



廣州白雲山醫葯集團股份有限公司

GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS CO., LTD.

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

(H Share Stock Code: 00874)

涼茶始祖
王老吉

神農嘗百草

神農(炎帝)

炎帝即神農氏，是中國民間人文始祖之一。創製，因
以火為名，故稱炎帝。炎帝神農氏，炎帝神農氏炎帝神農氏，
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INTERIM REPORT
2018



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IMPORTANT NOTICE

- I. The Board, the Supervisory Committee and the directors, supervisors and senior management of the Company collectively and individually accept full responsibility for the truthfulness accuracy and completeness of the information contained in this interim report and confirm that there are no false information, misleading statements or material omissions in this interim report.
- II. All directors of the Company were present at the 15th meeting of the seventh session of the Board, among whom Mr. Chu Xiaoping, Mr. Jiang Wenqi and Mr. Wong Hin Wing, all being independent non-executive directors, attended the meeting by telephone.
- III. Mr. Li Chuyuan (chairman of the Board), Mr. Li Hong (an executive director and the general manager) and Ms. Yao Zhizhi (deputy controller of finance and head of the finance department) individually accept responsibility for ensuring the authenticity and completeness of the financial reports contained in this interim report.
- IV. After consideration, the Board resolved not to declare interim dividends for the six months ended 30 June 2018 nor propose any increase in share capital from the capitalization of capital reserve.
- V. The financial report of the Group and the Company for the Reporting Period was prepared in accordance with the China Accounting Standards for Business Enterprises, which was unaudited.
- VI. Forward-looking statements such as plans for the future and development strategy described in this report do not constitute any actual commitment of the Company to investors. Investors are advised to pay attention to any investment risk.
- VII. There was no non-operational appropriation of funds of the Company by its connected parties.
- VIII. The Company had not provided any external guarantee in violation of the decision-making procedures stipulated by the Company or relevant authorities.
- IX. This interim report is prepared in both English and Chinese. In the event of discrepancy in interpretation, the Chinese version shall prevail.

Definitions

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

Company/The Company/GYBYS	Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited
PRC or China	the People's Republic of China
Reporting Period	the six months ended 30 June 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 HKEx
Listing Rules of SSE	the Rules Governing the Listing of Securities on the SSE
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Model Code	the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules of HKEx
GPHL	Guangzhou Pharmaceutical Holdings Limited (廣州醫藥集團有限公司)
Xing Qun	Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd. (廣州白雲山星群(藥業)股份有限公司)
Zhong Yi	Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited (廣州白雲山中一藥業有限公司)
Chen Li Ji	Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory 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)

Definitions

永本始祖
上善若水

Pan Gao Shou	Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (廣州白雲山潘高壽藥業股份有限公司)
Jing Xiu Tang	Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. (廣州白雲山敬修堂藥業股份有限公司)
Wang Lao Ji	Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. (廣州王老吉藥業股份有限公司)
Guangzhou Han Fang	Guangzhou Baiyunshan Han Fang Contemporary Pharmaceutical Co., Ltd. (廣州白雲山漢方現代藥業有限公司)
Guangzhou Bai Di	Guangzhou Baiyunshan Bai Di Bio-technology Co., Ltd. (廣州白雲山拜迪生物醫藥有限公司)
WLJ Great Health	Guangzhou WLJ Great Health Industry Co., Ltd. (廣州王老吉大健康產業有限公司)
GP Corp.	Guangzhou Pharmaceuticals Corporation (廣州醫藥有限公司)
Cai Zhi Lin	Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (廣州采芝林藥業有限公司)
Pharmaceutical Import & Export	Guangzhou Pharmaceutical Import & Export Company Limited (廣州醫藥進出口有限公司)
Guangyao Baiyunshan Hong Kong Company	Guangyao Baiyunshan Hong Kong Company Limited (廣藥白雲山香港有限公司)
Nuo Cheng	Guangzhou Promise Biological Products Co., Ltd. (廣州諾誠生物製品股份有限公司)
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 Holdings Co., Ltd. Baiyunshan Pharmaceutical General Factory (廣州白雲山醫藥集團股份有限公司白雲山製藥總廠)
Chemical Pharmaceutical Factory	Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Baiyunshan Chemical Pharmaceutical Factory (廣州白雲山醫藥集團股份有限公司白雲山化學製藥廠)



Definitions

He Ji Gong	Guangzhou Baiyunshan Pharmaceutical Holdings 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)
Guang Hua	Guangzhou Baiyunshan Guang Hua Pharmaceutical 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)
Tian Xin	Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. (廣州白雲山天心製藥股份有限公司)
Baxter Qiao Guang	Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. (廣州百特僑光醫療用品有限公司)
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 Co., Ltd. (廣州白雲山醫療器械投資有限公司)
Guangzhou Baiyunshan Hospital	Guangzhou Baiyunshan Hospital Co., Ltd. (廣州白雲山醫院有限公司)
Xing Zhu	Guangzhou Baiyunshan Xing Zhu Pharmaceutical Co., Ltd. (廣州白雲山星珠藥業有限公司)
Hua Cheng	Guangzhou Hua Cheng Pharmaceutical Co., Ltd. (廣州花城藥業有限公司)
WLJ Ya'an	WLJ Great Health Industry (Ya'an) Co., Ltd. (王老吉大健康產業(雅安)有限公司)
Wei Ling	Baiyunshan Weiling Pharmaceutical Co., Ltd. (白雲山威靈藥業有限公司)
Chemical & Pharmaceutical Technology Company	Guangzhou Baiyunshan Chemical & Pharmaceutical Technology Co., Ltd. (廣州白雲山化學藥科技有限公司)
Pharmaceutical Technology	Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd. (廣州白雲山醫藥科技發展有限公司)

Definitions

WLJ Great Health Corporate Development Company	Guangzhou WLJ Great Health Corporate Development Co., Ltd. (廣州王老吉大健康企業發展有限公司)
Yi Gan	Guangzhou Guangyao Yi Gan Biological Products Holdings Company Limited (廣州廣藥益甘生物製品股份有限公司)
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))
Yi Xin Tang	Yunnan Hongxiang Yixintang Pharmaceutical (Group) Co.,Ltd. (雲南鴻翔一心堂藥業 (集團) 股份有限公司)
Alliance BMP	Alliance BMP Limited
Guangzhou Zhongcheng Medical Device	Guangzhou Zhongcheng Medical Device Industry Development Co., Ltd. (廣州眾成醫療器械產業發展有限公司)
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)
The Material Assets Reorganization in 2013	The Group's major asset reorganization involving the purchase of shares of Baiyunshan and the purchase of GPLH assets that was completed in 2013
OEM	Original Equipment Manufacture
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.
OTO	the English abbreviation of Online To Offline which refers to the connection of offline business opportunities with the Internet, enabling the Internet as a platform of offline transactions
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

Company Profile and Financial Highlights

A. GENERAL INFORMATION

- Legal Chinese Name: 廣州白雲山醫藥集團股份有限公司
Chinese Name Abbreviation: 廣藥白雲山
English Name: GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS
COMPANY LIMITED
English Name Abbreviation: GYBYS
- Legal Representative: Li Chuyuan
- Secretary to the Board: Huang Xuezheng
Representative of securities affairs: Huang Ruimei
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Guangdong Province, the PRC
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Internet website: <http://www.gybys.com.cn>
Principal place of business in Hong Kong: Room 2005, 20th Floor, Tower Two Lippo Center,
89 Queensway, Hong Kong
- Stock exchanges, name and codes of the Company's shares: A Shares: SSE
Stock Code: 600332 Stock Abbreviation: BAIYUNSHAN
H Shares: HKEx
Stock Code: 0874 Stock Abbreviation: BAIYUNSHAN PH

Company Profile and Financial Highlights

B. PRINCIPAL FINANCIAL DATA AND FINANCIAL INDICATORS

Items	The Reporting Period (unaudited)	The corresponding period of 2017 (unaudited)	Changes as compared with the corresponding period of 2017(%)
Operating income (RMB'000)	14,840,014	11,115,338	33.51
Net profit attributable to the shareholders of the Company (RMB'000)	2,619,000	1,158,140	126.14
Net profit attributable to the shareholders of the Company after deducting non-recurring items (RMB'000)	1,540,996	1,127,109	36.72
Net cash flow from operating activities (RMB'000)	1,202,777	864,999	39.05
Net cash flow from operating activities per share(RMB)	0.74	0.53	39.05
Total profit (RMB'000)	3,011,163	1,400,428	115.02

Items	As at 30 June 2018 (unaudited)	As at 31 December 2017 (audited)	Changes as compared with 31 December 2017 (%)
Net assets attributable to the shareholders of the Company (RMB'000)	20,869,852	18,867,108	10.62
Total assets (RMB'000)	48,191,445	28,310,301	70.23
Equity attributable to the shareholders of the Company per share (RMB)	12.84	11.60	10.62

Principal financial indicators	The Reporting Period (unaudited)	The corresponding period of 2017 (unaudited)	Changes as compared with the corresponding period of 2017(%)
Basic earnings per share (RMB)	1.611	0.712	126.14
Diluted earnings per share (RMB)	1.611	0.712	126.14
Basic earnings per share after deducting non-recurring items (RMB)	0.948	0.693	36.72
Ratio of weighted average return on net assets (%)	12.98	6.46	An increase of 6.52 percentage points
Ratio of weighted average return on net assets after deducting non-recurring items (%)	7.64	6.29	An increase of 1.35 percentage points

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

Company Profile and Financial Highlights

C. NON-RECURRING ITEMS AND THEIR AMOUNTS

Items	The Reporting Period Amount (RMB'000)	Explanation
Gain/(Loss) on disposal of non-current assets	(749)	
Government subsidies recognized as gain/(loss)	141,804	This is the amount of government subsidies received by the Company's subsidiaries which was transferred to non-operating income in the Reporting Period.
Gain/(Loss) on changes in fair value arising from trading financial assets and trading financial liabilities held (excluding the valid hedging business related to normal operating activities of the Company), as well as investment gains received from disposal of trading financial assets, trading financial liabilities and financial assets available for sale	254,927	
Reversal of provision for bad-debts of accounts receivable subject to separate provision	2,331	
Other non-operating income and expenses excluding the above items	(112,979)	
Investment gains from long-term equity investment measured at fair value	825,775	
Income tax effect	(33,149)	
Effect on minority interest	44	
Total	<u>1,078,004</u>	

Company's Business Profile

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

(A) Main Business and Products

Since its establishment, the Company has been committed to the healthcare industry. After years of development, the Company has 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)

The pharmaceutical manufacturing companies and organizations under the Company principally engaged in the R&D and manufacturing of Chinese patent medicine and western medicine, chemical raw materials, intermediates chemical raw materials, biomedicine and natural medicine, etc..

- 1) The Group is an epitome of the southern TCM. The Company has 12 China's 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 under the Company have 3 protected Chinese traditional medicine of national grade, and 80 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, Bao Ji 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

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

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

ii Great Health

The Group and the joint ventures of the Company engaging in the Great Health 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 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.. And among which, GP Corp. is a leading medicine circulation enterprise in Southern China.

iv Great Medical Care

The Group leveraged on 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. The projects that have been invested or founded include Guangzhou Baiyunshan Hospital, the Tibetan-style Health Preservation Castle and Guangzhou Zhongcheng Medical Device.

