutical trading	300.00		45.08		51.00	Establishment or Investment
Guangzhou Pan Gao Shou Natural Healthcare Products Co., Ltd. ⁽¹⁾	Guangzhou	Guangzhou	Pharmaceutical manufacturing	1,400.00		87.77		100.00	Establishment or Investment
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	Guangzhou	Guangzhou	Pharmaceutical trading	294.00		100.00		100.00	Establishment or Investment
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Guangzhou	Guangzhou	Pharmaceutical manufacturing	2,000.00		100.00		100.00	Establishment or Investment
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	500.00		100.00		100.00	Establishment or Investment
Guangzhou ao Ma Medical apparatus Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	668.00		100.00		100.00	Establishment or Investment
Tibet Lin Zhi Guangyao Development Co., Ltd ⁽¹⁾	Linzi	Linzi	Pharmaceutical trading	200.00		54.82		55.00	Establishment or Investment

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

7 EQUITY IN OTHER ENTITIES (Continued)

(1) Equity in subsidiaries (Continued)

(a) Details of the Group: (Continued)

Name of subsidiary	Principal place of business	Registration place	Nature of business	Registered capital ('0000)	% equity interest held		% voting rights held		Acquisition method
					Direct	Indirect	Direct	Indirect	
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Wulanchabu	Wulanchabu	Pharmaceutical trading	100.00		80.00		80.00	Establishment or Investment
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Linqi	Linqi	Pharmaceutical trading	200.00		60.00		60.00	Establishment or Investment
Jingyuxian Dong E Guangyao Chinese Raw Medicine Development Co., Ltd (1)	Jingyu	Jingyu	Pharmaceutical trading	300.00		57.50		60.00	Establishment or Investment
Heilongjiang Sen Gong Guangyao Raw Medicine Development Co., Ltd.	Haerbin	Haerbin	Pharmaceutical trading	300.00		60.00		60.00	Establishment or Investment
Wang Lao Ji Great Health Industry (Ya'an) Co., Ltd.	Yaan	Yaan	Pharmaceutical manufacturing	5,000.00		100.00		100.00	Establishment or Investment
Guang Hua Health ⁽¹⁾	Guangzhou	Guangzhou	Pharmaceutical manufacturing	1,000.00		63.36		75.00	Establishment or Investment
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Fengshun	Fengshun	Pharmaceutical trading	200.00		60.00		60.00	Establishment or Investment
Zhejiang Guang Kang Pharmaceutical Co., Ltd.	Shengzhou	Shengzhou	Pharmaceutical manufacturing	4,400.00		51.00		51.00	Establishment or Investment
Tibet Linzhi Baiyunshan Tibetan Health Castle Management Co., Ltd.	Linzhi	Linzhi	Pharmaceutical manufacturing	3,500.00		100.00		100.00	Establishment or Investment
Guangzhou Wang Lao Ji Great Health Enterprise Development Co., Ltd.	Guangzhou	Guangzhou	Food manufacturing	1,000.00		100.00		100.00	Establishment or Investment

Notes to the Financial Statements

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

7 EQUITY IN OTHER ENTITIES (Continued)

(1) Equity in subsidiaries (Continued)

(a) Details of the Group: (Continued)

Name of subsidiary	Principal place of business	Registration place	Nature of business	Registered capital ('0000)	% equity interest held		% voting rights held		Acquisition method
					Direct	Indirect	Direct	Indirect	
Guangzhou Wang Lao Ji Industry Co., Ltd.	Guangzhou	Guangzhou	Food manufacturing	100.00		100.00		100.00	Establishment or Investment
Wang Lao Ji Great Health Industry (Beijing) Sales Co., Ltd.	Beijing	Beijing	Trading	500.00		100.00		100.00	Establishment or Investment
Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd.	Meizhou	Meizhou	Food manufacturing	5,000.00		100.00		100.00	Establishment or Investment
Guangzhou Baiyunshan Xing Qun Health Technology Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	300.00		100.00		100.00	Establishment or Investment
WLJ Investment	Guangzhou	Guangzhou	Commercial services	2,400.00	100.00			100.00	Establishment or Investment
WLJ Catering	Guangzhou	Guangzhou	Commercial services	2,000.00		80.00		80.00	Establishment or Investment
Guangzhou Baiyunshan Jin Ge Male Health Consulting Co., Ltd.	Guangzhou	Guangzhou	Consulting	100.00		100.00		100.00	Establishment or Investment
Guangzhou Chen Lj Ji Great Health Industry Co., Ltd. ⁽²⁾	Guangzhou	Guangzhou	Pharmaceutical manufacturing	1,500.00		44.00		44.00	Establishment or Investment
Wang Lao Ji Dazhai Beverages Co., Ltd.	Yangquan	Yangquan	Food manufacturing	5,000.00		60.00		60.00	Establishment or Investment
Guangzhou Wang Lao Ji Dazhai Beverages Co., Ltd.	Guangzhou	Guangzhou	Food manufacturing	3,500.00		60.00		60.00	Establishment or Investment
Meizhou Guangyao Cai Zhi Lin Pharmaceutical Co., Ltd.	Meizhou	Meizhou	Pharmaceutical manufacturing	1,000.00		100.00		100.00	Establishment or Investment

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(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

7 EQUITY IN OTHER ENTITIES (Continued)

(1) Equity in subsidiaries (Continued)

(a) Details of the Group: (Continued)

Name of subsidiary	Principal place of business	Registration place	Nature of business	Registered capital ('0000)	% equity interest held		% voting rights held		Acquisition method
					Direct	Indirect	Direct	Indirect	
Guangzhou Wang Lao Ji Great Health E-commercial Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	1,000.00		100.00		100.00	Establishment or Investment
Tian Xin	Guangzhou	Guangzhou	Pharmaceutical manufacturing	4,569.00	82.49		82.49		Business combinations involving entities under common control
Guang Hua	Guangzhou	Guangzhou	Pharmaceutical manufacturing	5,529.00	84.48		84.48		Business combinations involving entities under common control
Ming Xing	Guangzhou	Guangzhou	Pharmaceutical manufacturing	10,929.05	100.00		100.00		Business combinations involving entities under common control
Wei Ling	Jiexi	Jiexi	Pharmaceutical manufacturing	1,179.00	100.00		100.00		Business combinations involving entities under common control
Pharmaceutical Technological	Guangzhou	Guangzhou	Pharmaceutical trading	200.00	51.00		51.00		Business combinations involving entities under common control
Baiyunshan Great Health Hotel	Guangzhou	Guangzhou	Hotel	50.00	100.00		100.00		Business combinations involving entities under common control

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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7 EQUITY IN OTHER ENTITIES (Continued)

(1) Equity in subsidiaries (Continued)

(a) Details of the Group: (Continued)

Name of subsidiary	Principal place of business	Registration place	Nature of business	Registered capital ('0000)	% equity interest held		% voting rights held		Acquisition method
					Direct	Indirect	Direct	Indirect	
Guangyao Baiyunshan Hong Kong Company	Hongkong	Hongkong	Pharmaceutical trading	HKD 7,500	100.00		100.00		Business combinations involving entities under common control
Guangyao General Institute	Guangzhou	Guangzhou	Medical research	8,000.00	100.00		100.00		Business combinations involving entities under common control
Guangyao Haima	Guangzhou	Guangzhou	advertising	50.00	100.00		100.00		Business combinations involving entities not under common control
Guangxi Ying Kang	Nanning	Nanning	Pharmaceutical manufacturing	3,188.00	51.00		51.00		Business combinations involving entities not under common control
Guangzhou Baiyunshan Hospital	Guangzhou	Guangzhou	Medical	4,081.60		51.00		51.00	Business combinations involving entities not under common control

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

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

7 EQUITY IN OTHER ENTITIES (Continued)

(2) Equity in joint venture or associates

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

Item	Ending balance/ Current amount	Opening balance/ Prior amount
Joint venture:		
Total carrying amount of investments	1,840,718,609.13	2,182,936,657.68
Calculated by rate of interests held:		
– Net profit	275,058,851.60	185,270,336.27
– Other comprehensive income	20,429.81	(123,024.34)
	275,079,281.41	185,147,311.94
Associates:		
Total carrying amount of investments	167,762,647.92	107,506,805.02
Calculated by rate of interests held:		
– Net profit	13,259,282.01	8,694,153.19
– Other comprehensive income	–	(95,411.50)
	13,259,282.01	8,598,741.69

8 FINANCIAL INSTRUMENT AND RISK

The Group's activities expose it to a variety of financial risks: market risk (mainly currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(1) Market risk

(a) Foreign exchange risk

The Group's major operating activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. Nevertheless, the Group is exposed to foreign exchange risk arising from the recognized assets and liabilities and future transactions denominated in foreign currencies (mainly USD and HKD). The Group's finance department (Group Finance) is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies, in order to minimize the foreign exchange risk. The Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

8 FINANCIAL INSTRUMENT AND RISK (Continued)

(1) Market risk (Continued)

(a) Foreign exchange risk (Continued)

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

	31 December 2017					Total
	USD	HKD	EUR	JPY	GBP	
Financial assets denominated in foreign currency –						
Cash at bank and on hand	4,650,652.84	5,536,596.05	-	-	-	10,187,248.89
Accounts receivable	21,624,688.63	4,921,201.99	-	-	-	26,545,890.62
Advances to suppliers	936,351.27	-	-	-	-	936,351.27
Other receivables	-	516,764.75	-	-	-	516,764.75
	<u>27,211,692.74</u>	<u>10,974,562.79</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,186,255.53</u>
Financial liabilities denominated in foreign currency –						
Accounts payable	8,087,776.03	1,011,252.85	-	4,791,369.11	-	13,890,397.99
Advances from customers	31,324.43	125,625.75	-	-	-	156,950.18
Other payable	-	980,294.04	-	-	-	980,294.04
Current portion of non-current liabilities	-	31,307,337.23	-	-	-	31,307,337.23
	<u>8,119,100.46</u>	<u>33,424,509.87</u>	<u>-</u>	<u>4,791,369.11</u>	<u>-</u>	<u>46,334,979.44</u>

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

8 FINANCIAL INSTRUMENT AND RISK (Continued)

(1) Market risk (Continued)

(a) Foreign exchange risk (Continued)

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

As at 31 December 2017, if RMB had strengthened/weakened by 10% against the USD HKD, EUR and JPY with all other variables held constant, the Group's net profit for the period would have been higher/lower approximately RMB611 thousand (As at 31 December 2016: approximately RMB659 thousand).

(b) Interest rate risk

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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8 FINANCIAL INSTRUMENT AND RISK (Continued)

(1) Market risk (Continued)

(c) Other price risk

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

Item	31 December 2017	31 December 2016
Financial assets based on fair value to confirm profit or loss	4,875,057.73	6,026,123.94
available-for-sale financial assets	886,902,502.31	25,932,151.59
Total	891,777,560.04	31,958,275.53

As at 31 December 2017, under the circumstance of variables unchanged, if the value of equity instruments rise or decline 10%, the Company would increase or decrease net profit amounted to RMB488 thousand, other comprehensive income amounted to RMB75,382 thousand accordingly (As at 31 December 2016: RMB603 thousand, RMB2,196 thousand). Management considers 10% a reasonable range where the value of equity instruments might change in next period.