Company's Business Profile

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

(B) Operating Model

i Great Southern TCM

1) Procurement Model

After completion of the Material Assets Reorganization in 2013, the Group integrated the procurement system of the subsidiaries, and established a unified procurement platform centered on Cai Zhi Lin, Pharmaceutical Import & Export and Guangyao Baiyunshan Hong Kong Company, which intensively centralized procurement of Chinese herbal medicine, raw and auxiliary materials, packaging materials and imported equipment, improved the ability of negotiation on prices and risk resistance, effectively reduced the procurement cost.

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

No.	Procurement	Centralized procurement platform	Description
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 product spots of the raw materials of medicine, ensured the valuable raw materials were stable and controllable through certificated GAP bases, so as to ensure the quantity, quality, time and cost of the bulk Chinese herbal medicine.
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 imported formalities.

Company's Business Profile

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

(B) Operating Model *(Continued)*

2) *Production Model*

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

3) *Sales Model*

(a) Self-operation and agency mode

The Group mainly leverages on sales channels of distributors and agents at all levels to cover the majority of hospitals, community medical services and retail terminals in China. For products tendered by hospitals, the Group carries out tendering process for products tendered by hospitals throughout the country according to the relevant national policies. After winning the bid, it carries out distribution and dispatching process for relevant pharmaceutical products. For products not tendered by hospitals, the Group conducts promotion mainly by agent sales and by way of distribution.

(b) Sales platform

In recent years, the Group has integrated its internal marketing resources to establish a pharmaceutical industry marketing platform with Baiyunshan Pharmaceutical Marketing as the core, which has integrated the marketing business and marketing staff of three enterprises, namely Baiyunshan General Factory, Guang Hua and Jing Xiu Tang.

In addition, the Group has proactively adapted itself to new economy, innovated new models, actively built up e-commerce marketing system and developed the e-commerce business. Currently, the Company's Guangyao Baiyunshan flagship store has set up e-commerce terminal sales platforms at Tmall and JD.com; GYJM.com has become the designated online drugstore for medical insurance that can make payment online without medical insurance card.

Company's Business Profile

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

(B) Operating Model *(Continued)*

ii *Great Health*

1) *Purchasing Mode*

The centralized procurement is mainly through the unified centralized procurement platform established by the Group.

2) *Production Mode*

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

3) *Sales Mode*

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

iii *Great Commerce*

The Group's pharmaceutical circulation business has two models, namely pharmaceutical distribution and retail, whose profit is generated primarily from the supply chain services-dominated pharmaceutical product wholesale and retail businesses.

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

As at 30 June 2018, the Group 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.



Company's Business Profile

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

(C) Current circumstances of the development of the industry

In recent years, with the increasingly intensified efforts in medicine bidding and medical insurance cost control, as well as the slowdown in Gross Domestic Product (GDP) growth and the near completion of full medical insurance coverage, the growth rate of the pharmaceutical industry has declined. On the other hand, the nonstop and unswerving promotion of "Healthy China Strategy" in the country, coupled with the continuous and steady advancement of the pharmaceutical industry's supply-side structural reform, keeps China's pharmaceutical industry maintain a good development trend. The total industrial output value of medicines in the first half of 2018 was RMB1,257.70 billion, representing an increase of 13.5%; total profit amounted to RMB158.60 billion, representing an increase of 14.4%.

(D) Periodic Characteristics

The pharmaceutical manufacturing and trading operations of the Group have no obvious seasonality as they do not have any obvious periodic features. The Great Health segment, with the characteristics and gift feature of its main product, namely Wang Lao Ji herbal tea, has certain seasonality as product demands relates to weather and holidays, for example, the sales will increase when the weather is hot. In addition, as the Group explored the sales channels of the gift market, the sale of the Wang Lao Ji herbal tea has increased during major festivals.

(E) Position of the Company in the Industry

The Group is one of the largest pharmaceutical conglomerates in nationwide. After years of accelerated development and consolidation, the Group has basically established an entire industrial chain layout of the biomedical healthcare industry, forming four business segments of Great Southern TCM, Great Health, Great Commerce and Great Medical Care, as well as three industrial new business formats of e-commerce, capital finance and medical equipment.

(F) The Main Performance Driving Factors

During the Reporting Period, the Group's revenue amounted to RMB14,840,014,000, representing an increase of 33.51% compared with the corresponding period of last year. For the growth factors, please refer to the "Management Discussion and Analysis" in section 4 "Discussion and Analysis of Operation".

Company's Business Profile



B. THE SIGNIFICANT CHANGES IN MAIN ASSETS OF THE GROUP DURING THE REPORTING PERIOD

Applicable Not applicable

During the Reporting Period, the significant changes in main assets of the Group are set out below:

Categories of Assets	30 June 2018 (RMB'000)	Percentages of changes (%)
Total assets	48,191,445	70.23
Include:		
Notes receivable and Accounts receivable	14,408,236	411.58
Advances to suppliers	805,953	214.12
Other receivables	1,109,808	45.59
Inventories	7,008,487	89.41
Fixed assets	2,887,785	38.69
Construction in progress	377,242	32.52
Intangible assets	988,081	35.72
Goodwill	943,849	8,107.69

The main reason of the changes in main assets is the major asset purchase event of acquiring 30% equity interest in GP Corp. in cash by the Company and the asset transfer and change in business registration was completed on 31 May 2018. Thereafter, GP Corp. became a subsidiary which is controlled as to 80% by the Company and was consolidated into the Company's accounts. Please refer to the "B Principal Operations During the Reporting Period - (c) Analysis on Financial Conditions - V Assets and liabilities" in section 4 "Discussion and Analysis of Operation" for details.

Company's Business Profile

C. ANALYSIS ON CORE COMPETITIVE STRENGTH DURING THE REPORTING PERIOD

The Group's core competitive strength 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 has trademarks of 9 nationally renowned brands, 20 renowned brands in Guangdong Province and 25 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 in 2013, the Group promoted the grand brand strategy on the basis of integrating brand resources, implementing the changes in brand marketing model from developing individual brands to grouping brands under one umbrella with collective strategy. On the basis of reviving the Grand Southern TCM, the Group developed the Great Health by promoting the development of Great Commerce, expanding the Great Medical Care and cultivating the development of new forms like capital finance, e-commerce and medical equipment, the Group has extended its coverage of brand value from traditional medical products to Great health products.
- ii Long history in Chinese traditional medicine history and cultural soft power. The Company (includes the holding subsidiaries and joint ventures) 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" (大神口焱清) of BYS, Wang Lao Ji Herbal Tea, the traditional Chinese medicine culture of each of Chen Li Ji and Pan Gao Shou as well as the "Production Technology of Bao Zi Tang Bao Ying Dan" (保滋堂保嬰丹製作技藝) of Zhong Yi. The Group had established the Chen Li Ji Museum (陳李濟博物館), "Chen Li Ji Health Preservation Research Institute" (陳李濟健康養生研究院), "Lingnan Experience Centre of Chinese Medicine Culture" (嶺南中醫藥文化體驗館), Shen Nong Cottage (神農草堂), Cai Zhi Lin Museum (采芝林博物館) and Wang Lao Ji Herbal Tea Museum and had established a number of platforms for the promotion of the "Grand Southern TCM" culture and demonstration of the long history and splendid culture of Chinese medicine and rebuilding the famous brands of Chinese medicine.

Company's Business Profile

C. ANALYSIS ON CORE COMPETITIVE STRENGTH DURING THE REPORTING PERIOD *(Continued)*

- iii The Group has a relatively complete production chain system, including the existing major pharmaceutical assets. Through the internal and external forward integration and backward integration, the Group has formed a thorough raw materials, research and development, production, circulation and terminal production chain. In respect of the supply of Chinese herbs, the Group has more than 71 GAP herbs bases nationwide, which effectively ensure the quality and supply of Chinese herbs and controls the production costs. In respect of research and development of products, the Group continues to build a comprehensive technological innovation system. The Group has built an extensive collaborative network with renowned scientific research institutions at home and abroad to create a synergy effect between both sides for highly effective utilization of favorable resources from various parties, promoting development through the support of technology.
- iv The Group has a large sales network and a broad and stable customer base. The Group has 68 retail chain pharmacy outlets, the Company is one of the first pharmaceutical trading enterprises in Guangdong Province that obtained the GSP certificate. The Group has also established the leading pharmaceutical retail network and medicine logistics center in southern China. With the advantages of its strong market position and marketing network, the Group has established a long-term and reliable business relationship with hundreds of thousands of customers across the country, including medium-and-large-sized hospitals, pharmaceutical wholesalers, distributors and retailers. With the industry-leading digital integrated operation information management system, the holding subsidiary of the Company, Pharmaceutical Company, is one of the first batch of enterprises that assess through the national two-integration management system.
- 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 end of the Reporting Period, the Group and its joint ventures have 6 state-level research and development institutions, 1 state-level enterprise technology center, 2 post-doctoral workstations, 14 provincial-level enterprise technical centers, 16 provincial-level engineering and technology centers, 14 municipal-level enterprise technology center and 14 municipal-level engineering technology research and development centers. There are 5 provincial and ministerial-level key laboratories and 4 municipal-level key laboratories. The Group has core technology including research and development of Chinese medicine and Chinese NHPs, Chinese medicine engineering technology which includes automatic control and online testing, Chinese preparation medicine, supercritical CO₂ extraction, countercurrent extraction, macroporous resin adsorption separation, quality control by finger printing of Chinese medicine, synthesis and technology of cephalosporins antibiotic APIs, sterile powder production technology and preparation agent technology in domestic leading position.

During the Reporting Period, the Group had added a) 3 provincial-level enterprise technical centers, which include Baiyunshan General Factory, Zhong Yi and Nuo Cheng, b) 2 municipal-level enterprise technical centers, which includes Baiyunshan General Factory and Bai Di.



Company's Business Profile

C. ANALYSIS ON CORE COMPETITIVE STRENGTH DURING THE REPORTING PERIOD *(Continued)*

- vi The Group has a forward-thinking, high quality, reasonably structured and extremely innovative team of talents. In recent years, the Group has insisted on attracting talents with competitive work environment and remuneration package, nurturing them with its excellent corporate culture and motivating them with promising corporate visions. Currently, the Group has a strong high-level talent team with 2 Nobel Prize winners, 10 domestic academicians, 9 foreign academicians, 2 State Council Special Allowance experts in-service, 24 chief experts (scientists), 56 doctors and post doctors. The Group also has 6,289 technology personnels, 1,470 of which have intermediate professional title or above.

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

Discussion and Analysis of Operation

A. MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the Group actively adapted to the new normality of economic development according to the development idea of “a year of innovation and efficiency enhancement” by insisting on maintaining stability while making progress, adhering to the requirements of high quality development and accelerating business structure adjustment with innovation driven focus, sustainable stable development was maintained in the operating results. In the first half of 2018, the Group’s revenue amounted to RMB14,840,014,000, increased by 33.51%; the total profit was RMB3,011,163,000, increased by 115.02%; and the net profit attribute to shareholders of the Company was RMB2,619,000,000, increased by 126.14%.

Compared with the corresponding period in 2017, the Group recorded a more remarkable growth in operating results during the Reporting Period, which was mainly attributed to the following reasons, including: (1) During the Reporting Period, the Group made further development progress in various business segments and increased market expansion efforts, resulted in steady and faster development in the principal businesses. (2) During the Reporting Period, the major asset purchase event of acquiring 30% equity interest in GP Corp. in cash by the Company and the asset transfer and change in business registration was completed on 31 May 2018. Thereafter, GP Corp. became a subsidiary controlled as to 80% by the Company and was consolidated into the Company’s accounts. Taking account of the above situation and in accordance with the Accounting Standards for Business Enterprises, income from operations of GP Corp. for June 2018 was included in the Company’s consolidated financial statements, leading to a higher year-on-year growth in operations income. Moreover, for the Company’s existing shareholding in the acquiree on the acquisition date, such shareholding was re-measured at fair value on the acquisition date and the difference of RMB826 million between the fair value and the book value was included in the “investment gain” item of the income statement for the Reporting Period, leading to a substantial year-on-year increase in profit. (3) Through involvement in a non-public share issue by Yi Xin Tang in December 2017, the Company currently holds 41,928,721 shares representing 7.38% shareholding of such company, and is the third largest shareholder of such company. On 8 May 2018, at the general meeting of Yi Xin Tang, the director candidate nominated by the Company was elected as director. At the present stage, the Company and Yi Xin Tang have commenced cooperation in certain projects relating to distribution business. Taking account of the above situation and in accordance with Accounting Standards for Business Enterprises, the Company determined that it has significant influence over Yi Xin Tang and re-categorized its shareholding in Yi Xin Tang as “long-term equity investments” instead of “other non-current financial asset” and the shareholding is accounted by equity method. During the Reporting Period, the fair value of such investment increased by RMB255 million. The growth in value was included in “profit or loss arising from the changes in fair value” item in the income statement for the Reporting Period, leading to a higher total profit for the Reporting Period.

During the Reporting Period, the Group had made solid progress in the following areas:



Discussion and Analysis of Operation

A. MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Firstly, we continued to increase efforts in building channels for potential products and brand promotions, and increased efforts in nurturing key products by concentrating advantageous resources on the creation of “star products”, to improve sales, expand markets and create “fashionable Chinese traditional medicine” with continuous and strong efforts, and to promote transformation in the development of the traditional Chinese medicine segment to facilitate steady and faster development of the Great Southern TCM segment. During the Reporting Period, sales revenue achieved faster growth as compared to the corresponding period of 2017 in star products such as Jin Ge of Baiyunshan General Factory and Xiao Chai Hu granules of Guang Hua and in key products such as Mi Lian Chuan Bei Pi Pa Confection of Pan Gao Shou and Zhuang Yao Jian Shen Pill of Chen Li Ji. Moreover, the Group continued to implement the resources consolidation strategy by refining consolidation work, fully utilizing the distribution network and logistics advantages of the Great Commerce segment and coordinating the synergies and cooperation between the Great Southern TCM segment and the Great Commerce segment to realize complementary enhancement and improvement in these two major business segments.

Secondly, we promoted the quality enhancement in the Great Health segment by focusing on “diversity in products” and using fashionable marketing and regulated operation as driving forces. (1) On the basis of channel building and closely surrounding the “Ji culture”, the gift market was further developed with refinement. WLJ Great Health reinforced the promotions of “drinking red-can Wang Lao Ji to enjoy an auspicious year” during the Spring Festival period by creating a form of “Ji culture” and strongly enhanced the red-can branding effect. (2) The development quality of the Great Health segment was enhanced by fashionable marketing. During the Reporting Period, WLJ Great Health used a celebrity spokesperson for the first time and stimulated consumption among the young customer segment, while the bottled ready-to-drink market and development of the end-user outlet network were enlarged, facilitating continuous growth in sales. Meanwhile, Wang Lao Ji freshly brewed herbal tea shop gradually transformed from the model of direct marketing to franchised marketing and a total of 12 stores were opened. (3) The product strategy of “one core product with diversification, and diversity in products” was implemented to promote diversification of singular products continuously. During the Reporting Period, Baiyunshan mineral water in a new packing and the new coconut milk product of WLJ Great Health were launched successfully.

Thirdly, the quality of the Great Commerce segment was enhanced by adopting “further development + expansion” as the core strategy. (1) The transaction of acquiring 30% equity interest in GP Corp. in cash by the Company and the asset transfer and change in business registration was completed on 31 May 2018. Thereafter, GP Corp. became a subsidiary controlled as 80% by the Company, enlarging the size of the Group’s Great Commerce segment and laying a foundation for the next step of consolidation of segmental resources. (2) By accelerating the development of pharmaceutical logistics extension services and continuous expansion of various classes of hospitals and medical institution business, the hospital business recorded faster growth. By promoting the brand awareness of smart pharmacy of GP Corp. and leveraging on the intelligent decoction centre of Cai Zhi Lin, we actively expanded into the logistics extension service of primary hospitals. (3) Retail business was developed in all directions with diversification and distribution plan. During the Reporting Period, the Company, Yi Xin Tang and Guangdong Guangyao Jishen Equity Investment Fund Management Co., Ltd. (廣東廣藥金申股權投資基金管理有限公司) (“Guangyao Jinshen”) jointly invested to establish Guangzhou Baiyunshan Yi Xin Tang Pharmaceutical Investment and Development Co., Ltd. (廣州白雲山一心堂醫藥投資發展有限公司) by fully utilizing the advantages of resources of all cooperating parties, focusing on the market of Guangdong and through various methods such as merger and acquisition and new establishment to accelerate the formation of pharmaceutical retail terminal chain.

Discussion and Analysis of Operation

A. MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Fourthly, the layout formation of the Great Medical Care segment was enlarged: (1) By integrating peripheral properties to expand in scale, the number of beds in Guangzhou Baiyunshan Hospital was increased to 300, while soft power of the hospital were improved at the same time to enhance medical standard and brand image, business growth was increased. (2) New cooperation projects in the areas of postpartum services and elderly services were explored and developed for gradual commencement, cooperation framework agreements were signed with the relevant institutions on joint construction of postpartum clubs and private elderly homes. (3) The medical device new business was actively nurtured, Zhongcheng Medical Device in which we held an equity interest was used to build an operation platform for the Medical Device Innovation Incubation Park to lay a solid development base for medical and medical device developments.

Fifthly, innovations were driven to optimize and improve the quality of scientific research and products to promote high quality development in advanced technology: (1) Quality management work was stringently monitored to create a high pressure environment for quality management by conducting self-evaluations on weak segments in quality management and potential safety hazards and by providing training in pharmaceutical administrative and legal regulations to enhance awareness on corporate laws and quality. (2) The establishment of an innovation system was enhanced and breakthroughs were achieved in the research of leading and innovative products. During the Reporting Period, Baiyunshan General Factory obtained clinical test approval for Class 1.1 new chemical drugs Ceftriaxime Sodium for injection. It was granted one patent in US and two invention patents in China. The Group and joint ventures had 3 new additional provincial enterprise technological centres and 2 new additional municipal enterprise technological centres. Applications were made for a total of 29 domestic invention patents and 2 utility model patents, and 19 domestic invention patents and 6 utility model patents were granted. The participation of HWBYS in the project of “Chinese and western medicine joint fundamental and translational research on non-alcoholic fatty liver disease” (非酒精性脂肪性肝病中西醫結合基礎與轉化研究) won the First Prize of Science and Technology Award of Guangdong Province in 2017, the project of “System evaluation and research on Chinese and western compound preparations for Xiao Ke Pill” (中西複方製劑消渴丸的系統評價研究) led by Zhong Yi won the Second Prize of Science and Technology Award of Guangdong Province in 2017, the project of “Research on compound traditional Chinese medicine new drug Kunxian capsules for curing rheumatoid arthritis” (治療類風濕關節炎複方中藥新藥昆仙膠囊的研究) reported by Chen Li Ji won the Third Prize of Science and Technology Award of Guangdong Province in 2017. (3) Major projects in scientific research and innovation were further implemented continuously, consistency evaluation for generic drugs were promoted steadily.

Sixthly, internal management was strengthened, operational quality was optimized and management efficiency was enhanced. During the Reporting Period, the Group strictly managed the aspects of party building, strategy, appraisal, regulation, cost, risk, safety and environmental protection, increased efforts to promote information technology construction, enhanced resources consolidation and integrated management, and enhanced the quality of macro-management development.

Discussion and Analysis of Operation

B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD

(A) Analysis on principal operations

1. Analysis of changes in related subjects of financial statements

Items	The Reporting Period (RMB'000)	The corresponding period of 2017 (RMB'000)	Increase/ (Decrease) over the corresponding period of 2017 (%)
Revenue ^(note1)	14,840,014	11,115,338	33.51
Include: income from principal operations	14,725,777	11,033,456	33.46
Cost of sales ^(note2)	10,050,615	6,955,444	44.50
Include: cost from principal operations	10,032,270	6,935,670	44.65
Selling and distribution expenses ^(note3)	2,175,615	2,236,809	(2.74)
General and administrative expenses	708,304	576,032	22.96
Financial expenses	(68,121)	(85,059)	19.91
Net cash flow from operating activities ^(note4)	1,202,777	864,999	39.05
Net cash flow from investing activities ^(note5)	676,412	(1,867,173)	136.23
Net cash flow from financing activities ^(note6)	398,688	(16,513)	2,514.45
Research and development expenses ^(note7)	242,287	133,758	81.14

Notes:

- (1) Revenue for the Reporting Period increased as compared with the same period of last year, mainly due to: ① consolidation of GP Corp.'s accounts into the Company's accounts during the Reporting Period, which led to a year-on-year increase of RMB2.826 billion in this statement item for the Reporting Period; ② a year-on-year increase in principal operations income of the Group's related business segments.
- (2) Cost of sales increased in the Reporting Period as compared with the same period of last year, mainly due to consolidation of GP Corp.'s accounts into the Company's accounts during the Reporting Period, which led to a year-on-year increase of RMB2.617 billion in this statement item for the Reporting Period.
- (3) Selling and administrative expenses for the Reporting Period decreased as compared with the same period of last year, mainly due to reasons as follows: ① WLJ Great Health, the wholly-owned subsidiary of the Company, mainly adopts two methods in promotion investment: sales discount and fee redemption. In 2018, the sales discount method is used more in the promotion investment, leading to increased sales discount and decreased sales expenses in the Reporting Period. Sales expenses in the Reporting Period decreased by RMB 287 million year-on-year. Total promotion investment increased despite decrease in sales expenses. ② Consolidation of GP Corp.'s accounts into the Company's accounts and increased sales expenses such as advertisements and promotions of other subsidiaries of the Company during the Reporting Period, have led to a year-on-year increase of RMB226 million in this statement item for the Reporting Period.

Discussion and Analysis of Operation

B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD (Continued)

(A) Analysis on principal operations (Continued)

1. Analysis of changes in related subjects of financial statements (Continued)

- (4) Net cash flow from operating activities for the Reporting Period increased as compared with the same period of last year, mainly due to: increased cash flow from daily operating activities as a result of growth in income from the Group's principal operations.
- (5) Net cash flow from investing activities for the Reporting Period increased as compared with same period of last year, mainly due to: ① the fact that not only more structured deposits and wealth management products of the Group matured as compared with the same period of last year, but also there were less purchases of structured deposits and wealth management products as compared with the same period of last year; ② consolidation of GP Corp.'s accounts into the Company's accounts during the Reporting Period which led to inclusion of excess of cash and cash equivalents over consideration payment into net cash flow from investment activities.
- (6) Net cash flow from financing activities for the Reporting Period increased as compared with the same period of last year, mainly due to: consolidation of GP Corp.'s accounts into the Company's accounts during the Reporting Period, which also led to consolidation of such corporation's bank borrowings.
- (7) Research and development expenses for the Reporting Period increased as compared with the same period of last year, mainly due to: increase in drug consistency evaluation expenses and expenses on a variety of research projects of the Company's subsidiaries.