(2) Credit risk

Credit risk is managed on a group basis. Credit risk mainly arises from cash at bank, accounts receivable, other receivables, notes receivable etc.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on accounts receivable, other receivables and notes receivable. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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8 FINANCIAL INSTRUMENT AND RISK (Continued)

(3) Liquidity risk

Cash flow forecast is performed by each subsidiary of the Group and aggregated by Group Finance. Group Finance monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institution so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

As at 31 December 2017, the financial assets and liabilities of the Group at the balance sheet date are analyzed by their maturity date below at their undiscounted contractual cash flows:

	31 December 2017					Total
	Within 1 year	1-2 years	2-5 years	Over 5 years	Without fixed maturity	
Financial assets -						
Cash at bank and on hand	11,697,218,882.84	-	-	-	-	11,697,218,882.84
Notes receivable	1,702,655,475.08	-	-	-	-	1,702,655,475.08
Accounts receivable	1,195,094,608.99	-	-	-	-	1,195,094,608.99
Other receivables	236,197,285.89	-	-	-	-	236,197,285.89
	14,831,166,252.80	-	-	-	-	14,831,166,252.80
Financial liabilities						
Short-term borrowings	11,500,000.00	-	-	-	-	11,500,000.00
Current portion of non-current liabilities	31,634,633.80	-	-	-	-	31,634,633.80
Notes payable	252,226,384.82	-	-	-	-	252,226,384.82
Accounts payable	2,802,200,696.28	-	-	-	-	2,802,200,696.28
Other payables	2,399,394,477.50	-	-	-	-	2,399,394,477.50
Long-term payables	-	-	-	20,171,809.73	-	20,171,809.73
	5,496,956,192.40	-	-	20,171,809.73	-	5,517,128,002.13
Provision of guarantees	-	-	-	-	-	-

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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8. FINANCIAL INSTRUMENT AND RISK (Continued)

(3) Liquidity risk (Continued)

	31 December 2016					Total
	Within 1 year	1-2 years	2-5 years	Over 5 years	Without fixed maturity	
Financial assets –						
Cash at bank and on hand	12,821,007,880.23	–	–	–	–	12,821,007,880.23
Notes receivable	1,604,767,885.21	–	–	–	–	1,604,767,885.21
Accounts receivable	1,182,866,120.30	–	–	–	–	1,182,866,120.30
Other receivables	227,201,614.85	–	–	–	–	227,201,614.85
	<u>15,835,843,500.59</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>15,835,843,500.59</u>
Financial liabilities						
Short-term borrowings	25,217,408.94	–	–	–	–	25,217,408.94
Long-term borrowings	1,189,498.16	33,852,324.15	–	–	–	35,041,822.31
Notes payable	320,811,521.98	–	–	–	–	320,811,521.98
Accounts payable	2,267,279,067.87	–	–	–	–	2,267,279,067.87
Other payables	2,267,981,520.69	–	–	–	–	2,267,981,520.69
Long-term payables	–	–	–	20,558,783.65	–	20,558,783.65
	<u>4,882,479,017.64</u>	<u>33,852,324.15</u>	<u>–</u>	<u>20,558,783.65</u>	<u>–</u>	<u>4,936,890,125.44</u>
Provision of guarantees	–	–	–	–	–	–

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

	31 December 2017		31 December 2016	
	Bank borrowings	Other borrowings	Bank borrowings	Other borrowings
Last borrowing repay within 5 years	<u>43,134,633.80</u>	<u>–</u>	<u>60,259,231.25</u>	<u>–</u>

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

9 DISCLOSURE OF FAIR VALUE

(a) Financial instruments not measured at fair value

Financial assets and liabilities not measured at fair value mainly represent receivables, short-term borrowings, payables and long-term payables.

The carrying amount of financial assets and liabilities not measured at fair value is a reasonable approximation of their fair values.

(b) Financial instruments measured at fair value

Based on the lowest level input that is significant to the fair value measurement in its entirety, the fair value hierarchy has the following levels:

Level 1: The input value is the unadjusted quotation of the same assets or liabilities that can be obtained on the measurement date in an active market.

Level 2: The input value is which directly or indirectly observable except for the first level of input value.

Level 3: The input value is the unobservable input value of the relevant asset or liability.

The level of fair value measurement results is determined by the lowest level of input value which is significant for fair value measurement as a whole.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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9 DISCLOSURE OF FAIR VALUE (Continued)

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

(i) The ending fair value of assets and liabilities measured at fair value

As at 31 December 2017, base in the above 3 levels, the financial assets measured at fair value are as below:

	Level 1	Level 2	Level 3	Total
The Durative fair value measurement				
1. Financial assets based on fair value to confirm profit or loss				
1. Financial assets held for trading				
(1) Investment on equity instruments	4,875,057.73	-	-	4,875,057.73
2. Available-for-sale financial assets				
(1) Investment on equity instruments	26,952,761.07	-	859,949,741.24	886,902,502.31
The total asset of durative fair value measurement	31,827,818.80	-	859,949,741.24	891,777,560.04

As at 31 December 2016, base in the above 3 levels, the financial assets measured at fair value are as below:

	Level 1	Level 2	Level 3	Total
The Durative fair value measurement				
1. Financial assets based on fair value to confirm profit or loss				
1. Financial assets held for trading				
(1) Investment on equity instruments	6,026,123.94	-	-	6,026,123.94
2. Available-for-sale financial assets				
(1) Investment on equity instruments	25,932,151.59	-	-	25,932,151.59
The total asset of durative fair value measurement	31,958,275.53	-	-	31,958,275.53

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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9 DISCLOSURE OF FAIR VALUE (Continued)

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

- (ii) The first level of durable fair value measurement item market price determination basis: the fair value of the stock of listed company is determined by the Exchange's closing price at the last transaction date in the end of period.
- (iii) The quality and quantity of valuation technique and important parameter adopted by the third level of durable fair value measurement items are as below:

Item	Ending fair value	Valuation technique	Significant unobservable input value	Effect on fair value
Investment on equity instruments	859,949,741.24	Market discount approach	Lack of negotiability discount	The more discount, the lower negotiability

- (iv) The reconciliation of the durable third level fair value measurement item between the beginning of the year and the end of the period are as below:

Item	Beginning balance	Shift to level 3	Turn out from level 3	Total current gain or loss		Purchase, offering, sale and settlement				Ending balance	Unfulfilled ending gain or loss for the assets holding in the end of period	
				Calculate into gain or loss	Calculate into other comprehensive income	Purchase	Offering	Sale	Settlement			
Available-for-sale financial assets												
Investment on equity instruments	-	150,144,733.98	-	-	(90,194,989.42)	799,999,996.68	-	-	-	859,949,741.24	-	

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

10 FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

	31 December 2016	Profit or loss arising from changes in fair value during current period	Cost of available-for-sale financial assets recognized in equity during this year	accumulated changes in fair value recognized in equity during current period	Changes in fair value recognized into deferred income tax assets and liabilities during current period	31 December 2017
Financial assets –						
Financial assets based on fair value						
to confirm profit or losses	6,026,123.94	(1,151,066.21)	–	–	–	4,875,057.73
Available-for-sale financial assets	25,932,151.59	–	950,144,730.66	(75,769,046.89)	(13,405,333.05)	886,902,502.31
	<u>31,958,275.53</u>	<u>(1,151,066.21)</u>	<u>950,144,730.66</u>	<u>(75,769,046.89)</u>	<u>(13,405,333.05)</u>	<u>891,777,560.04</u>

11 FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

	31 December 2016	Profit or loss arising from changes in fair value during current period	changes in fair value recognized in equity during current period	accumulated Impairment loss recognized during current period	31 December 2017
Financial assets –					
Cash at bank and on hand	16,886,300.25	–	–	–	10,187,248.89
Accounts receivable	21,130,831.29	–	–	–	26,545,890.62
Advances to suppliers	–	–	–	–	936,351.27
Other receivables	513,887.24	–	–	–	516,764.75
	<u>38,531,018.78</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>38,186,255.53</u>
Financial liabilities					
Short-term borrowings	10,165,424.88	–	–	–	–
Accounts payable	3,538,269.94	–	–	–	13,890,397.99
Advances from customers	24,369.53	–	–	–	156,950.18
Other payables	92,204.47	–	–	–	980,294.04
Current portion of non-current liabilities	–	–	–	–	31,307,337.23
Long-term borrowings	33,502,083.03	–	–	–	–
	<u>47,322,351.85</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>46,334,979.44</u>

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) General information of the parent company:

Name of the Parent company	Business Type	registration place	Legal Representative	Nature of business	Registered Capital (RMB '0000)	% equity interest	% voting rights	Ultimate holding company
GPHL	Limited liability company (wholly state-owned)	No. 45, North Street, Shamian Liwan District Guangzhou	Li Chuyuan	Manufacturing and trading	125,281	45.04%	45.04%	Guangzhou State-owned Assets Supervision and Administration Commission

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

	31 December 2017 (RMB '0000)
GPHL	125,281

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

	31 December 2017	% equity interest held	% voting rights held
GPHL	45.04%	45.04%	45.04%

(2) Information of subsidiaries

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(3) Information of joint venture and associates

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

Name	Relation with the Group
GP Corp.	Joint venture
Wang Lao Ji	Joint venture
Nuo Cheng	Joint venture
HWBYS	Joint venture
Baxter Qiaoguang	Joint venture
Chuangmei	Associates
Southern Antineoplastic Biological Products Holdings Co., Ltd.	Associates

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

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

(5) Related party transactions

- (a) For the subsidiaries which are controlled by the Company and consolidated into the consolidated financial statements, the transactions amongst them and that between the Company and them have been eliminated.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(b) Purchase of goods from related parties

Name of related party	Type of transaction	Nature of transaction	Pricing Policies and procedures for decision-making	For the year ended 31 December 2017		For the year ended 31 December 2016	
				Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
HWBYS	Purchase of goods	Chinese raw medicine or medicine	Market price	24,954,015.81	0.24	319,397,476.78	2.98
GP Corp.	Purchase of goods	Chinese raw medicine or medicine	Market price	286,177,077.81	2.81	687,602,738.40	6.41
Wang Lao Ji	Purchase of goods	Chinese raw medicine or medicine	Market price	872,214,455.47	8.55	772,868,045.48	7.20
Chuang mei	Purchase of goods	Chinese raw medicine or medicine	Market price	16,368,263.44	0.16	240,471.19	0.00
Hua Cheng	Purchase of goods	Chinese raw medicine or medicine	Market price	7,986,777.28	0.08	-	-
				1,207,700,589.81	11.84	1,780,108,731.85	16.59

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(c) Sales of goods to related parties

Name of related party	Type of transaction	Nature of transaction	Pricing Policies and procedures for decision-making	For the year ended 31 December 2017		For the year ended 31 December 2016	
				Amount	Percentage of similar transactions (%)	Amount	Percentage of similar transactions (%)
GPHL	Sales of goods	Chinese raw medicine or medicine	Market price	-	-	4,032.03	0.00
Hua Cheng	Sales of goods	Chinese raw medicine or medicine	Market price	72,693,961.41	0.35	-	-
HWBYS	Sales of goods	Chinese raw medicine or medicine	Market price	209,169,141.32	1.01	184,616,332.68	0.93
GP Corp.	Sales of goods	Chinese raw medicine or medicine	Market price	1,019,758,204.85	4.95	1,217,866,444.23	6.16
Wang Lao Ji	Sales of goods	Chinese raw medicine or medicine	Market price	562,242,250.42	2.73	450,082,295.54	2.28
Nuo Cheng	Sales of goods	Chinese raw medicine or medicine	Market price	23,097.44	0.00	234,835.91	0.00
Baxter Qiaoguang	Sales of goods	Chinese raw medicine or medicine	Market price	927,514.52	0.00	1,200,909.40	0.01
Chuangmei	Sales of goods	Chinese raw medicine or medicine	Market price	326,372,536.13	1.58	17,463,433.04	0.09
Southern Antineoplastic Biological Products Holdings Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	707.69	0.00	-	-
				2,191,187,413.78	10.62	1,871,468,282.83	9.47

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(d) Rendering of service to related party

Name of related party	Type of transaction	Nature of transaction	Pricing Policies and procedures for decision-making	For the year ended 31 December 2017		For the year ended 31 December 2016	
				Amount	Percentage of similar transactions (%)	Amount	Percentage of similar transactions (%)
GPHL	Rendering of service	advertising agency	Market price	1,189,977.61	0.92	-	-
Hua Cheng	Rendering of service	advertising agency	Market price	4,992,802.34	3.88	-	-
HWBYS	Rendering of service	advertising agency	Market price	43,597,886.40	33.87	30,216,809.70	39.62
GP Corp.	Rendering of service	advertising agency	Market price	342,920.18	0.27	424,048.58	0.56
Wang Lao Ji	Rendering of service	advertising agency	Market price	74,602,790.97	57.96	39,053,346.24	51.21
Baxter Qiaoguang	Rendering of service	advertising agency	Market price	39,245.28	0.03	38,313.21	0.05
Subtotal				124,765,622.78	96.93	69,732,517.73	91.44
Wang Lao Ji	Rendering of service	Consigned processing	Market price	23,754,475.51	82.57	23,249,667.48	100.00
HWBYS	Rendering of service	Consigned processing	Market price	2,284,247.18	7.94	-	-
Subtotal				26,038,722.69	90.51	23,249,667.48	100.00
HWBYS	Rendering of service	Service of research and development	Market price	742,924.54	6.68	47,169.81	0.55
Wang Lao Ji	Rendering of service	Service of research and development	Market price	-	-	943.40	0.01
Subtotal				742,924.54	6.68	48,113.21	0.56

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(e) Other related party transactions

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

There are no guarantees for subsidiaries for the year ended 31 December 2017.