2. Analysis on industry, product and regional operation result

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

Operations	Results of principal operations by industry					
	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
	Income from principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2017 (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2017 (%)	Profit margin of principal operations (%)	Increase/ (Decrease) over the same period of 2017 (percentage point)
Great Southern TCM	5,185,910	30.21	2,854,652	34.75	44.95	A decrease of 1.86 percentage points
Great Health	5,275,238	5.52	3,298,879	12.17	37.46	A decrease of 3.71 percentage points
Great Commerce	4,215,090	109.14	3,840,290	108.14	8.89	An increase of 0.44 percentage point
Other	49,539	37.38	38,449	23.15	22.39	An increase of 8.97 percentage points
Total	14,725,777	33.46	10,032,270	44.65	31.87	A decrease of 5.27 percentage points

Discussion and Analysis of Operation

B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD (Continued)

(A) Analysis on principal operations (Continued)

2. Analysis on industry, product and regional 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 2017(%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2017(%)	Profit margin of principal operations (%)	Increase/ (Decrease) over the same period of 2017 (percentage point)
Chinese patent medicine	2,154,696	4.13	1,191,711	(1.35)	44.69	An increase of 3.07 percentage points
Chemical medicine	3,031,214	58.40	1,662,941	82.66	45.14	A decrease of 7.29 percentage points
Total of Great Southern TCM	5,185,910	30.21	2,854,652	34.75	44.95	A decrease of 1.86 percentage points

Notes:

- ① During the Reporting Period, a year-on-year increase in the income from principal operations of the Group's Great Southern TCM segment was mainly due to enhanced promotion and marketing efforts for relevant products; an increased market demand for influenza-related products due to the impact of outbreak of influenza at the beginning of the year; higher prices charged for some products in response to the impact of rising costs, changes in industry policies and other factors.
- ② During the Reporting Period, an increase in the income from principal operations of the Group's Great Health segment was mainly because WLJ Great Health, a wholly-owned subsidiary of the Company, enhanced efforts on promotion of products, accelerated the descending of the market channels, expanded the coverage of channels and established strong foundation for upgrading of Lunar New Year festival market, contributing to a substantial year-on-year increase in the sales volume of the major product, namely the WLJ herbal tea, in the first quarter of 2018. However, the market in the second quarter experienced a de-stocking period, the income recorded a year-on-year increase of 5.52% in the first half of the year. As WLJ Great Health increased the sales discount in the first half of 2018, which has in turn affected the growth of sales income; in fact, the sales volume of WLJ Great Health major product, namely canned WLJ herbal tea, in the first half of 2018 increased by approximately 12%.
- ③ Because of the consolidation of GP Corp.'s accounts into the Company's accounts, GP Corp.'s principal operations income of RMB2.821 billion for June 2018 was included in the principal operations income of the Great Commerce segment according to its business type. If the impact of GP Corp. is excluded, the Great Commerce segment is affected by changes in national medical reform policies, and the pharmaceutical wholesale business decreased year-on-year.

Discussion and Analysis of Operation

B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD (Continued)

(A) Analysis on principal operations (Continued)

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

2) The regional sales of the Group's business in the first half of 2018 are as follows:

Regions	Income from principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2017(%)
Southern China	8,221,052	33.51
Eastern China	2,662,352	39.60
Northern China	1,205,525	1.20
North-Eastern China	256,064	47.34
South-Western China	1,797,451	47.08
North-Western China	567,899	51.50
Exports	15,434	122.56
Total	14,725,777	33.46

3. Others

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

Applicable Not applicable

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

Applicable Not applicable

- The major asset acquisition of 30% equity interest in GP Corp. in cash by the Company and the asset transfer and change in business registration was completed on 31 May 2018. Thereafter, GP Corp. is owned as to 80% by the Company and its accounts are consolidated into the Company's accounts; and the shareholding is accounted by long-term equity investments cost method. Pursuant to the relevant accounting standards for business combination not under same control, for the existing shareholding in the acquiree prior to the acquisition date, such shareholding shall be re-measured at fair value on the acquisition date and the difference of RMB826 million between the fair value and the book value was included in "Investment Income" item of the income statement for the Reporting Period.
- During the Reporting Period, the Company re-categorized its shareholding in Yi Xin Tang as "long-term equity investments" instead of "other non-current financial asset" and the shareholding was accounted by equity method. An appraisal institution was also engaged to assess the fair value as at 8 May 2018. Such fair value of the investment was RMB255 million higher than the value at the beginning of 2018. The growth in value was included in "Gains from changes in fair value" item in the income statement for the Reporting Period.

Discussion and Analysis of Operation

B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD *(Continued)*

(C) Analysis on Financial Conditions

i. Liquidity

As at 30 June 2018, the current ratio of the Group was 1.63 (31 December 2017: 2.60), and its quick ratio was 1.34 (31 December 2017: 2.15). Accounts receivable turnover rate was 5.33 times, representing a decrease of 74.84% as compared with the corresponding period of 2017. Inventory turnover rate was 3.72 times, representing a decrease of 29.47% as compared with the corresponding period of 2017.

ii. Financial resources

As at 30 June 2018, cash and cash equivalents of the Group amounted to RMB13,774,438,000 (31 December 2017: RMB11,495,535,000), of which approximately 99.8% and 0.2% were denominated in Renminbi and foreign currencies, such as Hong Kong dollar, respectively.

As at 30 June 2018, the Group had bank borrowings of RMB7,936,591,000 (31 December 2017: RMB42,807,000), including short-term borrowings of RMB7,202,300,000 (31 December 2017: RMB11,500,000), current portion of non-current liabilities of RMB69,137,000 (31 December 2017: RMB31,307,000), and long-term borrowings of RMB665,154,000 (31 December 2017: RMB0).

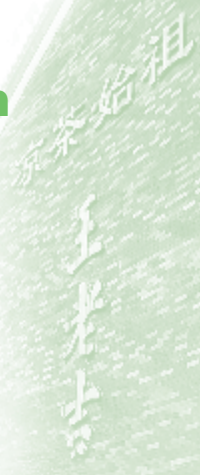
iii. Capital structure

As at 30 June 2018, the Group's current liabilities amounted to RMB24,345,886,000 (31 December 2017: RMB8,268,854,000), representing an increase of 194.43% as compared with the beginning of 2018, and its long-term liabilities was RMB1,746,784,000 (31 December 2017: RMB782,705,000), with an increase of 123.17% as compared with the beginning of 2018. Shareholders' equity attributable to the shareholders of the Company amounted to RMB20,869,852,000 (31 December 2017: RMB18,867,108,000), with an increase of 10.62% as compared with the beginning of 2018.

iv. Capital expenditure

The Group expects that the capital expenditure for 2018 to be approximately RMB1,099 million among which the expenditure in the first half of 2018 amounted to RMB528 million (in the first half of 2017: RMB135 million), which was mainly applied in the construction of production sites and information system. The Group will raise funds to meet the capital requirements of capital expenditure by resorting to its internal funds, bank loans, etc..

Discussion and Analysis of Operation



B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD (Continued)

(C) Analysis on Financial Conditions (Continued)

v. Assets and liabilities

Item	As at 30 June 2018 (RMB'000)	% of the total assets (%)	As at 31 December 2017 (RMB'000)	% of the total assets (%)	Increase/ (Decrease) over 2017 (%)	Reasons for changes
Financial assets held for trading	711	0.00	0	0.00	100.00	The consolidation of GP Corp.'s accounts into the Company's account for the Reporting Period led to a change in balance of this statement item.
Notes receivable and Accounts receivable	14,408,236	29.90	2,816,424	9.95	411.58	The consolidation of GP Corp.'s accounts into the Company's account for the Reporting Period led to an increase in balance of accounts receivable and notes receivable.
Advances to suppliers	805,953	1.67	256,572	0.91	214.12	As at 30 June 2018, the increase in advances to suppliers was mainly due to: (1) the consolidation of GP Corp.'s accounts into the Company's account for the Reporting Period, which led to an increase of RMB622 million in balance of advances to suppliers; (2) decrease of adoption of advance payment method for purchases by certain subsidiaries of the Company.
Other receivables	1,109,808	2.30	762,257	2.69	45.59	As at 30 June 2018, the consolidation of GP Corp.'s accounts into the Company's account for the Reporting Period led to an increase of RMB817 million in other receivable and a decrease of RMB455 million in balance of dividends receivable.
Inventories	7,008,487	14.54	3,700,223	13.07	89.41	As at 30 June 2018, the increase of inventories was mainly due to: (1) the consolidation of GP Corp.'s accounts into the Company's account for the Reporting Period, which led to an increase of RMB3.772 billion in balance of this statement item; and (2) substantial accumulation of stock by WLJ Great Health, a wholly-owned subsidiary of the Company, at the end of 2017 in preparation of peak sales season in the coming Spring Festival, and the stock level have been restored to normal level during the Reporting Period.
Other non-current financial assets	362,598	0.75	975,857	3.45	(62.84)	As at 30 June 2018, the decrease in other non-current financial assets was mainly due to: (1) the implementation of new financial instrument recognition and measurement standard by the Company for re-categorization of financial assets; (2) the transfer of the Company's shareholding in Yi Xin Tang to "long-term equity investments" item as required by the relevant accounting standards.
Fixed assets	2,887,785	5.99	2,082,245	7.36	38.69	The consolidation of GP Corp.'s accounts into the Company's account for the Reporting Period led to an increase in balance of this statement item.
Construction in progress	377,242	0.78	284,672	1.01	32.52	As at 30 June 2018, the increase in construction in progress was mainly due to: (1) the consolidation of GP Corp.'s accounts into the Company's account for the Reporting Period, which led to an increase in balance of this statement item; and (2) an increase in project investment by subsidiaries of the Company.
Intangible assets	988,081	2.05	728,009	2.57	35.72	The consolidation of GP Corp.'s accounts into the Company's account for the Reporting Period, which led to an increase in balance of this statement item.

Discussion and Analysis of Operation

B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD *(Continued)*

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

v. Assets and liabilities *(Continued)*

Item	As at 30 June 2018 (RMB'000)	% of the total assets (%)	As at 31 December 2017 (RMB'000)	% of the total assets (%)	Increase/ (Decrease) over 2017 (%)	Reasons for changes
Goodwill	943,849	1.96	11,500	0.04	8,107.69	As at 30 June 2018, the major asset purchase of further acquisition of 30% equity interest in GP Corp. was completed. An increase in goodwill occurred as the acquisition was a business combination not under same control.
Long-term prepaid expenses	75,537	0.16	49,067	0.17	53.95	The consolidation of GP Corp.'s accounts into the Company's account for the Reporting Period, which led to an increase in balance of this statement item.
Short-term borrowings	7,202,300	14.95	11,500	0.04	62,528.70	The consolidation of GP Corp.'s accounts into the Company's account for the Reporting Period, which led to a substantial increase in balance of this statement item.
Notes payable and Accounts payable	10,551,237	21.89	3,054,427	10.79	245.44	The consolidation of GP Corp.'s accounts into the Company's account for the Reporting Period, which led to an increase in balance of notes payable and accounts payable.
Advances from customers	1,174,419	2.44	1,888,892	6.67	(37.82)	As at 30 June 2018, advances from customers which had been collected by subsidiaries were recognized in the Reporting Period.
Taxes payable	339,875	0.71	206,462	0.73	64.62	As at 30 June 2018, the increase in taxes payable was mainly due to: (1) an increase in unpaid value-added tax payable and enterprise income tax payable of the Group; and (2) the consolidation of GP Corp.'s accounts into the Company's account for the Reporting Period, which led to an increase in balance of this statement item.
Other payables	4,382,982	9.09	2,445,094	8.64	79.26	As at 30 June 2018, the increase of this statement item was mainly due to: (1) the consolidation of GP Corp.'s accounts into the Company's account for the Reporting Period, which led to an increase in balance of this statement item by RMB921 million; (2) RMB619 million unpaid dividend of the Company, which led to an increase of dividend payable within the item; and (3) the fact that subsidiaries of the Company made provision for increased relevant expenses for marketing such as sales discount and advertising cost during the Reporting Period.
Current portion of non-current liabilities	69,137	0.14	31,307	0.11	120.83	As at 30 June 2018, the increase of this statement item was mainly due to: (1) the consolidation of GP Corp.'s accounts into the Company's account for the Reporting Period, which led to an increase in balance of this statement item; and (2) the maturity of long-term borrowings of subsidiaries of the Company with maturity within a year, leading to a decrease in balance of this item.
Long-term borrowings	665,154	1.38	0	0.00	100.00	The consolidation of GP Corp.'s accounts into the Company's account for the Reporting Period led to an increase in balance of this statement item.
Long-term payables	136,988	0.28	35,127	0.12	289.98	The consolidation of GP Corp.'s accounts into the Company's account for the Reporting Period led to an increase in balance of this statement item.

Discussion and Analysis of Operation



B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD (Continued)

(C) Analysis on Financial Conditions (Continued)

v. Assets and liabilities (Continued)

Item	As at 30 June 2018 (RMB'000)	% of the total assets (%)	As at 31 December 2017 (RMB'000)	% of the total assets (%)	Increase/ (Decrease) over 2017 (%)	Reasons for changes
Deferred tax liabilities	334,838	0.69	114,788	0.41	191.70	As at 30 June 2018, the relatively substantial increase in deferred tax liabilities was mainly due to: (1) the consolidation of GP Corp.'s accounts into the Company's account for the Reporting Period, which led to an increase in balance of this statement item; (2) an increase in the time discrepancy of enterprise income tax arising from adjustment to income tax rates of subsidiaries of the Company.
Other comprehensive income	(3,648)	(0.01)	(6,819)	(0.02)	46.50	As at 30 June 2018, the change was due to exchange rate differences on conversion of foreign currencies by subsidiaries of the Company.
Undistributed profits	8,217,769	17.05	6,218,195	21.96	32.16	As of 30 June 2018, the increase in undistributed profits was mainly due to: (1) the consolidation of GP Corp.'s accounts into the Company's account for the Reporting Period, resulting in an increase of RMB1,337 million in aggregate upon consolidation of the undistributed profit of GP Corp. and the value of interest in long term investment held by the Company prior to the acquisition date as determined by fair value as at the acquisition date; and (2) the increase in net profit realized for the Reporting Period by the Company and its subsidiaries.
Minority interest	1,228,922	2.55	391,633	1.38	213.79	As at 30 June 2018, the consolidation of GP Corp.'s accounts into the Company's account for the Reporting Period led to an increase in balance of this statement item

vi. Exposure to fluctuations in exchange rates

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

vii. Contingent liabilities

As at 30 June 2018, the Group had no material contingent liabilities.

viii. Charge on the Group's assets

As at 30 June 2018, Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, acquired the overdraft amounted to HKD300,000, letter of credit and 90 days credit total amounted to HKD100,000,000 from Bank of China (Hong Kong) Co., Ltd., secured by the original value amounted to HKD8,893,000, and net value amounted to HKD6,329,000 of the buildings of fixed assets and the original value amounted to HKD6,843,000 and net value amounted to HKD3,704,000 of investment properties, and the issued but undue L/C amounted to EUR2,000, USD535,000, JPY94,553,000.

Discussion and Analysis of Operation

B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD *(Continued)*

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

ix. Bank loans, overdraft and other borrowings

As at 30 June 2018, the bank loans of the Group amounted to RMB7,936,591,000 (31 December 2017: RMB42,807,000), with an increase of RMB7,893,784,000 as compared with the beginning of 2018. The above bank loans included short-term loans of RMB7,202,300,000 and current portion of non-current liabilities of RMB69,137,000, long-term loans of RMB665,154,000.

x. Gearing ratio

As at 30 June 2018, the Group's gearing ratio (total liabilities/total assets × 100%) was 54.14% (31 December 2017: 31.97%).

xi. Material investment

As at 30 June 2018, for details of the Group's major foreign investment please refer to (E) Overall analysis on foreign equity investment- (1) Significant equity investment" in section 4 "Discussion and Analysis of Operation".

(D) Issues and difficulties in operations and plans for the second half of 2018

2018 was a critical year of changes in the policy environment for the pharmaceutical industry in China. The pharmaceutical industry was also in the process of significant transformation driven by policies. On one hand, while pressure on operations from policies such as fees controlled by medical insurance, price reduction in tender bidding and price negotiation by second bargaining still existed, growth of the industry was mainly driven by innovative products and upgrading in consumption. On the other hand, outcomes of key reforms such as new edition of medical insurance catalogue, consistency evaluation, acceleration in assessment and approval of innovative new drugs entered the fruition period consecutively. In addition, during the first half of 2018, the reform in national institutions and the resulting three new authorities, namely the State Administration for Medical Insurance (國家醫療保障局), the State Hygiene and Health Commission (國家衛生健康委員會) and the State Administration for Market Regulation (國家市場監督管理總局), will also have impact on the next step of medical reforms. These changes will continue to create new opportunities and challenges in the pharmaceutical industry in the second half of 2018.

Discussion and Analysis of Operation

B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD *(Continued)*

(D) Issues and difficulties in operations and plans for the second half of 2018 *(Continued)*

In response to the challenges and opportunities faced by the pharmaceutical industry, the Group will focus on the implementation of the following tasks in the second half of 2018:

1. Focus on “Big Products” to continue promoting the robust development of the Great Southern TCM segment: Accelerate the progress of “Star Products Project” to nurture more key products; continue to enhance brand building and based on the “fashionable Chinese Medicine” concept to increase brand investment and promotional efforts and to regulate brand franchising management; to accelerate the progress of integrated marketing and refined integration.
2. Continue to adhere to the tripod strategy of “fashion, technology and culture” by using “diversity in products” as core to promote breakthrough development in the Great Health segment: Implement differentiated sales strategy, accelerate downward development of market channels, enhance sales volume and brand influence; implement the strategy of diversified products, increase promotion efforts for new products of Great Health and Wang Lao Ji freshly brewed herbal tea; implement international expansion strategy, increase product exports and layout formation of overseas markets.
3. Continue to adhere to the main line of “further development + expansion” by accelerating the expansion and development of modern pharmaceutical logistics extension services, accelerating downward development of end-user distribution and delivery business, accelerating the expansion network for pharmaceutical retail business, and promote the development of the Great Commerce segment.
4. Accelerate the development of new business and new modes of business by creating characterized and differentiated medical service industries actively, constructing a high standard pharmaceutical e-commerce system, and accelerating the implementation of the medical device project.
5. Promote technological innovations by creating a generic and innovative combined mode for research and development and improving the technological innovation system platform; promote technical innovations by further improving the quality management system and building a more effective quality system; promote management innovations by enhancing top level design, avoiding material risks and building an IT, scientific and highly efficient management system.
6. Pursue scientific planning, coordination and layout formation by using the “industrial base” as the basis to accelerate the construction of industrial base, enhance production capacity and optimize layout formation; strengthen the coordination management of the Group’s overall production capacity development by using the drug marketing licensee system (pilot) to promote consolidation of production capacity steadily while enhancing the intelligent production standard; enhance safety and environmental management by enhancing the awareness of safety and environmental protection and improving management standards.
7. Continue to increase capital operation efforts by actively promoting investments and merger and acquisition projects in the four major segments, developing new financing channels and promoting the development of fund investment and financing businesses.
8. Continue to reinforce internal management and regulated operation, avoid risks and enhance management efficacy.

Discussion and Analysis of Operation

B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD *(Continued)*

(E) Analysis on investment

Overall analysis on foreign equity investment

As at the end of the Reporting Period, the foreign equity investment of the Company amounted to RMB2,109,792,000, with a growth of RMB101,311,000 as compared with the end of last year, mainly due to ①The Company's 80% shareholding in GP Corp., the consolidation of GP Corp.'s accounts into the Company's accounts and the application of long-term equity investments cost method for accounting of GP Corp.'s shareholding, which led to a decrease in the long-term equity investments; ② Re-categorization of the Company's shareholding in Yi Xin Tang as "long-term equity investments" instead of "other non-current financial asset", which led to an increase in the long-term equity investments; and ③ The application of equity method by the Group for recognition of investment gain from joint ventures and associate companies, which led to an increase in the long-term equity investments.

1) Significant equity investment

Applicable Not applicable

On 31 May 2018, the Company completed the asset transfer and change in business registration in relation to the major asset acquisition of 30% equity interest held by Alliance BMP in GP Corp. at the cash consideration of RMB1,094.1 million. Thereafter, GP Corp. is owned as to 80% by the Company and its accounts are consolidated into the Company's accounts, hence further enhancing the development of the Company's Great Commerce.