(ii) *Leases*

1) Tenancy agreement

Pursuant to a tenancy agreement entered into by the Group and GPLH, GPLH has granted to the Group the right to use certain premises such as warehouses and offices for a fixed annual rental. The term is from 1 January 2017 to 31 December 2019. The Group should pay GPLH RMB1,458 thousand of the above-mentioned for the current period (For the year ended 31 December 2016: RMB1,499 thousand).

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

Pursuant to the Tenancy agreement entered into by the Company and GPLH on 27 June 2013, the Company rents the No. 5 front stalls of GPLH located at No. 45 North Street Shamian at a fixed annual rent, which term is 3 years, on 1 July 2016, the agreement came up for renewal to 30 June 2019, GPLH should pay the company RMB367 thousand in the current period (For the year ended 31 December 2016: RMB448 thousand).

3) Warehouse and Office Building Tenancy agreement

Pursuant to the Tenancy agreement entered into by the Company and GP Corp, the Company rents certain buildings to GP Corp. at fixed amount per annum with a lease term from 1 January 2017 to 31 December 2019 and the rental amounted to RMB2,947 thousand (For the year ended 31 December 2016: RMB2,814 thousand).

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(All amounts in Renminbi yuan unless otherwise stated)

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

(5) Related party transactions *(Continued)*

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

(ii) Leases *(Continued)*

3) Warehouse and Office Building Tenancy agreement *(Continued)*

Pursuant to the Tenancy agreement entered into by the Company and Baxter Qiaoguang, the Company rents the building located in No.25, Fangcun avenue to Baxter Qiaoguang at fixed amount per annum with a lease term from 10 May 2007 to the relocated date and the rental amounted to RMB2,971 thousand (For the year ended 31 December 2016: RMB2,962 thousand).

Pursuant to the Tenancy agreement entered into by the Company and GP Corp., the Company rents the building located in No.74, Duobao Road to GP Corp. at fixed amount per annum with a lease term from 1 January 2015 to 31 October 2021, and the rental amounted to RMB572 thousand (For the year ended 31 December 2016: RMB102 thousand).

Pursuant to the Tenancy agreement entered into by Guangzhou Bai Di and Nuo cheng, Guangzhou Bai Di rents the building located in No.1, Wanbao Street North, Panyu District, Guangzhou to Nuo cheng at fixed amount per annum with a lease term from 15 March 2011 to 14 March 2019 and the rental amounted to RMB2,258 thousand (For the year ended 31 December 2016: RMB2,238 thousand).

Pursuant to the Tenancy agreement entered into by Guang Hua, a subsidiary of the Company, and HWBYS, Guang Hua rents the building located in No.355, Shatai Rd North, Guangzhou to HWBYS at fixed amount per month with a lease term from 10 March 2017 to 10 March 2018 and the rental amounted to RMB70 thousand (For the year ended 31 December 2016: RMB53 thousand).

Pursuant to the Tenancy agreement entered into by Guang Hua, a subsidiary of the Company, and GP Corp., Guang Hua rents the building located in No.355, Shatai Rd North, Guangzhou to GP Corp. at fixed amount per month with a lease term from 17 July 2015 to 14 July 2020 and the rental amounted to RMB637 thousand (For the year ended 31 December 2016: RMB438 thousand).

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(All amounts in Renminbi yuan unless otherwise stated)
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12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

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

(iii) License agreement

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

Pursuant to the Trademark License Supplementary agreement entered into by the Company, Wang Lao Ji and GPLH on 28 July 2005, Wang Lao Ji agreed to pay license fees to GPLH for the use of the trademarks at 2.1% of its aggregate net sales since Wang Lao Ji become to be a foreign-invested company limited. GPLH and the Company are to entitled by 53% and 47% of the license fee respectively.

The Company should receive license fee amounted to RMB89,683 thousand for the current period (For the year ended 31 December 2016: RMB81,004 thousand) and GPLH should receive RMB101,132 thousand (For the year ended 31 December 2016: RMB91,345 thousand).

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

(5) Related party transactions *(Continued)*

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

(iii) License agreement *(Continued)*

- 2) The arrangement of the Trademark Trusteeship agreement and Trademark Trusteeship Supplementary agreement entered into by GPLH and the Company (GPLH is consignor and the Company is consignee): (1) During the period of validity of Trusteeship agreement, consignor shall authorizes all the use rights of “Wang Lao Ji” trademark to consignee; (2) During the period of validity of Trusteeship agreement, consignee shall pay the expenses arising from trusteeship (but consignor shall pay the expenses arising from dispute to the authority and the expenses arising from the dispute to the previous Trademark Trusteeship agreement and Trademark Trusteeship Supplementary agreement); (3) Consignee shall directly receive the trademark license fee which is arranged in the Trademark License agreement signed during the trusteeship(including the supplementary agreement or new agreement which is signed by consignor or consignee); (4) During the period of validity of Trusteeship agreement, consignor should pay the company RMB1,000 thousand for the basic trusteeship fee before the end of every March; (5) On the premise of non-violation to the Trademark License agreement or supplementary which is entered into by consignor and third party before this agreement become effective, for the Trademark License agreement which is signed during the period of validity of Trusteeship agreement, (including the supplementary agreement or new agreement which is signed during the expiry date of Trusteeship), consignee should pay consignor 80% of the trademark license fee of the previous year before the end of every March (or the lower portion which is negotiated by consignor and consignee, the portion could not higher than 80% in any case, it could be 80% if both parties failed to reach an agreement for that) as the authorized income for consignor (the basic trusteeship fee of previous year of consignor shall directly deducted from this expenses by consignee) as the confirmed trademark “Wang Lao Ji”, the portion to be shared of consignor and consignee shall be confirmed in accordance with the previous arrangement before this agreement was signed, and shall not be limited to the trademark trusteeship agreement. This agreement became effective on 5 July 2013, and will expire on the date of trademark transfer or the date of termination from both parties’ negotiation.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(e) Other related party transactions (Continued)

(iii) License agreement (Continued)

2) (Continued)

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

Pursuant to *Notice of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. on Unfulfilled Commitment in respect of Shareholders, Related Parties and the Company* issued on 25 June 2014, the term of contract expire on 20 January 2015. On 13 March 2015, the 1st Extraordinary Shareholders Meeting 2015 of the Company adopted *Solution of Guangzhou Pharmaceutical Group Co., Ltd. Revise Trademark of "Wang Lao Ji"*, GPLH revised the term of contract, which will expire within 2 years from the date of "Red jar decoration dispute" coming into force.

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

- 3) Pursuant to *Trademark License Agreement* entered into by Xing Qun and the Company on 5 September 2014, Xing Qun is able to use 32 kinds of trademark owned by GPLH for 32 kinds of plant beverage and coke products from 5 September 2013 to 6 March 2016 both parties otherwise agreed to extend the term if need to, 2.1% of net sale volume for the products which use these 32 kinds of trademark shall be paid to the Company as a license fee by Xing Qun. Trademark License agreement will expire on 6 March 2019. Xing Qun should pay the Company license fee amounted to RMB782 thousand in the current period. (For the year ended 31 December 2016: RMB909 thousand).

Based on *The Arrangement of the Trademark Trusteeship Agreement and Trademark Trusteeship Supplementary Agreement* entered into by GPLH and the Company, Xing Qun should pay the Company the above license fee amounted to RMB782 thousand (For the year ended 31 December 2016: RMB909 thousand), and should totally pay GPLH RMB625 thousand (For the year ended 31 December 2016: RMB727 thousand).

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(All amounts in Renminbi yuan unless otherwise stated)

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12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(e) Other related party transactions (Continued)

(iii) License agreement (Continued)

- 4) Pursuant to *Trademark License Agreement* entered into by HWBYS and the Company on 7 March 2016, HWBYS is able to use 32 kinds of trademark owned by GPLH for 32 kinds of plant beverages and non-alcoholic beverages from 7 March 2016 to 31 December 2019 (both parties otherwise agreed to extend the term if need to), 2.1% of net sale volume for the products which use these 32 kinds of trademark shall be paid to the Company as a license fee by HWBYS. Trademark License agreement will expire on 31 December 2019. HWBYS should pay the Company license fee amounted to RMB1,814 thousand in the current period. (For the year ended 31 December 2016: RMB0 thousand).

Based on *The arrangement of the Trademark Trusteeship agreement and Trademark Trusteeship Supplementary Agreement* entered into by GPLH and the Company, HWBYS should pay the Company the above license fee amounted to RMB1,814 thousand (For the year ended 31 December 2016: RMB0 thousand), and should totally pay GPLH RMB1,451 thousand (For the year ended 31 December 2016: RMB0 thousand).

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12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(e) Other related party transactions (Continued)

(iii) License agreement (Continued)

- 5) Pursuant to *Trademark License Agreement* entered into by Wang Lao Ji Dazhai Beverages Co., Ltd. and the Company on 6 September 2017, Wang Lao Ji Dazhai Beverages Co., Ltd. is able to use 32 kinds of trademark owned by GPLH for 32 kinds of plant beverages and non-alcoholic beverages from 6 September 2017 to 5 September 2020 (both parties otherwise agreed to extend the term if need to), 2.1% of net sale volume for the products which use these 32 kinds of trademark shall be paid to the Company as a license fee by Wang Lao Ji Dazhai Beverages Co., Ltd.. *Trademark License Agreement* will expire on 5 September 2020. Wang Lao Ji Dazhai Beverages Co., Ltd. should pay the Company license fee amounted to RMB145 thousand in the current period. (For the year ended 31 December 2016: RMB0 thousand).

Based on *The Arrangement of the Trademark Trusteeship Agreement and Trademark Trusteeship Supplementary Agreement* entered into by GPLH and the Company, Wang Lao Ji Dazhai Beverages Co., Ltd. should pay the Company the above license fee amounted to RMB145 thousand (For the year ended 31 December 2016: RMB0 thousand), and should totally pay GPLH RMB116 thousand (For the year ended 31 December 2016: RMB0 thousand).

(iv) Employee benefits of key management personnel

Employee benefits of the Group's key management personnel amounted to RMB3,151 thousand for the year ended 31 December 2017 (For the year ended 31 December 2016: RMB3,399 thousand). The Group's key management personnel include director, supervisor, general manager, vice general manager, and secretary to the Board of Director ("BOD"). The key management includes 10 persons for the year ended 31 December 2017 (For the year ended 31 December 2016: 9 persons), among which 5 persons received their salaries from the Group (For the year ended 31 December 2016: 4 persons).

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12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(f) Remuneration of directors and supervisors

Remuneration of each director and supervisor for the year ended 12 December 2017 is as below:

Name	Remuneration of directors and supervisors							
	Salary and subsidy	Pension	Bonus	Sign-on bonus	Severance package	Others	Total	
Name of director								
Li Chuyuan	-	-	-	-	-	-	-	-
Chen Mao	-	-	-	-	-	-	-	-
Liu Juyan	-	-	-	-	-	-	-	-
Cheng Ning	-	-	-	-	-	-	-	-
Ni Yidong	-	-	-	-	-	-	-	-
Wu Changhai	499,952.00	78,494.00	375,719.00	-	-	51,343.00	1,005,508.00	
Wang Wenchu (Note 1)	187,885.00	45,215.00	128,600.00	-	-	-	361,700.00	
Chu Xiaoping	100,000.00	-	-	-	-	-	100,000.00	
Jiang Wenqi	100,000.00	-	-	-	-	-	100,000.00	
Qiu Hongzhong (Note 2)	50,000.00	-	-	-	-	-	50,000.00	
Wong Lung Tak Patrick (Note 3)	50,000.00	-	-	-	-	-	50,000.00	
Huang Xianrong (Note 4)	52,222.00	-	-	-	-	-	52,222.00	
Wang Weihong (Note 5)	52,222.00	-	-	-	-	-	52,222.00	
Name of supervisor								
Xian Jiaxiong	-	-	-	-	-	-	-	
Li Jinyun	138,297.00	25,293.00	58,500.00	-	-	-	222,090.00	
Gao Yanzhu (Note 6)	240,265.00	17,619.00	70,220.00	-	-	-	328,104.00	
Wu Yan	25,000.00	-	-	-	-	-	25,000.00	

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

(5) Related party transactions *(Continued)*

(f) Remuneration of directors and supervisors *(Continued)*

Note 1: On 28 August 2017, resigned as executive director of the Company for personal reasons.