2) Significant non-equity investment

Applicable Not applicable

3) Financial assets evaluating at fair value

Applicable Not applicable

Discussion and Analysis of Operation



B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD (Continued)

(E) Analysis on investment (Continued)

Stock Investment

Number	Type of Stock	Stock Code	Stock name	The initial	Number of	Book value	% of stock	Gain/(Loss) during the Reporting Period
				amount of investment (RMB'000)	shares held as at the end of the Reporting Period (share)	as at the end of the Reporting Period (RMB'000)	investment as at the end of the Reporting Period (%)	
1	A Share of SSE	600038	AVIC Helicopter Co.,Ltd	1,806	57,810	2,312	0.83	(378)
2	A Share of SSE	600664	Harbin Pharmaceutical Group Co.,Ltd	3,705	376,103	1,493	0.54	(504)
3	A Share of Shenzhen Exchange	000950	*ST Jian Feng	150,145	25,992,330	250,306	89.87	—
4	A Share of SSE	601328	Bank of Communications	525	394,567	2,265	0.81	(185)
5	A Share of SSE	601818	Everbright Bank	10,725	6,050,000	22,143	7.95	(2,360)
Other stock investments held as at the end of the Reporting Period								
Gain/(Loss) of stock investments sold during the Reporting Period								
Total				166,906	32,870,810	278,519	100.00	(3,427)

(F) Significant assets and equity sales

Applicable Not applicable

(G) Details of the main subsidiaries and joint ventures of the Company during the Reporting Period

Name of enterprise	Business nature	Major products or services	Registered capital (RMB'000)	Equity directly held by the Company (%)	Total assets (RMB'000)	Net assets (RMB'000)	Net profit (RMB'000)
Subsidiary							
WLJ Great Health	Manufacturing	Production and sales of pre-packaged food, dairy products, etc	900,000	100.00	5,718,963	2,739,438	560,180

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

(H) Structured subject matter controlled by the company

Applicable Not applicable



Discussion and Analysis of Operation

C. OTHER MATTERS

(A) Warning and explanation in respect of anticipated cumulative profit may be a loss from the beginning of 2018 to the end of the next reporting period or substantial change as compared with the corresponding period of last year of the cumulative net profit

Applicable Not applicable

(B) Risk exposure

Applicable Not applicable

(C) Other disclosures

Applicable Not applicable

Major Events

A. INFORMATION ON GENERAL MEETINGS OF SHAREHOLDERS

Session	Date of the meeting	Index on the designated website for publication of the resolution	The date of publication of the resolution
The First Extraordinary General Meeting in 2018	29 March 2018	http://www.sse.com.cn	30 March 2018 (SSE)
		http://www.hkex.com.hk	29 March 2018 (HKEx)
Annual General Meeting of 2017	22 June 2018	http://www.sse.com.cn	23 June 2018 (SSE)
		http://www.hkex.com.hk	22 June 2018 (HKEx)

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

The Board of the Company resolved not to declare interim dividend for the six months ended 30 June 2018, nor propose any increase in share capital from the capitalization of capital reserve.

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

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

C. PERFORMANCE OF UNDERTAKINGS

Applicable Not applicable

Major Events

C. PERFORMANCE OF UNDERTAKINGS *(Continued)*

(A) Independence of listed company

Item	Content
Background of the undertakings	Undertakings related to Major Assets Reorganization in 2013
Party given the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none">1. 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, organization and business.2. The undertaking letter will remain effective so long as the Company legally and validly exists and GPLH owns controlling interest in the Company.
Time and period of the undertakings	The undertaking was given on 29 February 2012 and is valid permanently.
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Being complied with or not	Yes

C. PERFORMANCE OF UNDERTAKINGS *(Continued)*

(B) Avoidance of competition

Item	Content
Background of the undertakings	Undertakings related to Major Assets Reorganization in 2013
Party given 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 ("subsidiaries", except for GPLH ("GPC" is the Company) 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 in 2013 ("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 undertakings	The undertaking was given on 29 February 2012 and is valid permanently.
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Being complied with or not	Yes

Major Events

C. PERFORMANCE OF UNDERTAKINGS *(Continued)*

(C) Regulating connected transactions

Item	Content
Background of the undertakings	Undertakings related to Major Assets Reorganization in 2013
Party given the undertakings	Controlling shareholder
Undertakings	<ol style="list-style-type: none">1. 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.2. 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 undertakings	The undertaking was given on 29 February 2012 and is valid permanently.
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Being complied with or not	Yes

C. PERFORMANCE OF UNDERTAKINGS *(Continued)*

(D) Undertakings related to which have not yet been transferred trademarks

Item	Content
Background of the undertakings	Undertakings related to Major Assets Reorganization in 2013
Party given the undertaking	Controlling shareholder, the Company
Undertakings	<p>GPHL and the Company mutually undertake as follows in relation to the transactions under the Trademark Custody Agreement between Guangzhou Pharmaceutical Company Limited and Guangzhou Pharmaceutical Holdings Limited (the "Agreement"):</p> <ol style="list-style-type: none"> Both parties will enter into a supplemental agreement ("Supplemental Agreement") to the Agreement as soon as possible after the Agreement becoming effective and before they enter into the first new or renewal licensing agreement relating to the licensing of Wang Lao Ji trademarks in custody under the Agreement, with the specific arrangement for new/renewal trademark license to be negotiated by the parties separately. Both parties also agreed that the Supplemental Agreement shall (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 undertakings	Commitment made on 26 March 2012 and the period of validity is up to the date on which the undertakings have been performed.
Any period for performance	N/A
Whether timely and strictly performed	Being performed
Being complied with or not	Yes

Major Events

C. PERFORMANCE OF UNDERTAKINGS *(Continued)*

(E) Undertakings related to properties with defects

Item	Content
Background of the undertakings	Undertakings related to Major Assets Reorganization in 2013
Party given the undertakings	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 jeopardized.2. Guaranteeing that the subsisting listed company will be able to continue occupying and using such properties after completion of the Major Assets Reorganization in 2013 and that it will not incur any additional cost nor suffer any material adverse impact due to such issue.3. After completion of the Major Assets Reorganization in 2013, 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 there under.
Time and period of the undertakings	The undertaking was given on 29 February 2012 and is valid permanently.
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Being complied with or not	Yes

C. PERFORMANCE OF UNDERTAKINGS *(Continued)*

(F) Undertakings related to transfer of trademarks

Item	Content
Background of the undertakings	Undertakings related to Major Assets Reorganization in 2013
Party given the undertakings	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

C. PERFORMANCE OF UNDERTAKINGS *(Continued)*

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

Item	Content
Time and period of the undertakings	The original undertaking was given on 29 February 2012. GPLH gave a supplemental undertaking in respect of the relevant contents on 15 June 2012. The undertaking remains valid until it has been fully performed.
Valid period for performance	No
Whether timely and strictly performed	<p>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.</p> <p>As approved at the 8th meeting of the sixth session of the Board of the Company, the resolution on the amendment to the performance period of injection of Wang Lao Ji trademark series was submitted to the first extraordinary general meeting in 2015 held on 13 March 2015 for consideration and was approved.</p>
Being complied with or not	Yes

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

D. APPOINTMENT, DISMISSAL OR CHANGE IN APPOINTMENT OF AUDITORS

Situation on appointment, dismissal or change in appointment of auditors

Applicable Not applicable

According to the relevant documents issued by the Ministry of Finance of the PRC and the State-owned Assets Supervision and Administration Commission of Guangzhou Municipal Government, there are restrictions on the number of years in which an accounting firm provides audit services for state-owned enterprises and their subsidiaries. Considering that BDO China Shu Lun Pan Certified Public Accountants LLP (“BDO”) has provided audit services for the Company for 5 consecutive years, BDO will no longer serve as auditor of the Company with effect from the conclusion of 2017 Annual General Meeting after communicating with the Company. For details, please refer to the “Announcement of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited on Appointing an Accounting Firm” dated 26 April 2018 (Announcement No. 2018-045).

The Company held the ninth meeting of the seventh session of the Board on 26 April 2018 at which a proposal was approved to engage Ruihua Certified Public Accountants LLP (“Ruihua”) as the financial audit institution of the Company for year 2018 with a term of one year. The proposal was reviewed and approved at the 2017 Annual General Meeting of the Company held on 22 June 2018.

Major Events

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

Situation on change in appointment of auditors during the audit period

Applicable Not applicable

Explanation given by the Company on the "Non standard auditor's report" issued by the auditors

Applicable Not applicable

Explanation given by the Company on the financial report in previous yearly report financial on the "Non standard auditor's report" issued by the auditors

Applicable Not applicable

E. MATTERS RELEVANT TO BANKRUPTCY AND SCHEME OR ARRANGEMENT

Applicable Not applicable

Major Events

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

Applicable Not applicable

The litigation and arbitration during the Reporting Period are as follow:

(A) Litigation and arbitration involving controlling shareholders

Party concerned	Litigation	Status	Index to announcement
GPHL	Case in relation to dispute over unauthorized use of the specific name, package and decoration of famous product between GPHL and Fujian JDB Beverage Co., Ltd.	Fujian Higher People's Court has issued the first instance judgment	Announcement dated 29 January 2018 on the websites of SSE and HKEx
	Case in relation to dispute over unauthorized use of the specific name, package and decoration of famous product between GPHL and Zhejiang JDB Beverage Co., Ltd. and Hangzhou JDB Beverage Co., Ltd., respectively	Zhejiang Higher People's Court has issued the first instance judgment	Announcement dated 14 March 2018 on the websites of SSE and HKEx
	Case in relation to dispute over unauthorized use of the specific name, package and decoration of famous product between GPHL and Zhejiang JDB Beverage Co., Ltd. and Hangzhou JDB Beverage Co., Ltd.	Beijing Daxing District People's Court has issued the first instance judgment	Announcement dated 30 March 2018 on the websites of SSE

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

(Continued)

(B) Litigation and arbitration involving the Group

- i. On 21 November 2014, the Company submitted a ruling request to Committee of South China International Economic and Trade Arbitration based on the agreement stipulated on Guangzhou Wang Lao Ji Pharmaceutical Holdings Shareholders Contract (“Shareholder Contract”) that Golden Force Pharmacy Limited (“Golden Force Pharmacy”) shall transfer its 48.0465% equity interest in Wang Lao Ji to the Company pursuant to the agreement on Shareholder Contract at a consideration equivalent to the product of the assessed net assets per share and 98,378,439 shares held by Golden Force Pharmacy.

On 25 December 2017, the Company received the Arbitration Award Hua Nan Guo Zhong Shen Cai [2017] No. 578 (the “Award”). The Award ruled that Golden Force Pharmacy shall perform its share transfer obligation to transfer its entire shareholding in Wang Lao Ji (i.e., total 98,378,439 shares) at the net asset value of RMB3.75 per share, before a total transfer price of RMB368,919,146.25 (inclusive tax) to the Company. (For details, please refer to the “Announcement of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited in relation to the result of the Arbitration” dated 25 December 2017, announcement No. 2017-087).

- ii. In March 2018, the Company received a writ of summons (2018) Yue 03 Min Te No. 49 served by the Intermediate People’s Court of Shenzhen, Guangdong Province, which was mainly related to the application made by Golden Force Pharmacy to the Intermediate People’s Court of Shenzhen, Guangdong Province, to set aside the arbitral award (For details, please refer to the announcement dated 26 March 2018 of the Company regarding the Receipt of a Writ of Summons from the Intermediate People’s Court of Shenzhen, Guangdong Province, by Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited, announcement No. 2018-024).

The Company received a Written Civil Ruling (2018) Yue 03 Min Te No. 49 (“Written Civil Ruling”) handed down by the Intermediate People’s Court of Shenzhen, Guangdong Province, on 11 June 2018. Pursuant to the Written Civil Ruling, the case was determined as follows:

“The Application from Applicant, Golden Force Pharmacy Limited, was dismissed. The cost of application RMB400 for the case shall be borne by the Applicant, Golden Force Pharmacy Limited.”

For details, please refer to the announcement dated 11 June 2018 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 announcements on the websites of the SSE and the HKEx.

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



Major Events

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

Applicable Not applicable

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

Applicable Not applicable

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

Applicable Not applicable

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

The Employee Stock Ownership Scheme (2015) was completed on 17 August 2016, a total of 1,209 employees participated in the Employee Stock Ownership Scheme (2015), 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 the Depository Corporation. The Aboved Shares are shares subject to trading restrictions with a lock-up period of 36 months. 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

J. MATERIAL RELATED PARTY TRANSACTIONS

(A) The related party transactions in relation to the ordinary operations

1. *Events disclosed in temporary announcements and with no progress or change in subsequent implementation*

Applicable Not applicable

2. *Events disclosed in temporary announcements and with progress or change in subsequent implementation*

Applicable Not applicable

During the Reporting Period, the details of the related party transactions in relation to the ordinary operations are as follows:

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
Hua Cheng	Controlled by the same parent company	Purchase of goods	Medicine or pharmaceutical products	Market price	2,689	0.03	Cash
HWBYS	Joint venture	Purchase of goods	Medicine or pharmaceutical products	Market price	35,784	0.44	Cash
GP Corp.	Joint venture	Purchase of goods	Medicine or pharmaceutical products	Market price	42,995	0.52	Cash
Wang Lao Ji	Joint venture	Purchase of goods	Medicine or pharmaceutical products	Market price	558,752	6.81	Cash
Baxter Qiao Guang	Joint venture	Purchase of goods	Medicine or pharmaceutical products	Market price	941	0.01	Cash
Subtotal					641,161	7.81	
Yi Xin Tang	Associate companies	Sale of products	Medicine or pharmaceutical products	Market price	3,476	0.02	Cash
HWBYS	Joint venture	Sale of products	Medicine or pharmaceutical products	Market price	92,508	0.63	Cash
GP Corp.	Joint venture	Sale of products	Medicine or pharmaceutical products	Market price	152,487	1.04	Cash
Wang Lao Ji	Joint venture	Sale of products	Medicine or pharmaceutical products	Market price	381,791	2.61	Cash
Nuo Cheng	Joint venture	Sale of products	Medicine or pharmaceutical products	Market price	10	0.00	Cash
Baxter Qiao Guang	Joint venture	Sale of products	Medicine or pharmaceutical products	Market price	453	0.00	Cash
Hua Cheng	Controlled by the same parent company	Sale of products	Medicine or pharmaceutical products	Market price	73,487	0.50	Cash
Subtotal					704,212	4.80	

Major Events

J. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(A) The related party transactions in relation to the ordinary operations (Continued)

2. Events disclosed in temporary announcements and with progress or change in subsequent implementation (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	677	0.92	Cash
Hua Cheng	Controlled by the same parent company	Provision of labour service	Advertising agency	Market price	1,284	1.74	Cash
HWBYS	Joint venture	Provision of labour service	Advertising agency	Market price	28,002	37.97	Cash
GP Corp.	Joint venture	Provision of labour service	Advertising agency	Market price	83	0.11	Cash
Wang Lao Ji	Joint venture	Provision of labour service	Advertising agency	Market price	40,976	55.56	Cash
Baxter Qiao Guang	Joint venture	Provision of labour service	Advertising agency	Market price	28	0.04	Cash
Wang Lao Ji	Joint venture	Provision of labour service	Consigned processing	Market price	11,306	89.36	Cash
HWBYS	Joint venture	Provision of labour service	Consigned processing	Market price	710	5.61	Cash
HWBYS	Joint venture	Provision of labour service	R&D services	Market price	153	5.69	Cash
Subtotal					83,219		
GPHL	Parent Company	Acceptance of patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	63,106	82.64	Cash
Wang Lao Ji	Joint venture	Provision of patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	8,958	91.11	Cash
HWBYS	Joint venture	Provision of patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	874	8.89	Cash
GPHL	Parent Company	Other	Rental assets	Agreement price	1,368	2.48	Cash
GPHL	Parent Company	Other	Leased assets	Agreement price	188	0.31	Cash
GP Corp.	Joint venture	Other	Leased assets	Agreement price	978	1.59	Cash
Baxter Qiao Guang	Joint venture	Other	Leased assets	Agreement price	1,486	2.42	Cash
Nuo Cheng	Joint venture	Other	Leased assets	Agreement price	1,129	1.84	Cash
HWBYS	Joint venture	Other	Leased assets	Agreement price	12	0.02	Cash
Total					1,506,691		

Note: The transaction of acquiring 30% equity interest in GP Corp. in cash by the Company and the asset transfer and change in business registration was completed on 31 May 2018. Thereafter, GP Corp. became a subsidiary controlled as to 80% by the Company and was consolidated into the Company's accounts. Thus, GP Corp. is no longer the related party to the Company from 01 June 2018.

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

J. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(A) The related party transactions in relation to the ordinary operations *(Continued)*

3. *Events undisclosed in temporary announcement*

Applicable Not applicable

(B) Related party transactions from acquisition and disposal of assets or equity interests

1. *Events disclosed in temporary announcements and with no progress or change in subsequent implementation*

Applicable Not applicable

2. *Events disclosed in temporary announcements but with progress or change in subsequent implementation*

Applicable Not applicable

3. *Events undisclosed in temporary announcements*

Applicable Not applicable

4. *If agreement upon performance is involved, the performance achievements during the Reporting Period shall be disclosed*

Applicable Not applicable

Major Events

J. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(C) Material related party transactions on the joint external investment

1. *Events disclosed in the temporary announcements and with no progress or change in subsequent implementation*
 Applicable Not applicable
2. *Events disclosed in the temporary announcements but with progress or change in subsequent implementation*
 Applicable Not applicable
3. *Events undisclosed in temporary announcements*
 Applicable Not applicable

(D) Claims and liabilities between related parties

1. *Events disclosed in the temporary announcements and with no progress or change in subsequent implementation*
 Applicable Not applicable
2. *Events disclosed in the temporary announcements but with progress or change in subsequent implementation*
 Applicable Not applicable
3. *Events undisclosed in temporary announcements*
 Applicable Not applicable

Major Events

J. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(E) Others

No.	Approval body	Subject matter	Status
1	8th meeting of the sixth session of the Board, 7th meeting of the Strategic Development and Investment Committee in 2016	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. Four enterprises under the Company, namely Ming Xing, He Ji Gong, HYBYS and GP Corp, have in aggregate acquired the land use rights of 303 mu of land available for construction in the first phase.	In progress.
2	11th meeting of the Strategic Development and Investment Committee 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.	The first phase of capital increase of RMB58,464,000 has completed on 23 December 2015. The second phase of capital increase of RMB46,626,750 has completed on 8 March 2018.
3	2nd meeting of the Strategic Development and Investment Committee in 2016	The Company contributed additional capital of RMB20.4 million to Yi Gan, a holding subsidiary of the Company, in proportion to its shareholding, after the completion of which the register capital of Yi Gan would be increase to RMB55 million.	Currently, the capital increase is in progress and has not yet been completed.
4	5th meeting of the Strategic Development and Investment Committee in 2016	The Company's subsidiary Chemical & Pharmaceutical Technology and Zhuhai Fushan Industrial Park Management Committee entered into the "Investment Agreement between Zhuhai Fushan Industrial Park Management Committee and Guangzhou Baiyunshan Chemical & Pharmaceutical Technology Co., Ltd." ("Zhuhai Project"), with an initial investment amount of RMB 55 million.	The Company has contributed additional capital of RMB12.47 million to Chemical & Pharmaceutical Technology and completed the environment assessment, planning design and infrastructure design of the Zhuhai Project; in addition, the Company has completed the first phase capital contribution (RMB42 million) of the additional capital contribution of RMB100 million and established Chemical Pharmaceutical Zhuhai. Currently, the Zhuhai Project has entered into the construction design stage.

Major Events

J. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(E) Others *(Continued)*

No.	Approval body	Subject matter	Status
	1st meeting of the Strategic Development and Investment Committee in 2017	The Company contributed additional capital in cash of RMB12.47 million to Chemical & Pharmaceutical Technology for the use of project design and environmental assessment of the Zhuhai Project.	
	1st meeting of the Strategic Development and Investment Committee in 2018	The Company contributed additional capital of RMB100 million to Chemical & Pharmaceutical Technology for use in the establishment of Guangyao Baiyunshan Chemical Pharmaceutical (Zhuhai) Co., Ltd. ("Chemical Pharmaceutical (Zhuhai) Company").	
	7th meeting of the seventh session of the Board	Initiation of the Zhuhai Project with a total investment amount of RMB731,879,100.	
5	7th meeting of the Strategic and Investment Committee in 2016	Guangyao Baiyunshan Hong Kong Company, a wholly-owned subsidiary of the Company, would establish a company in Macau.	The establishment of this company has been completed in January 2018.
6	2nd meeting of the Strategic Development and Investment Committee in 2017	The Company (Buyer) and GPLH (Seller) entered into the Purchase Agreement for the Additional Legal Properties at Rear Block, 282 Beijing Road for the purchase of additional legal properties at Rear Block, 282 Beijing Road, the market value of which as at the valuation date and on an "as is" basis was RMB15.273 million, while the actual amount of consideration paid was RMB14.5001 million after deducting the land-grant fees and related taxes paid by GPLH.	In progress.
7	3rd meeting of the Strategic Development and Investment Committee in 2017	The Company contributed additional capital of RMB30 million to Xing Zhu according to 75% shareholdings.	The first phase of capital increase in the amount of RMB22.71 million has been completed.

Major Events

J. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(E) Others *(Continued)*

No.	Approval body	Subject matter	Status
8	5th meeting of the Strategic Development and Investment Committee in 2017	Medical Instrument Investment Company, a subsidiary of the Company, would set up a joint venture jointly with 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) to build an operating platform for the medical equipment innovation incubator park, and Medical Instrument Investment Company intends to contribute capital in cash of RMB17 million, accounting for 34% of the shareholdings.	Initial capital contribution of RMB3.4 million has been completed.
9	1st meeting of the Strategic Development and Investment Committee in 2018	GP Corp., a subsidiary of the Company, would acquire Zhuhai A&Z Pharmaceutical Co., Ltd. (珠海安士藥業有限公司) for RMB2.5 million to establish a subsidiary in Zhongshan region.	In Progress.
10	2nd meeting of the Strategic Development and Investment Committee in 2018	Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, will accept transfer of 33,785 shares in PT Sano Gratia Farma for RMB20.496 million (or equivalent in Indonesian Rupiah) and subscribe for shares newly issued by PT Sano Gratia Farma for RMB15 million (or equivalent in Indonesian Rupiah). Upon completion of the transactions, Guangyao Baiyunshan Hong Kong Company will hold 58,510 shares in PT Sano Gratia Farma, accounting for 51% of the paid-up capital.	In Progress.

Major Events

J. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(E) Others *(Continued)*

No.	Approval body	Subject matter	Status
11	3rd meeting of the Strategic Development and Investment Committee in 2018	Cai Zhi Lin, a subsidiary of the Company, and Guangzhou Hendon Medical Technology Co., Ltd. (廣州亨頓醫藥科技有限公司) will establish a joint venture with a registered capital of RMB10 million, and Cai Zhi Lin will hold 51% of the equity interest (with an investment of RMB5.1 million).	The establishment of the joint venture is under preparation.

K. MATERIAL CONTRACTS AND THEIR PERFORMANCE

- (A) 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 for a very substantial acquisition which the Company acquired 30% equity interest in GP Corp. held by Alliance BMP by cash and granted put options to Alliance BMP for transfer all of the remaining 20% equity interest in GP Corp held by it. For the details, refer to the relevant disclosure in the announcements of the Company published via SSE, titled "Report of Material Asset Acquisition" and "Report of Material Asset Acquisition (Revised)" on 22 December 2017 and 5 January 2018, respectively and the announcements of the Company published via HKEx on 22 December 2017 and 2 January 2018. The acquisition was considered and approved at the 2017 first extraordinary general meeting held on 29 March 2018 and its completion and the transfer of target assets occurred on 31 May 2018. The purchase price is RMB1,094,100,000.