Note 2: On 23 June 2017, the term of office has expired.

Note 3: On 23 June 2017, the term of office has expired.

Note 4: On 23 June 2017, Mr. Wang Xianrong was elected as an independent non-executive director of 7th board of directors for a term of 3 years from the date of election to the date of election of new members of the new board of directors.

Note 5: On 23 June 2017, Ms. Wang Weihong was elected as an independent non-executive director of 7th board of directors for a term of 3 years from the date of election to the date of election of new members of the new board of directors.

Note 6: On 23 June 2017, Ms. Gao Yanzhu was elected as an independent non-executive director of 7th board of directors for a term of 3 years from the date of election to the date of election of new members of the new board of directors.

Note 7: On 23 June 2017, resigned as a supervisor upon reaching the statutory retirement age.

Note 8: On 1 September 2016, was elected as an supervisor of 6th board of supervisors for a term from the date of resignation of supervisor Wu Quan to the expiration of current board of supervisors.

Note 9: On 4 February 2017, resigned as a supervisor for operational reasons.

Besides the above-mentioned remuneration of directors and supervisors, Li Chuyuan, Chen Mao, Liu Juyan, Cheng Ning, Ni Yidong and Xian Jiaxiong received remuneration amounted to RMB2,269,476.00, RMB1,222,443.00, RMB1,060,714.00, RMB1,076,117.00, RMB1,119,997.00, RMB1,119,997.00 respectively from the subsidiaries of the Company. (as at 31 December 2016: Li Chuyuan, Chen Mao, Liu Juyan, Cheng Ning, Ni Yidong and Xian Jiaxiong received remuneration amounted to RMB977,288.00, RMB929,341.00, RMB906,037.00, RMB858,759.00, RMB837,835.00, RMB864,796.00 respectively from the subsidiaries of the Company.), part of that is remuneration for service to the Group, directors consider it's difficult to allocate the amount for the service to the Group, subsidiaries and jointly controlled entities, no amortization is made of it.

As at 31 December 2017, no directors have given up or agreed to give up any arrangements of remuneration (2016: nil).

Notes to the Financial Statements

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

12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(g) Top five of remuneration

Top five of remuneration of the Group for the year ended 31 December 2016 includes 3 directors and 1 supervisor (For the year ended 31 December 2016: includes 2 directors). 3 among top five of remuneration of the Group for the year ended 31 December 2016 (For the year ended 31 December 2016: 3) is as below:

	The year ended 31 December 2017	The year ended 31 December 2016
Salary and subsidies	536,875.00	1,373,667.08
Pension	29,222.00	154,127.72
Bonus	578,644.00	1,528,814.20
Others	450.00	285.00
Total	1,145,191.00	3,056,894.00

	Number of people	
	The year ended 31 December 2017	The year ended 31 December 2016
Scope of remuneration		
RMB0 – RMB1,000,000	0	1
Over RMB1,000,000	1	2

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(h) Balance of current for related parties

(i) Receivables from related parties

		31 December 2017		31 December 2016	
		Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
	Related party				
Notes receivable:	GP Corp.	8,175,000.00	-	93,317,991.43	-
	HWBYS	150,931,623.28	-	100,000.00	-
	Chuangmei	64,423,774.86	-	-	-
		223,530,398.14	-	93,417,991.43	-
Accounts receivable:	GPHL	8,400.00	84.00	4,638.25	46.38
	Hua Cheng	8,306,091.67	83,060.92	-	-
	HWBYS	36,112,366.62	388,503.17	38,256,826.54	382,568.27
	GP Corp.	108,315,583.96	1,774,228.39	16,959,266.38	169,592.66
	Wang Lao Ji	127,536,422.67	1,744,923.79	49,722,527.70	876,655.25
	Baxter Qiaoguang	-	-	234,960.00	2,349.60
	Nuo Cheng	-	-	242,358.00	2,423.58
	Chuangmei	30,876,904.42	308,886.62	15,514,325.81	155,179.75
		311,155,769.34	4,299,686.89	120,934,902.68	1,588,815.49

Notes to the Financial Statements

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

12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(h) Balance of current for related parties (Continued)

(i) Receivables from related parties (Continued)

		31 December 2017		31 December 2016	
Related party		Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Other receivables:	GPHL	3,228,120.78	-	1,897,580.42	-
	Guangzhou South China Medical apparatus Co., Ltd.	100,000.00	100,000.00	100,000.00	100,000.00
	HWBYS	20,542,631.61	-	16,313,594.56	-
	GP Corp.	53,039.67	-	580,062.90	-
	Wang Lao Ji	1,374,386.91	-	1,055,070.54	-
	Baxter Qiaoguang	3,094,266.79	-	-	-
	Southern antineoplastic Biological Products Company	77,452.83	-	-	-
		28,469,898.59	100,000.00	19,946,308.42	100,000.00
Advances to suppliers:	HWBYS	1,073,298.64	-	859,482.83	-
	GP Corp.	929.44	-	3,357.20	-
	Wang Lao Ji	918,115.80	-	22,479,785.87	-
	Guangzhou Yu Fa Medical apparatus Co., Ltd.	210,278.62	-	210,278.62	-
	Hua Cheng	71,663.26	-	-	-
		2,274,285.76	-	23,552,904.52	-

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

12 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(h) Balance of current for related parties (Continued)

(ii) Payables to related parties

		31 December 2017	31 December 2016
	Related party		
Notes Payable:	HWBYS	1,517,296.64	–
Accounts Payable:	HWBYS	4,181,609.48	12,689,814.80
	GP Corp.	52,049,347.91	28,482,093.08
	Hua Cheng	473,175.67	–
	Chuangmei	9,283,262.12	450,526.40
		65,987,395.18	41,622,434.28
Other Payables	GPHL	47,902,394.11	35,798,578.74
	HWBYS	668,878.04	20,000.00
	GP Corp.	217,599.54	239,044.54
	Wang Lao Ji.	77,715.58	59,547.77
	Baxter Qiaoguang	–	26,502.88
	Chuangmei	–	20,000.00
		48,866,587.27	36,163,673.93
Advances from customers:	HWBYS	1,991,966.08	2,796,750.93
	GP Corp.	27,046,074.94	101,172,141.46
	Chuangmei	16,204,394.49	16,403,401.64
		45,242,435.51	120,372,294.03

Notes to the Financial Statements

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

13 COMMITMENTS

(1) Capital expenditures commitments

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

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

	31 December 2017	31 December 2016
Investment	100,300,000.00	106,900,000.00
Building, machinery and equipment	246,645,887.83	182,573,557.05
	<u>346,945,887.83</u>	<u>289,473,557.05</u>

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

	31 December 2017	31 December 2016
Building, machinery and equipment	737,286,295.70	143,520,238.89
	<u>737,286,295.70</u>	<u>143,520,238.89</u>

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

	31 December 2017	31 December 2016
Investment	320,000,000.00	340,000,000.00
Building, machinery and equipment	1,025,443,400.94	736,199,524.50
	<u>1,345,443,400.94</u>	<u>1,076,199,524.50</u>

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

13 COMMITMENTS

(2) Operating lease commitments

The Group's rental assets from operating lease are mainly buildings, the minimum lease payments of significant rental under operating lease are summarized as follows:

Remaining leasing term	Minimum lease payables	
	31 December 2017	31 December 2016
Within 1 year	74,880,300.79	70,289,159.86
1 to 2 years	48,999,389.49	62,683,535.24
2 to 3 years	59,417,772.17	35,383,679.85
Over 3 years	206,131,969.07	188,013,794.23
	389,429,431.52	356,370,169.19

The rental expenses under operating lease amounted to RMB97,908 thousand are recognized in the profit or loss for the year ended 31 December 2017 (For the year ended 31 December 2016: RMB80,041 thousand).

(3) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 31 December 2017.

14 CONTINGENCIES

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15 EVENTS AFTER THE BALANCE SHEET DATE

- (1) On 13 February 2018, the Company entered into *Operative agreement* with Guangzhou Huiyin Huiji Investment Fund Management Co., Ltd.. The Company intends to invest RMB4 million with Guangzhou Huiyin Huiji Investment Fund Management Co., Ltd. for establishing a company of equity investment fund management, and intends to invest no more than RMB800 million for participating in purchasing the share of limited partnership of Pharmaceutical and Health Industry Investment Fund, which is set up by the company of equity investment fund management, and the general partner and manager of Pharmaceutical and Health Industry Investment Fund is the company of equity investment fund management.
- (2) On 13 February 2018, the Company entered into *Operative agreement* with Shenzhen Jin Shen Yi Financial Investment Co., Ltd.. The Company intends to invest RMB20 million with Shenzhen Jin Shen Yi Financial Investment Co., Ltd. for establishing a company of equity investment fund management, and intends to invest no more than RMB800 million for participating in purchasing the share of limited partnership of Pharmaceutical and Health Industry Investment Fund, which is set up by the company of equity investment fund management, the general partner and manager of Pharmaceutical and Health Industry Investment Fund.
- (3) On 21 December 2017, in accordance with the resolution of 5th meetings of 7th Board of Directors, for the major acquisitions of intention to purchasing Pharmaceutical Company 's 30% equity interest amounted to RMB1,094,100 thousand held by Alliance BMP Limited(Alliance BMP) in cash, of granting put option of the Pharmaceutical Company's remaining 20% equity interest held by the Company to Alliance BMP, the Company entered into *Equity Transfer Contract* and *Joint Venture Contract* with Pharmaceutical Company and Alliance BMP. The Company will consider the above matters in 2018 1st interim general meeting of shareholders on 29 March 2018.
- (4) In accordance with the resolution from 6th section of 10th board of directors on 15 March 2018, the Company distributed cash dividend amounted to RMB0.381 (including tax) per share by the cardinal number of the capital stock totally amounted to 1,625,790,949.00 at the end of year 2017, and cash dividend totally amounted to RMB 619,426,351.57.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

16 OTHER SIGNIFICANT EVENTS

(1) Litigation

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

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

Pursuant to *Written Civil Ruling* with reference of (2015)SuiYueFaMinErChuZi No.328-3 issued by Guangzhou Yue Xiu District People's Court on 14 March 2016, the prosecution by Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. was rejected.

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

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

On 5 February 2018, in accordance with the first trial by Guangzhou Yue Xiu District People's Court, As none of Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. could prove that it had delivered the goods involved to A company, its request for payment of goods and interest from A company lacked factual and legal basis, and the judgment rejected all the claims. That is, A company shall not be required to pay payment for and interest on the contract in question in the above case. As at the reporting date, the court has not yet received the petition of appeal.

Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. started a suit to the unreceived payment amounted to RMB18,440 thousand by A company, a subsidiary of the Company on 4 February 2015, and required A company to pay maturity payment and overdue interest.

Pursuant to *Written Civil Ruling* with reference of (2015)SuiLiFaMinErChuZi No.774-3 issued by Guangzhou Li Wan District People's Court on 21 December 2015, the prosecution by Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. was rejected, and transferred to public security organization to handle as criminal case. Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. has lodged an appeal.

Notes to the Financial Statements

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

16 OTHER SIGNIFICANT EVENTS (Continued)

(1) Litigation (Continued)

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

(i) (Continued)

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

Pursuant to *Written Civil Ruling* issued by Guangzhou Li Wan District People's Court on 27 December 2017, all of the prosecution by Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. was rejected. As at 10 January 2018, Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. lodged an appeal to Guangzhou Intermediate People's Court. The case is at a stage of review.

Guangdong Guangsheng Investment Group Energy Co., Ltd. started a suit to the unreceived payment amounted to RMB47,400 thousand by A company, a subsidiary of the Company on 25 December 2014, required to block the account of A company, and required A company to pay maturity payment and overdue interest.

Pursuant to *Written Civil Ruling* with reference of (2015)SuiLiFaMinErChuZi No.455-1 to No.468-1 issued by Guangzhou Li Wan District People's Court on 21 December 2015, the prosecution by Guangdong Guangsheng Investment Group Energy Co., Ltd. was rejected, and transferred to public security organization to handle as criminal case. Guangdong Guangsheng Investment Group Energy Co., Ltd. has lodged an appeal to Guangzhou Intermediate People's Court.

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

Pursuant to *Written Civil Ruling* issued by Guangzhou Li Wan District People's Court on 27 December 2017, all of the prosecution by Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. was rejected.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

16 OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

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

(i) *(Continued)*

As at 4 January 2018, Guangdong Guangsheng Investment Group Energy Co., Ltd. lodged an appeal to Guangzhou Intermediate People's Court. The case is at a stage of review.

According to the opinion of external lawyer, upstream customers of A company could not provide logistics certificates of delivery to Guangzhou Defenghang Petrochemical Co., Ltd. and Guangzhou Tongtai Fuel Chemical Co., Ltd., the relationship of liabilities may not be established, A company does not have to pay to the upstream customers, and there are no overdue accounts receivable that are not be covered.

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

Guangzhou Defenghang Petrochemical Co., Ltd., Guangzhou Tongtai Fuel Chemical Co., Ltd., Dongguan Ye Lian Road Modified asphalt Co., Ltd. and its actual controller, Chen Xijiang are suspected of commercial fraud, A company reported to Guangzhou Public Security accordingly, the caes is under investigation.

Management of A company has assessed the case with external opinion of lawyer, the accounts receivable for Guangzhou Defenghang Petrochemical Co., Ltd. and Guangzhou Tongtai Fuel Chemical Co., Ltd., accounts receivable for Dongguan Ye Lian Road Modified asphalt Co., Ltd. are individual subject to separate provision for bad debts, ratio of provision is 10%. For the accounts that have been paid, which includes other receivables amounted to RMB10,315.7 thousand of Guangzhou Defenghang Petrochemical Co., Ltd., account receivables amounted to RMB10,541.8 thousand of Sinogas (Zhuhai) Petrochemical Co. Ltd., are individual subject to separate provision for bad debts, ratio of provision is 100%.

Notes to the Financial Statements

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

16 OTHER SIGNIFICANT EVENTS (Continued)

(1) Litigation (Continued)

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

- (ii) On 29 October 2014, A company, a subsidiary of the Company, received a notice of responding to prosecution which of the contract dispute of financial borrowings of the subsidiary, A company, Jiangmen Yuehui Fuel Co., Ltd. and another 7 companies accused by Guangdong Nanyue Bank and its Jiangmen Branch from Guangdong Province Zhanjiang City Xia Shan District People's court, according to indictment, Jiangmen Yuehui Fuel Co., Ltd. applied to Guangdong Nanyue Bank for factoring financing amounted to RMB30 million by the payment receivable amounted to RMB37,500 thousand of the subsidiary as a pledge, required A company to take the responsibility of settlement or compensation. A company have submitted a verification report, and considered they should not bear any legal responsibility for fake official seal and signature.

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

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

On 5 January 2018, Nanyue Bank applied for a retrial to Guangzhou Higher People's Court. The case is at a stage of review.

- (iii) Guangzhou Linhai Trading Industry Co., Ltd. started a suit to the unreceived payment amounted to RMB8,364.9 thousand by A company, a subsidiary of the Company on 11 November 2014, and required A company to pay maturity payment and overdue interest.

Pursuant to *Written Civil Ruling* with reference of (2014)SuiLiFaMinErChuZi No.2424, 2425-4 issued by Guangzhou Li Wan District People's Court on 30 December 2015, A company should pay maturity payment and overdue interest to Guangzhou Linhai Trading Industry Co., Ltd.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

16 OTHER SIGNIFICANT EVENTS (Continued)

(1) Litigation (Continued)

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

(iii) (Continued)

Pursuant to *Written Civil Ruling* with reference of (2016)Yue01MinZhong No.7733, No.7734 issued by Guangzhou Intermediate People's Court on 21 December 2016, *Written Civil Ruling* with reference of (2014)SuiLiFaMinErChuZi No 2424, No.2425 issued by Guangzhou Li Wan District People's Court was judged to quash; all claims of Guangzhou Linhai Trading Industry Co., Ltd. were rejected.

Pursuant to *Written Civil Ruling* with reference of (2017)YueMinShen No.6100 issued by Guangzhou Higher People's Court on 7 November 2017, the retrial application by Guangzhou Linhai Trading Industry Co., Ltd. was rejected.

(b) Other litigation of a company

- (1) A company, a subsidiary of the Company, started a suit for the unreceived payment amounted to RMB5,191.2 thousand by Hengshan Zhongkong Paper Co., Ltd. on to Hunan Province Hengyang City Intermediate People's Court on 10 December 2014, and required Hengshan Zhongkong Paper Co., Ltd. to pay maturity payment and overdue interest.

On 5 December 2014, Hunan Province Hengshan County People's Court accepted and heard the bankruptcy liquidation of Hengshan Zhongkong International Paper Co., Ltd. according to the application of Hengshan County Urban and Rural Construction Investment Co., Ltd. The litigation of Hengshan Zhongkong International Paper Co., Ltd. was rejected, creditor's rights of A company will be dealt with in the procedure of bankruptcy liquidation.

On 20 November 2015, the accountant in bankruptcy considered the seal of the contract for declaring creditor's right by A company is inconsistent with the one used by Hengshan Zhongkong International Paper Co., Ltd., A company is not creditor. A company has reported to Guangzhou Public Security on 29 February 2016.

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

16 OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

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

- (i) In year 2012, Wang Lao Ji Great Health, the wholly-owned subsidiary was sued with its unauthorized use of the specific name, package and decoration of famous products by JDB.

Guangdong Higher People's Court rejected the appeal of unauthorized use of the specific name, package and decoration of famous products accrued from Guangdong Jiaduobao Co., Ltd. on 19 December 2014. JDB lodged an appeal.

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

- (ii) The dispute between WLJ Great Health, wholly-owned subsidiary of the Company, and Wuhan Jiaduobao Beverage Co., Ltd. in Changsha City arising from the slogan of "The red cans herbal tea – national top sales-renamed JDB", "The red cans herbal tea – national top sales – JDB", "7 of a sale of 10 cans herbal tea are JDB", which constitute false propaganda, under the 1st trial((2013) ChangZhongMinWuChuZi No.00308) and 2nd trial ((2016)XiangMinZhong No.94), the slogan of Wuhan Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. constitute false propaganda, the infringement is ordered to stop, Wuhan Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. pay Wang Lao Ji Great Health pecuniary loss amounted to RMB9,022,978.20 and reasonable rights protection fee amounted to RMB239,779.00. The court of 2nd trial upheld the judgement of lower court except for the compensation amounted to RMB6 million, which is paid to Wang Lao Ji Great Health. Wuhan Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. refused to accept the first-instance judgment and applied for a retrial to the highest court, there are some applicable issues in this case, the highest court decided to arraign this case on 23 December 2016, which case number is (2017)ZuiGaoFaMinZai No.155. In 30 November 2017, the Highest People's Court opened a court session for this case, which is now in the stage of retrial.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

16 OTHER SIGNIFICANT EVENTS (Continued)

(1) Litigation (Continued)

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

(ii) (Continued)

As at the reporting date, management of the Company considers that it is not probable that it will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

- (iii) In year 2015, Guangzhou Hao Cheng Estate Management Development Co., Ltd. started a suit to the dispute of lease contract by B company, a subsidiary of the Company, and applied for termination to contract and compensation for loss. B company also instituted an action for the unreceived rental and penalty of Guangzhou Hao Cheng Estate Management Development Co., Ltd and its guarantor.

Pursuant to *Written Civil Ruling* with reference of (2015)SuiYueFaMinSanChuZi No.186, issued by Guangzhou Yue Xiu District People's Court on 31 December 2017, Lease Contract and Lease Supplementary Contract entered into by Guangzhou Hao Cheng Estate Management Development Co., Ltd. and B company on 28 February 2014 was terminated on 9 September 2016. B company shall fully pay Guangzhou Hao Cheng Estate Management Development Co., Ltd. compensation amounted to RMB1,955,325.00 within 10 days from the date of this *Written Civil Ruling* coming into force, and other claims of Guangzhou Hao Cheng Estate Management Development Co., Ltd. were rejected.

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

Notes to the Financial Statements

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

16 OTHER SIGNIFICANT EVENTS (Continued)

(1) Litigation (Continued)

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

(iii) (Continued)

Pursuant to *Written Civil Ruling* with reference of (2016)Yue0104MinChu No.100 issued by Guangzhou Yue Xiu District People's Court on 30 June 2017, Guangzhou Hao Cheng Estate Management Development Co., Ltd. shall pay B company penalty and rental amounted to RMB33,205 thousand which during the period from 1 February 2015 to 31 December 2015, its guarantor shall undertake joint liability for the debts, and other claims of B company were rejected. Guangzhou Hao Cheng Estate Management Development Co., Ltd. refused the judgement of the above *Written Civil Ruling*, lodged an appeal which is not yet adjudicated.

B company sued Guangzhou Hao Cheng Estate Management Development Co., Ltd. and guarantors for the rental and liquidated damages owed by Guangzhou Hao Cheng Estate Management Development Co., Ltd. from 1 January 2016 to 9 September 2016, case number is (2018)Yue0104MinChu No. 813. The case is currently pending trial at first instance.

As at the reporting date, management of B company considers that it is not probable that it will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

(iv) Guangdong Guangsheng Investment Group Energy Co., Ltd. (hereinafter referred to as "Guangsheng Energy") started a suit to the unreceived payment amounted to RMB58,900 thousand by a subsidiary of the Company, and applied for a sequestered account to it in year 2014. The subsidiary have started a suit accordingly to Guangdong Hua Zi Investment Co., Ltd.(hereinafter referred to as "Hua Zi"), the party related to the case, and applied for sealing up related assets, report to Guangzhou Public Security. It shall be investigated for criminal responsibility requirements.

Pursuant to *Written Civil Ruling* with reference of (2014)SuiTianHeFaMinErChuZi No.4583-2 issued by Guangzhou Tian He District People's Court on 5 February 2016, the prosecution by Guangsheng Energy was rejected, and transferred to public security organization to handle as criminal case. Guangsheng Energy lodged an appeal.

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(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

16 OTHER SIGNIFICANT EVENTS (Continued)

(1) Litigation (Continued)

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

(iv) (Continued)

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

Pursuant to *Written Civil Ruling* with reference of (2014)SuiTianHeFaMinErChuZi No.4583 issued by Guangzhou Tian He District People's Court on 4 June 2017, the prosecution by Guangsheng Energy was rejected, Guangsheng Energy lodged an appeal to Guangzhou Intermediate People's Court with second instance (2017) Yue01MinZhong No.10908, and it will open a court session on 30 August 2017. In accordance with the judgement of 2nd instance issued by Guangzhou Intermediate People's Court on 4 September 2017, appeal of Guangsheng Energy was rejected and the original judgement was affirmed;

Pursuant to *Written Civil Ruling* with reference of (2014)SuiTianHeFaMinErChuZi 4th No.4583-4583 on 25 September 2017, the court has ruled that the frozen property of the company shall be discharged.

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

On 1 June 2017, Guangsheng Energy lodged an appeal to Guangzhou Tian He District People's Court for the dispute with a case number of (2017) Yue0106MinChu No.13720, and it opened a court session on 17 August 2017. Pursuant to *Written Civil Ruling* with reference of (2017)Yue0106MinChu No. 13720 issued by Guangzhou Tian He District People's Court on 23 August 2017, the prosecution by Guangsheng Energy was rejected. Guangsheng Energy lodged an appeal to Guangzhou Intermediate People's Court, case number: (2017) Yue01MinZhong No.23351. In accordance with the 2nd trial by Guangzhou Intermediate People's Court, the appeal by Guangsheng Energy was dismissed, and the original judgement was affirmed.

Notes to the Financial Statements

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

16 OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

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

(iv) *(Continued)*

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

Pursuant to *Written Civil Ruling* with reference of (2014)SuiTianFaMinErChuZi No.4619 issued by Guangzhou Tian He District People's Court on 6 April 2016, Hua Zi shall pay a subsidiary of the Company payment amounted to RMB29,687 thousand, penalty, interests and lawyer's fee, this judgement has become effective. On 17 august 2017, the subsidiary applied to Tian He District Court for enforcement (case No.(2017)Yue0106Zhi No.9947). at present, Tian He District Court informed the company that the execution was terminated because no property had been found.

Pursuant to *Written Civil Ruling* with reference of (2014)SuiTianHeFaMinErChuZi No.4620 issued by Guangzhou Tian He District People's Court on 6 April 2017, the prosecution by a subsidiary of the Company was rejected, the subsidiary lodged an appeal to Guangzhou Intermediate People's Court with second instance (2017) Yue01MinZhong No.10910. In accordance with the judgement of 2nd instance issued by Guangzhou Intermediate People's Court on 25 august 2017, appeal of that subsidiary was rejected and the original judgement was affirmed.

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(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

16 OTHER SIGNIFICANT EVENTS (Continued)

(1) Litigation (Continued)

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

(iv) (Continued)

In case Hua Zi evade the payment, ensuring execution of the judgement of (2014) SuiTianHeFaMinErChuZi NO.4619 and (2014)SuiTianHeFaMinErChuZi NO.4620, the subsidiary of the Company has applied to Tian He District People's Court for property preservation before litigation, and has provided Hua Zi's bank account and the matured claim [Execution Number: (2013)SuiHaiFaZhiZi No.1978] to Southern Company and Suinan Company as property clues. The subsidiary requested Tian He District People's Court to freeze bank account, to rule that Southern Company, Suinan Company, the 2 debtors of Hua Zi, do not repay the debts, and Guangzhou Hai Zhu District People's Court (hereinafter referred to as "Hai Zhu Court") was requested to assist in execution. as Guangzhou Yue Cai Investment Holdings Co., Ltd., the execution applicant of case (2013)SuHaiFaZhiZi No.1978, had not been changed to Hua Zi, Tian He Court has merely sent the civil ruling paper of property preservation to Hai Zhu Court in October 2014.

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

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

In accordance with the *Written Civil Ruling* issued by Yue Xiu District People's Court on 25 August 2017, appeal of that subsidiary was rejected. The subsidiary lodged an appeal to Guangzhou Intermediate People's Court and the case has been accepted and heard on 6 December 2017 with reference of [case no: (2017)Yue01MinZhong No.22319, 22321]. at present, Guangzhou Intermediate people's Court has not yet fixed the date of the second trial session. On 23 December 2017, the appeal from the subsidiary was dismissed by Guangzhou Intermediate People's Court.

As at the reporting date, all of the above cases have been completed, the subsidiary did not cause direct economic losses in the case of Guangsheng Energy and Hua Zi.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

16 OTHER SIGNIFICANT EVENTS (Continued)

(1) Litigation (Continued)

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

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

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

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

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

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

Pursuant to *Administrative Resolution* [(2017)Yue7101XingChu No.558] issued by 1st Guangzhou Railway Transportation Court on 19 June 2017, all claims of E company are rejected.

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

Pursuant to *Administrative Resolution* [(2017)Yue71XingZhong No.1288] issued by Guangzhou Railway Transportation Intermediate Court on 17 October, all claims of E company are rejected and this judgement is last instance. Based on the Accounting Prudence Principle, E company has calculated the land-transferring fees and liquidated damages totally amounted to RMB26,376,110.52 for non-operation expense.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

16 OTHER SIGNIFICANT EVENTS (Continued)

(1) Litigation (Continued)

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

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

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

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

Guangzhou Ruigu Enterprise Management Consulting Co., Ltd. refused the judgement of 2nd trial, and lodged an appeal to Guangdong Province Supreme People's Court on 1 September 2016. In accordance with *Notice of Responding to Prosecution on Civil Retrial Cases* [Case (2016)YueMinShen No.6609] issued by Guangdong Province Supreme People's Court on 24 October 2016, F company was informed about it. On 13 December 2017, Guangdong Province Higher People's Court held a hearing to decide whether to accept the application of retrial by Guangzhou Ruigu Enterprise Management Consulting Co., Ltd.. This case is at a stage of review to retrial.

As at reporting date, this case is under trial. Management of F company considers that it is not probable that it will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

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

16 OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

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

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

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

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

On 22 December 2017, pursuant to the arbitral award (HuaNanGuoZhongShenCai [2017] No.578) issued by Huanan International Economic and Trade arbitration Commission, Tongxing shall transfer all shares amounted to 98,378,439 of Wang Lao Ji to the Company, which total price (including tax) amounted to RMB368,919,146.25, and the net asset value is RMB3.75 per share.

On 8 February 2018, the subsidiary applied to Guangzhou Intermediate People's Court for enforcement, the court has placed this case on file with a case number of 2018 Yue01Zhi No.985.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

16 OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

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

- (ix) In year 2017, Ying Hui Grocery Store sued F company, a subsidiary of the Company, for the payment of reimbursed expenses totally amounted to RMB2,130,444. On 4 August 2017, in accordance with the 1st trial from Guangzhou Nan Sha District People's Court, the prosecution of Ying Hui Grocery Store was rejected. Ying Hui Grocery Store refused to accept the first-instance judgement and lodged an appeal to Guangzhou Intermediate People's Court on 21 August 2017 with a case number of (2017)Yue01MinZhong No.19018. Guangzhou Intermediate People's Court held 3 hearings on 7 November 2017, 21 November 2017, 19 December 2017. The case is at a stage of 2nd trial.

As at the reporting date, the above cases are still pending. Management of F company considers that it is not probable that it will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

17 SEGMENT INFORMATION

With the strategic management and business development, the Group basically completed the industrial chain layout and internal structure of 4 sectors in 2015, which include "Great Southern TCM", "Great Commerce", "Great Health", "Great Medical Care", according to the requirements of regulatory laws, regulations and company management, 4 sectors are divided into 4 operating segments, as business scale of "Great Medical Care" is fail to 10%, details for other segments are as below:

- "Great Southern TCM": Research, development, manufacturing and sales for Chinese and Western medicine, chemical raw medicine, natural drug, biological medicine and intermediates of chemical raw medicine;
- "Great Health": Research, development, manufacturing and sales for the products of Great Health;
- "Great Commerce": Wholesale, retail, import and export for Western medicine, Chinese medicine and medical apparatus and instruments.

Price transfer between segments is carried out in accordance with the price of sales to third party.

Assets and liabilities are allocated based on the segment operations, expenses attributable indirectly to each segment are allocated among segments based on the portion of revenue.

Notes to the Financial Statements

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

17 SEGMENT INFORMATION (Continued)

(1) The segment information for the year ended 31 December 2017 and as at 31 December 2017 is as follows:

	Great Southern TCM	Great Health	Great Commerce	Other	Elimination	Total
Revenue	7,920,991,000.47	8,574,140,675.28	4,347,030,285.90	112,063,227.88	-	20,954,225,189.53
Inter-segment revenue	206,420,129.57	14,639,317.32	6,646,327,048.34	157,223,363.39	(7,024,609,858.62)	-
Interest income	(28,847,134.42)	(64,754,810.30)	(1,660,878.11)	(123,558,909.81)	-	(218,821,732.64)
Interest expenses	18,087,138.51	-	48,411,253.25	5,293,854.77	(64,670,544.45)	7,121,702.08
Share of profit or loss of associates and jointly controlled entities	58,522,548.73	-	2,796,697.03	214,602,293.03	5,343,148.61	281,264,687.40
Asset impairment losses	2,019,902.11	(49,905.93)	7,811,480.94	6,788,238.77	3,393,252.01	19,962,967.90
Depreciation and amortization	207,493,926.36	18,262,232.17	7,226,184.84	21,856,504.17	(144,105.00)	254,694,742.54
Total profit	1,141,613,236.46	754,765,230.42	66,824,009.16	500,858,946.13	28,914,714.53	2,492,976,136.70
Income tax expenses	55,336,427.94	131,204,377.83	15,759,901.66	153,081,430.85	18,838,377.52	374,220,515.80
Net profit (Including: Minority interests)	1,086,276,808.52	623,560,852.59	51,064,107.50	347,777,515.28	10,076,337.01	2,118,755,620.90
Total assets	9,766,674,401.97	5,941,353,309.61	4,198,165,473.57	16,969,629,127.74	(8,561,108,859.57)	28,314,713,453.32
Total liabilities	5,472,206,232.20	3,727,005,385.06	3,864,261,178.27	1,061,262,999.58	(5,073,176,134.96)	9,051,559,660.15
Long-term equity investments in associates and jointly controlled entities	190,702,755.14	-	58,238,389.70	1,759,540,112.21	-	2,008,481,257.05
Additions of non-current assets other than long-term equity investments	337,184,429.82	52,757,149.44	27,021,750.62	90,631,857.68	-	507,595,187.56

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

17 SEGMENT INFORMATION (Continued)

(2) The segment information for the year ended 31 December 2016 and as at 31 December 2016 is as follows:

	Great Southern TCM	Great Health	Great Commerce	Other	Elimination	Total
Revenue	7,019,333,990.54	7,769,472,680.57	5,170,595,594.73	76,279,233.53	-	20,035,681,499.37
Inter-segment revenue	362,058,069.77	14,409,500.90	6,211,880,839.11	132,586,479.33	(6,720,934,889.11)	-
Interest income	(24,537,249.28)	(56,898,929.13)	(4,346,084.48)	(38,254,530.89)	1,850,210.41	(122,186,583.37)
Interest expenses	21,801,112.56	-	48,349,681.46	18,730,302.15	(68,197,035.17)	20,684,061.00
Share of profit or loss of associates and jointly controlled entities	6,877,946.28	-	801,062.50	184,378,081.23	2,402,821.22	194,459,911.23
Asset impairment losses	(1,271,157.67)	263,769.80	971,484.77	934,282.20	5,830,514.74	6,728,893.84
Depreciation and amortization	200,324,561.75	17,074,294.30	7,383,704.06	18,306,310.05	(144,105.00)	242,944,765.16
Total profit	936,405,138.93	621,205,532.83	73,083,539.18	785,504,217.43	(471,145,030.03)	1,945,053,398.34
Income tax expenses	53,410,776.16	188,857,254.61	17,424,259.48	113,599,134.78	13,087,978.14	386,379,403.17
Net profit (Including: Minority interests)	882,994,362.77	432,348,278.22	55,659,279.70	671,905,082.65	(484,233,008.17)	1,558,673,995.17
Total assets	8,215,356,021.51	4,536,823,808.46	4,006,996,218.57	16,144,661,530.04	(7,006,667,358.04)	25,897,170,220.54
Total liabilities	4,671,712,476.03	3,777,036,736.50	3,737,139,513.69	609,593,407.39	(4,552,102,361.34)	8,243,379,772.27
Long-term equity investments in associates and jointly controlled entities	81,955,813.17	-	61,624,075.01	2,146,863,574.52	-	2,290,443,462.70
Additions of non-current assets other than long-term equity investments	463,602,322.19	105,722,329.63	8,500,773.52	50,728,219.02	-	628,553,644.36

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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17 SEGMENT INFORMATION (Continued)

The Group's revenue from external customers in the PRC and other countries/regions, and the total non-current assets other than financial assets and deferred tax assets located in the PRC and other countries/regions are summarized as follows:

	For the year ended 31 December 2017	For the year ended 31 December 2016
PRC	20,903,138,688.93	19,966,567,906.17
Other countries/regions	51,086,500.60	69,113,593.20
	20,954,225,189.53	20,035,681,499.37
Total non-current assets		
	31 December 2017	31 December 2016
PRC	5,515,922,789.70	5,920,389,492.25
Other countries/regions	18,483,577.02	19,704,081.33
	5,534,406,366.72	5,940,093,573.58

18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Accounts receivable

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

	31 December 2017	31 December 2016
Within 1 year	267,228,797.84	326,272,130.74
1 to 2 years	-	12,745,909.87
2 to 3 years	1,624,535.00	16,149.24
3 to 4 years	-	-
4 to 5 years	-	15,834.58
Over 5 years	3,288,606.52	3,257,329.52
	272,141,939.36	342,307,353.95
Less: provision for bad debts	6,448,255.00	7,812,154.25
	265,693,684.36	334,495,199.70

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

(1) Accounts receivable (Continued)

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

	31 December 2017				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provisions	1,500,000.00	0.55%	1,500,000.00	100.00%	–
Subject to provision by groups: Group 1	269,787,313.12	99.14%	4,093,628.76	1.52%	265,693,684.36
Individually insignificant but subject to separate provisions	854,626.24	0.31%	854,626.24	100.00%	–
	272,141,939.36	100.00%	6,448,255.00	2.36%	265,693,684.36

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

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(1) Accounts receivable (Continued)

- (c) As at 31 December 2017, individually significant and subject to separate provisions are as follow:

	Ending balance	amount of bad debts	Ratio	Reason
Customer 1	1,500,000.00	1,500,000.00	100.00%	The action is enforced, it is expected that the amount could not be recovered

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

	31 December 2017			31 December 2016		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
Within 1 year	267,228,797.84	99.05%	2,672,287.98	326,272,130.74	95.98%	3,262,721.31
1 to 2 years	-	-	-	12,745,909.87	3.75%	1,274,590.99
2 to 3 years	1,624,535.00	0.60%	487,360.50	16,149.24	0.00%	4,844.77
3 to 4 years	-	-	-	-	-	-
4 to 5 years	-	-	-	15,834.58	0.00%	12,667.66
Over 5 years	933,980.28	0.35%	933,980.28	902,703.28	0.27%	902,703.28
	269,787,313.12	100.00%	4,093,628.76	339,952,727.71	100.00%	5,457,528.01

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

(1) Accounts receivable (Continued)

- (e) As at 31 December 2017, accounts receivable that are individually insignificant but subject to separate provision are as follows:

	Ending balance	amount of bad debts	Ratio	Reason
Customer 1	470,000.00	470,000.00	100.00%	Its aging is over 5 years, it is expected that the amount would not be recovered
Customer 2	315,508.74	315,508.74	100.00%	Its aging is over 5 years, it is expected that the amount would not be recovered
Customer 3	69,117.50	69,117.50	100.00%	Its aging is over 5 years, it is expected that the amount would not be recovered
	<u>854,626.24</u>	<u>854,626.24</u>	100.00%	

Notes to the Financial Statements

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

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

(1) Accounts receivable (Continued)

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

Receivable	Reason of transfer or recover	Basis of determination of original provision for bad debts	Amount of provision for bad debts that are transferred or recovered	Recovered amount	Amount of provision for bad debts that are transferred
Customer 1	Strengthened the work of accounts receivable, recovered debts.	aging	77,008.55	77,008.55	77,008.55
Customer 2	Strengthened the work of accounts receivable, recovered debts.	aging	51,565.00	51,565.00	51,565.00
Customer 3	Strengthened the work of accounts receivable, recovered debts.	aging	50,700.00	50,700.00	50,700.00
Customer 4	Strengthened the work of accounts receivable, recovered debts.	aging	41,707.07	41,707.07	41,707.07
Customer 5	Strengthened the work of accounts receivable, recovered debts.	aging	41,402.30	41,402.30	41,402.30
Others	Strengthened the work of accounts receivable, recovered debts.	aging	114,916.02	118,082.94	114,916.02
			377,298.94	380,465.86	377,298.94

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

(1) Accounts receivable (Continued)

- (g) There are no accounts receivables that are collected by restructuring or other manners during the current period.
- (h) Accounts receivables that written off in the current period amounted to RMB862 thousand, details are as below:

	Nature of accounts receivable	Amount	Reason	Procedure	Took place connected transaction or not
Bao De Pharmaceutical Factory, old department of import & export, mineral water plant	payment	861,785.72	It is verified that the amount could not be recovered.	Approved by the company's management process	No

- (i) As at 31 December 2017, accounts receivable with significant balance are analyzed as follows:

Name of the entity	Relation with the Company	amount	aging	% of total balance
Customer 1	Related party	218,303,010.71	Within 1year	80.22%
Customer 2	Third party	10,346,522.00	Within 1year	3.80%
Customer 3	Third party	4,875,000.00	Within 1year	1.79%
Customer 4	Third party	4,283,222.50	Within 1year	1.57%
Customer 5	Related party	4,104,000.00	Within 1year	1.51%
		<u>241,911,755.21</u>		<u>88.89%</u>

- (j) There are no accounts receivables derecognized as at 31 December 2017.
- (k) As at 31 December 2017, there are no securitizations that targeted at accounts receivable.

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

(2) Other receivables

	31 December 2017	31 December 2016
Receivables due from related parties	1,485,727,079.23	1,454,566,918.74
Including: Entrusted loan	1,170,033,486.36	1,074,113,486.36
Others	315,693,592.87	380,453,432.38
Rentals, deposits and staff advances	19,037,303.35	5,377,616.32
Others	27,804,910.89	43,486,852.76
	1,532,569,293.47	1,503,431,387.82
Less: Provision for bad debts	5,554,039.11	5,604,438.00
	1,527,015,254.36	1,497,826,949.82

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

	31 December 2017	31 December 2016
Within 1 year	1,520,293,135.28	1,475,787,374.15
1 to 2 years	4,288,858.19	5,148,256.59
2 to 3 years	1,158,143.04	58,235.81
3 to 4 years	48,885.81	68,730.21
4 to 5 years	65,210.21	43,584.45
Over 5 years	6,715,060.94	22,325,206.61
	1,532,569,293.47	1,503,431,387.82

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

(2) Other receivables (Continued)

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

	31 December 2017				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	1,040,121.11	0.07%	1,040,121.11	100.00%	–
Subject to provision by groups:					
Group 1	6,052,128.71	0.39%	1,376,348.56	22.74%	4,675,780.15
Group 2	17,575,091.63	1.15%	–	0.00%	17,575,091.63
Group 3	1,485,727,079.23	96.95%	–	0.00%	1,485,727,079.23
Group 4	19,037,303.35	1.24%	–	0.00%	19,037,303.35
Individually insignificant but subject to separate provision	3,137,569.44	0.20%	3,137,569.44	100.00%	–
	1,532,569,293.47	100.00%	5,554,039.11	0.36%	1,527,015,254.36

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

Notes to the Financial Statements

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

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

(2) Other receivables (Continued)

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

Name of entity	Ending balance	Provision for bad debts	Ratio	Reason
Other receivables 1	502,043.54	502,043.54	100.00%	It is expected that the amount would not be recovered
Other receivables 2	430,077.57	430,077.57	100.00%	It is expected that the amount would not be recovered
Other receivables 3	108,000.00	108,000.00	100.00%	It is expected that the amount would not be recovered
	<u>1,040,121.11</u>	<u>1,040,121.11</u>		

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

	31 December 2017			31 December 2016		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	4,691,634.34	77.52%	46,916.34	5,707,875.84	77.45%	57,078.78
1 to 2 years	1,400.00	0.02%	140.00	261,838.00	3.55%	26,183.80
2 to 3 years	–	0.00%	–	46,954.31	0.64%	14,086.29
3 to 4 years	43,604.31	0.72%	21,802.16	43,520.00	0.59%	21,760.00
4 to 5 years	40,000.00	0.66%	32,000.00	9,836.87	0.13%	7,869.50
Over 5 years	1,275,490.06	21.08%	1,275,490.06	1,299,769.08	17.64%	1,299,769.08
	<u>6,052,128.71</u>	<u>100.00%</u>	<u>1,376,348.56</u>	<u>7,369,794.10</u>	<u>100.00%</u>	<u>1,426,747.45</u>

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

(2) Other receivables (Continued)

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

Receivable	Reason of transfer or recover	Basis of determination of original provision for bad debts	Amount of provision for bad debts that are transferred or recovered	Recovered amount	Amount of provision for bad debts that are transferred
Customer 1	Fully recovered	It is expected that the amount could not be recovered	13,244.35	13,244.35	13,244.35
Customer 2	Fully recovered	It is expected that the amount could not be recovered	8,012.58	8,012.58	8,012.58
Customer 3	Fully recovered	It is expected that the amount could not be recovered	5,337.65	6,248.71	5,337.65
Customer 4	Fully recovered	It is expected that the amount could not be recovered	4,225.24	5,281.55	4,225.24
Customer 5	Fully recovered	It is expected that the amount could not be recovered	351.00	351.00	351.00
Customer 6	Fully recovered	It is expected that the amount could not be recovered	135.70	135.70	135.70
			31,306.52	33,273.89	31,306.52

- (f) There are no others receivables collected by restructuring or other manners in the current period.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(2) Other receivables (Continued)

(g) As at 31 December 2017, the top five of other receivables are analyzed as follows:

Name of entity	Relation of the Company	Amount	Aging	% of total balance
Other receivables 1	Wholly-owned subsidiary	561,952,919.11	Within 1 year	36.67%
Other receivables 2	Wholly-owned subsidiary	382,558,021.34	Within 1 year	24.96%
Other receivables 3	Wholly-owned subsidiary	163,622,326.34	Within 1 year	10.68%
Other receivables 4	Indirect subsidiary	146,160,383.75	Within 1 year	9.54%
Other receivables 5	Wholly-owned subsidiary	80,028,889.98	Within 1 year	5.22%
		<u>1,334,322,540.52</u>		<u>87.07%</u>

(h) As at 31 December 2017, there are no other receivables that are derecognized.

(i) As at 31 December 2017, there are no securitizations that targeted at other receivables.

(3) Long-term equity investments

Item	31 December 2017			31 December 2016		
	Book balance	Provision for impairment	Current amount	Book balance	Provision for impairment	Current amount
For subsidiary investment	<u>3,181,465,863.78</u>	<u>171,000,000.00</u>	<u>3,010,465,863.78</u>	2,177,185,363.78	171,000,000.00	2,006,185,363.78
For Joint entity, and associates investment	<u>1,754,208,415.45</u>	<u>-</u>	<u>1,754,208,415.45</u>	2,144,554,635.77	-	2,144,554,635.77
Total	<u>4,935,674,279.23</u>	<u>171,000,000.00</u>	<u>4,764,674,279.23</u>	<u>4,321,739,999.55</u>	<u>171,000,000.00</u>	<u>4,150,739,999.55</u>

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

(3) Long-term equity investments (Continued)

(a) For subsidiary investment

Name of entity	31 December 2016	Current increase	Current decrease	31 December 2017	Impairment losses recognized in the current period	Provision for impairment on 31 December 2017
Xing Qun	125,322,300.00	-	-	125,322,300.00	-	-
Zhong Yi	324,320,391.34	-	-	324,320,391.34	-	-
Chen Li Ji	142,310,800.00	-	-	142,310,800.00	-	-
Guangzhou Han Fang	249,017,109.58	-	-	249,017,109.58	-	55,000,000.00
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	126,775,500.00	-	-	126,775,500.00	-	-
Jing Xiu Tang	101,489,800.00	-	-	101,489,800.00	-	-
Pan Gao Shou	144,298,200.00	-	-	144,298,200.00	-	-
Cai Zhi Lin	89,078,900.00	16,900,000.00	-	105,978,900.00	-	69,000,000.00
Pharmaceutical Import & Export	18,557,303.24	-	-	18,557,303.24	-	-
Guangzhou Bai Di	129,145,812.38	-	-	129,145,812.38	-	47,000,000.00
Guangxi Ying Kang	21,536,540.49	-	-	21,536,540.49	-	-
Wang Lao Ji Great Health	100,000,000.00	800,000,000.00	-	900,000,000.00	-	-
Yi Gan	17,700,000.00	900,000.00	-	18,600,000.00	-	-
Xing Zhu	64,860,000.00	27,210,000.00	-	92,070,000.00	-	-
Guangyao Baiyunshan Hong Kong Company	93,874,006.87	-	-	93,874,006.87	-	-
Tian Xin	96,192,658.47	-	-	96,192,658.47	-	-
Guang Hua	53,659,963.75	-	-	53,659,963.75	-	-
Ming Xing	12,581,294.18	82,800,500.00	-	95,381,794.18	-	-
Wei Ling	10,444,783.48	-	-	10,444,783.48	-	-
Guangyao Haima	7,000,000.00	-	-	7,000,000.00	-	-
Baiyunshan Pharmaceutical Technology	1,020,000.00	-	-	1,020,000.00	-	-
Baiyunshan Great Health Hotel	500,000.00	-	-	500,000.00	-	-
Guangzhou Baiyunshan Chemical Technology Co., Ltd.	51,000,000.00	12,470,000.00	-	63,470,000.00	-	-
Baiyunshan Medical Health	106,500,000.00	-	-	106,500,000.00	-	-
Guangyao General Institute	70,000,000.00	10,000,000.00	-	80,000,000.00	-	-
Guangzhou baiyunshan Pharmaceutical Marketing Co., Ltd.	10,000,000.00	30,000,000.00	-	40,000,000.00	-	-
WLI Investment	10,000,000.00	14,000,000.00	-	24,000,000.00	-	-
Guangzhou Baiyunshan Medical Instrument Investment Company	-	10,000,000.00	-	10,000,000.00	-	-
Total	2,177,185,363.78	1,004,280,500.00	-	3,181,465,863.78	-	171,000,000.00

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

(3) Long-term equity investments (Continued)

(b) For joint ventures and associates investments

Name of entity	Investment cost	31 December 2016	Current period movement	Under the equity	Current period	Other equity movement	Cash dividends	Others	31 December 2017	Provision for impairment	Impairment losses recognised in the current period
				method to confirm the investment profit and loss	movement on other comprehensive income		declared to distribute				
Equity method:											
Jointly-controlled entities:											
GP Corp.	396,589,139.78	1,269,737,080.88	-	120,070,756.88	20,429.81	-	(455,000,000.00)	-	934,828,267.57	-	-
Wang Lao Ji	102,035,124.44	377,253,851.57	-	13,264,703.78	-	-	-	-	390,518,555.35	-	-
HWBYS	100,000,000.00	415,356,117.25	-	67,378,147.40	-	-	(150,000,000.00)	-	332,734,264.65	-	-
Baxter Qiao Guang	37,000,000.00	36,324,856.06	-	3,122,520.03	-	-	-	-	39,447,376.09	-	-
associates:											
Guangzhou Jinshen Pharmaceutical Technology Co., Ltd.	765,000.00	-	-	-	-	-	-	-	-	-	-
Golden Eagle asset Management Co., Ltd.	50,000,000.00	43,886,532.54	-	10,779,383.31	-	-	-	-	54,665,915.85	-	-
Wei Yi Co., Ltd.	2,020,000.00	1,996,197.47	-	17,838.47	-	-	-	-	2,014,035.94	-	-
Sub-total of equity method	688,409,264.22	2,144,554,635.77	-	214,633,349.87	20,429.81	-	(605,000,000.00)	-	1,754,208,415.45	-	-

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

(4) Revenue and cost of sales

	For the year ended 31 December 2017		
	Principal operation	Other operations	Subtotal
Revenue	2,761,283,959.77	386,215,182.64	3,147,499,142.41
Cost of operation	1,266,866,455.36	178,324,938.01	1,445,191,393.37
Gross profit	1,494,417,504.41	207,890,244.63	1,702,307,749.04

	For the year ended 31 December 2016		
	Principal operation	Other operations	Subtotal
Revenue	2,481,068,313.79	364,954,042.93	2,846,022,356.72
Cost of operation	1,187,195,638.50	151,592,574.82	1,338,788,213.32
Gross profit	1,293,872,675.29	213,361,468.11	1,507,234,143.40

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

	Revenue from principal operation		Cost of principal operations	
	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ended 31 December 2016
Great Southern TCM	2,761,252,808.73	2,481,052,782.92	1,266,846,448.80	1,187,185,402.27
Great Commerce	31,151.04	15,530.87	20,006.56	10,236.23
	2,761,283,959.77	2,481,068,313.79	1,266,866,455.36	1,187,195,638.50

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(4) Revenue and cost of sales (Continued)

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

	Revenue from principal operation		Cost of principal operation	
	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ended 31 December 2016
Southern China	2,081,792,463.40	2,220,871,676.56	951,742,055.26	1,037,794,834.51
Eastern China	261,551,660.01	65,422,835.75	125,418,267.96	39,693,389.42
Northern China	109,667,564.30	55,579,238.81	61,876,688.77	34,480,155.26
North east China	51,261,482.29	6,177,270.62	26,864,595.29	5,469,626.09
South west China	197,154,701.72	123,419,122.90	81,266,041.23	63,530,477.02
North west China	59,856,088.05	9,598,169.15	19,698,806.85	6,227,156.20
	2,761,283,959.77	2,481,068,313.79	1,266,866,455.36	1,187,195,638.50

(c) The total top five of customer sales is RMB2,004,165 thousand, which accounts for 72.59% of revenue from principal operation this period.

	Revenue from principal operation	% of revenue from principal operation of the company
Customer 1	1,730,923,348.37	62.69%
Customer 2	147,725,547.07	5.35%
Customer 3	66,540,989.06	2.41%
Customer 4	30,265,762.64	1.10%
Customer 5	28,709,401.71	1.04%
	2,004,165,048.85	72.59%

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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

(5) Investment income

(a) Details of Investment income

	For the year ended 31 December 2017	For the year ended 31 December 2016
Investment Income from financial assets:		
Investment income in the period of holding of financial assets based on fair value to confirm profit or loss	201,347.70	14,452.60
Investment income in the period of holding of available-for-sale financial assets	13,105,244.32	10,929,380.86
Interest income from financing products and structured deposits	28,408,761.95	–
Investment Income from long-term equity investments under cost method	64,322,657.08	512,804,918.78
Investment Income from long-term equity investments under equity method	214,633,349.87	184,378,081.23
	320,671,360.92	708,126,833.47

(b) Among the long-term equity investments measured at cost method, there is no investment income accounted for more than 10% of net profit.

(c) Among the long-term equity investments measured at equity method, details of investment income accounted for more than 10% of net profit are as follow:

	For the year ended 31 December 2017	For the year ended 31 December 2016
GP Corp.	120,070,756.88	110,359,299.32

Notes to the Financial Statements

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

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

(6) Supplementary information to the Company's cash flow statement

	For the year ended 31 December 2017	For the year ended 31 December 2016
(a) Reconciliation from net profit to cash flows from operating activities		
Net profit	1,027,277,744.36	1,215,121,566.06
Add: Provisions for asset impairment	4,019,821.89	(2,309,712.84)
Depreciation and amortization of fixed assets and investment property	57,774,163.69	57,026,804.95
Amortization of intangible assets	9,000,624.91	7,789,720.01
Amortization of long-term prepaid expenses	735,687.09	539,067.23
Gains on disposal of fixed assets, intangible assets and other long-term assets	629,430.17	536,548.96
Losses on scrapping of fixed assets	-	-
Loss (less: gains) on change in fair value	1,151,066.21	473,665.66
Financial expenses	5,276,994.77	18,707,774.15
Investment income	(320,671,360.92)	(751,842,981.13)
Decrease in deferred tax assets (less: increase)	(35,018,044.04)	(24,165,909.62)
Increase (less: decrease) in deferred tax liabilities	(14,025,193.83)	(178,739.46)
Decrease (less: increase) in inventories	(227,149,751.15)	20,780,989.95
Decrease in operating receivables (less: increase)	(9,706,500.84)	(164,270,906.14)
Increase in operating payables (less: decrease)	477,995,607.20	93,389,306.66
Others	-	-
Net cash flows from operating activities	977,290,289.51	471,597,194.44
(b) Investing and financing activities that do not involve cash receipts and payments		
Conversion of debt into capital	-	-
Convertible company bonds due within one year	-	-
Fixed assets held under finance leases	-	-
(c) Net movement in cash and cash equivalents		
Cash at end of period	6,147,937,501.16	8,326,923,391.07
Less: Cash at beginning of year	8,326,923,391.07	960,889,437.00
Add: Cash equivalents at end of period	-	-
Less: Cash equivalents at beginning of year	-	-
Net movement in cash and cash equivalents	(2,178,985,889.91)	7,366,033,954.07

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

1 SUMMARY OF NON-RECURRING PROFIT OR LOSS

Item	For The year ended 31 December 2017	For the year ended 31 December 2016
Losses on disposal of non-current assets	(1,668,506.13)	15,243,529.06
Tax return or exemption without proper authorization	-	-
Government grants recognised in profits or losses (excluding those government grants that are closely relevant to the Group's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government)	171,548,838.23	496,823,863.14
Interests received from entities other than financial institutions recognised in profits or losses	-	-
Gains arising from the difference between Investment cost on subsidiaries, associates and jointly controlled entities and the fair value of the net assets attributable to the Group	-	-
Gains or losses arising from non-monetary assets exchange	-	-
Gains or losses arising from entrusted investments or entrusted asset management	-	-
Asset impairment provided in current year due to forced majeure (e.g. natural disasters)	-	-
Gains or losses arising from debt restructuring	-	-
Corporate restructuring costs (e.g. staff replacement costs and costs during the course of integration)	-	-
Gains or losses arising from the difference between the fair value and transaction price in obviously unfair transactions	-	-
Net profit of subsidiaries acquired under common control from beginning of year to the merger date	-	-

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

1 SUMMARY OF NON-RECURRING PROFIT OR LOSS (Continued)

Item	For The year ended 31 December 2017	For the year ended 31 December 2016
Gains or losses arising from contingencies irrelevant to the Group's normal business	-	-
Gains or losses from changes in fair value of financial assets and liabilities held for trading except for hedging contracts and disposal of financial assets and liabilities held for trading and available-for-sale financial assets	(1,151,066.21)	(1,086,579.16)
Reversal of provision for bad-debts of accounts receivable subject to separate provision	4,040,380.62	3,110,041.50
Gains or losses arising from entrusted loan granted to other entities	-	-
Gains or losses arising from changes in fair value of investment properties under fair value model	-	-
One-off adjustments to profit or loss as required by taxation and accounting laws and regulations	-	-
Consignment fee income arising from entrusted operations	-	-
Other non-operating income and expenses other than the above-mentioned items	(26,099,264.75)	(33,639,285.48)
Other profit or loss items meeting the definition of non-recurring profit or loss	-	-
Impact on income tax	(21,209,106.83)	(40,659,345.08)
Impact on minority interests (post-tax)	630,969.25	(2,871,015.08)
Total	126,092,244.18	436,921,208.90

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

(2) RETURN ON NET ASSETS AND EARNINGS PER SHARE:

For the year ended 31 December 2017	Weighted average return on net assets	Earnings per share	
		Weighted average basic earnings per share	Weighted average diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	11.34%	1.268	1.268
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	10.64%	1.191	1.191

For the year ended 31 December 2016	Weighted average return on net assets	Earnings per share	
		Weighted average basic earnings per share	Weighted average diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	12.75%	1.075	1.075
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	9.06%	0.764	0.764

Notes to the Financial Statements

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

(2) RETURN ON NET ASSETS AND EARNINGS PER SHARE: (Continued)

For the year ended 31 December 2017	Overall diluted return on net assets	Earnings per share	
		Overall diluted basic earnings per share	Overall diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	10.92%	1.268	1.268
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	10.26%	1.191	1.191

For the year ended 31 December 2016	Overall diluted return on net assets	Earnings per share	
		Overall diluted basic earnings per share	Overall diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	8.69%	0.928	0.928
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	6.18%	0.659	0.659

The Group presented return on net assets and earnings per share in accordance with the regulations of Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No.9 – Calculation and Disclosure of Return on Net assets and Earnings Per Share (revised 2010).

Documents Available for Inspection

1. The financial statements signed by the legal representative and the Financial Controller of the Company;
2. The auditor's reports signed by BDO China Shu Lun Pan CPAs LLP together with the financial statements prepared in accordance with PRC Accounting Standards;
3. The original company documents disclosed and announcements published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報) and Securities Daily (證券日報) during the Reporting Period;
4. The documents listed above are available at the Secretariat to the Board of the Company.