According to the audit report issued by KPMG Huazhen LLP for GP Corp. from 30 September 2017 to 31 May 2018 ("Transitional Period") (KPMG Huazhen Ju Zi No. 1803163), the net profit attributable to the owner of the parent company is a positive number. Pursuant to the provisions of the Equity Transfer Contract, Alliance BMP is not required to make compensation.

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

- (B) 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.

K. MATERIAL CONTRACTS AND THEIR PERFORMANCE (Continued)

(C) Guarantees

√ Applicable □ Not applicable

Guarantees provided to parties other than the Group's subsidiaries

Guaranteed parties	Date of signing of agreements	Amount involved (RMB'000)	Type of guarantees	Term of guarantees	Executed or not	Guarantees for connected parties (yes or no)
—	—	—	—	—	—	—
Accumulated amount of guarantees provided during the Reporting Period (RMB'000)						—
Balance of guarantees as at the end of the Reporting Period (RMB'000)						—

The Company's guarantees provided to its subsidiaries

Accumulated amount of guarantees provided to the Company's holding subsidiaries during the Reporting Period (RMB'000)	1,580,000
Balance of guarantees provided to the Company's holding subsidiaries as at the end of the Reporting Period (RMB'000)	1,580,000

The Group's guarantees (including those provided to its subsidiaries)

Total amount of guarantees provided (RMB'000)	1,580,000
Total amount of guarantees provided amount the net assets of the Group (%)	7.15
Including:	
Amount of guarantees provided to the Company's controlling shareholder and other connected parties (RMB'000)	—
Direct or indirect guarantees provided to entities with a gearing ratio of over 70% (RMB'000)	1,580,000
Amount of guarantees provided which exceeds 50% of the total net assets of the Company (RMB'000)	—
Total amount of the above three types of guarantees (RMB'000)	1,580,000

Note: The transaction of acquiring 30% equity interest in GP Corp. in cash by the Company and the asset transfer and change in business registration was completed on 31 May 2018. Thereafter, GP Corp. became a subsidiary controlled as to 80% by the Company and was consolidated into the Company's accounts. The above matters with regard to guarantees are the guarantees of GP Corp. to its subsidiaries.



Major Events

L. POVERTY ALLEVIATION EFFORTS OF LISTED COMPANIES

Applicable Not applicable

(A) 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, three guarantees and one equivalent” 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 don't 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 of Guangdong Province.

(B) Summary of targeted approach to aid the needy for the half year

During the Reporting Period, the Company implemented solid measures to help the needy targets: (1) Leaders of all levels attached high importance to poverty alleviation, apart from understanding and monitoring the working progress, responsibilities to assist the needy targets were actively implemented; (2) enhanced capital management and building of culture for targeted poverty alleviation, proceeded with supervision of poverty alleviation; (3) implemented corporate assistance conscientiously to help poor households to increase production and income for gradual realization of poverty elimination; (4) actively commenced education scholarship to alleviate poverty to reduce the burden of education fees on poor families; (5) actively promoted the construction project of farmland irrigation canalsto assist rural residents to improve irrigation, creating favorable conditions for rural residents to switch to high-value crops and increase their income; (6) income from the photovoltaic power generation project was gradually realized for use in poverty alleviation to ensure steady elimination of poverty among poor households; (7) actively collaborated with the government to participate in the construction of new rural areas and improve the living environment; (8) commenced “reviews” on targeted poverty alleviation, conducted detailed investigations on non-poor rural residents to confirm and identify new poor households.

Major Events

L. POVERTY ALLEVIATION EFFORTS OF LISTED COMPANIES (Continued)

(C) Statistical Table of the Targeted Poverty Alleviation by the Company during the Reporting Period

(RMB'0000)

Index	Number and implementation information of GYBYS	
A General information		
Including: 1. Fund		81.04
2. Materials traded		0.79
3. Number of poor people helped to be removed from administrative record for poverty registering (Person)		0.00
B Itemized input		
1. Poverty alleviation through industrial development		
Including: 1.1 Type of industrial poverty alleviation projects	<input checked="" type="checkbox"/> Poverty alleviation through agriculture and forestry <input type="checkbox"/> Poverty alleviation through tourism <input type="checkbox"/> Poverty alleviation through E-commerce <input checked="" type="checkbox"/> Poverty alleviation through assets income <input checked="" type="checkbox"/> Poverty alleviation through science and technology <input type="checkbox"/> Others	
1.2 Number of industrial poverty alleviation projects		12.00
1.3 Amount invested in industrial poverty alleviation projects		0.00
1.4 Number of poor people helped to be removed from administrative record for poverty registering (Persons)		0.00
2. Poverty alleviation through employment		0.00
Including: 2.1 Amount invested in vocational training		
2.2 Number of people received vocational training (Persons/ Time)		0.00
2.3 Number of poor people in administrative record for poverty registering employed (Persons)		66.00
3. Poverty alleviation through relocation		
Including: 3.1 Number of relocated people employed (Persons)		0.00

Major Events

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

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

Index	Number and implementation information of GYBYS
4. Poverty alleviation through education	
Including: 4.1 Amount invested in subsidizing poor students	2.93
4.2 Number of students received allowance (Persons)	32.00
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	7.30
6. Poverty alleviation through ecological protection	
Including: 6.1 Name of project	<input type="checkbox"/> Launching ecological protection and construction <input type="checkbox"/> Establishing compensation for the ecological protection <input type="checkbox"/> Creating ecological and public welfare positions <input type="checkbox"/> Others
6.2 Amount invested	0.00
7. Protection for the most impoverished people	
Including: 7.1 Amount invested in helping the "three left-behind groups"	0.90
7.2 Number of people of the "three left-behind groups" helped (Persons)	5.00
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 eastern and western 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

Major Events

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

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

Index	Number and implementation information of GYBYS
9. Other projects	
Including: 9.1 Number of projects (Project)	7.00
9.2 Amount invested	69.91
9.3 Number of poor people helped to be removed from administrative record for poverty registering (Persons)	0.00
9.4 Details of other projects	Infrastructure construction, water conservancy construction, environmental control, epidemic prevention, renovation of dilapidated houses, solicitude, etc.
C Awards (details and levels)	the Bronze Medal of Poverty Alleviation of Meizhou 2017

(D) Updates on Fulfilling Social Responsibility of Targeted Poverty Alleviation

As at the end of the Reporting Period, three subsidiaries of the Group invested heavily in the poverty alleviation with an amount of more than RMB 5 million in total, which lays a strong financial foundation for achieving good work results. After two years assistance, among the beneficiaries, 367 persons of 146 poverty-stricken households with official records from three villages, there were 281 persons of 117 poverty-stricken households in the villages were lifted out of poverty. The poverty alleviation rate reached 80%.

(E) Follow-up alleviation plan

In the second half of 2018, the Company will continue to perform the targeted poverty alleviation tasks firmly and plans to realize the target of 100% elimination of poverty by the end of 2018. For this purpose, we will continue to provide corporate assistance to poor farmers and realized increases in production and income through multiple channels and various approaches. We will continue to alleviate poverty through enhancing intelligent capability by organizing training sessions for farming skills and vocational skills to increase the capabilities of poor households to increase their income and eliminate poverty. We will continue to support the building of new rural areas through "Three Clearances and Three Demolitions" by improving the living environment of three villages with the best efforts contributed by the assisting units. Other measures included the implementation of medical insurance to alleviate poverty, to avoid poverty or recurrence of poverty caused by illness.



Major Events

M. CONVERTIBLE BONDS

Applicable Not applicable

N. PROJECT UNDER DEVELOPMENT AND FOR SALE

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

O. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

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

P. CORPORATE GOVERNANCE

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

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

During the Reporting Period, the Company complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules of HKEx ("CG Code") and the code provisions of the CG Code except that (i) Mr. Ni Yidong, an executive director of the Company, and Mr. Chu Xiaoping, an independent non-executive director of the Company, were unable to attend the First Extraordinary General Meeting in 2018 due to business matters which constituted a deviation from code provision A.6.7, and (ii) Mr.Chen Mao, Ms. Liu Juyan, Mr. Ni Yidong and Mr. Wu Changhai, all being the executive directors of the Company, Mr. Wong Hin Wing and Ms. Wang Weihong, both independent non-executive directors of the Company, were unable to attend the 2017 Annual General Meeting due to business matters which constituted a deviation from code provision A.6.7.

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

P. CORPORATE GOVERNANCE *(Continued)*

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

The review of the business and financial position of the Company for the first half of 2018 is set out in the section headed "Discussion and analysis of operations" in the interim report.

During the Reporting Period, the corporate governance related work performed by the Company included:

- (I) The Company performed review on its internal control and fulfillment of social obligations for the year ended 31 December 2017 pursuant to the requirements of the "Notice on Proper Preparation of the 2017 Annual Report by Listed Companies" issued by the SSE, and the "Self-assessment Report on Internal Control for 2017" and the "Report on Performance of Social Responsibilities for 2017" were prepared accordingly, which were disclosed after being duly considered and approved at the Board meeting of the Company held on 15 March 2018.
- (II) In pursuit of the spirit of the Central Committee, Guangdong Provincial Party Committee and the Party Committee of Guangdong SASAC on upholding the Party's leadership and strengthening the Party's construction in deepening the reform of state-owned companies and incorporating the overall requirements of the Party's construction work into the articles of association of state-owned enterprises and in order to improve corporate governance system, during the Reporting Period, the Company made amendments to the relevant terms of the Articles of Association, the Rules of Procedure for the Board and the Rules of Procedure for the Supervisory Committee. The amendments above have been considered and approved at the Board meeting held on 26 April 2018 and the Annual General Meeting held on 22 June 2018.
- (III) During the Reporting Period, the Company continued to strengthen and improve the three defense lines of "internal control system, risk control system, and audit supervision" to enhance our corporate risk prevention ability, reduce the corporate operational management risk, and focused on the following tasks:
 1. We continued to enforce comprehensive risk management, conducted assessment and examination on the effectiveness of performing comprehensive risk management tasks, and further implemented corporate material risk management. Analysis on key subsidiaries of the Company was conducted regularly from time to time, attention was focused on risk management for receivables of large amounts and aged over one year, credit extension to the same customer by several enterprises, large credit facilities and risk-related receivables, alerts were issued to enterprises to remind them of hidden hazards of risks and to urge them to put in place effective measures to prevent risks. Risk reviews were conducted on material economic contracts of subsidiaries of the Company and assisted the subsidiaries to avoid the risks involving material economic contracts.



Major Events

P. CORPORATE GOVERNANCE *(Continued)*

2. We coordinated arrangements to facilitate full coverage of internal audit over all members of the Group, and to ensure that at least one audit will be conducted within three years for key subsidiaries, and at least one audit will be conducted within five years for other subsidiaries.
3. With enhanced coordination, we fully implemented the departure audits on economic responsibilities of enterprise leaders, and achieved compulsory audits for departing key leaders of enterprises. Attention was focused on the authenticity, legality and efficacy of the financial income and expenses of the enterprises within their terms of office, and clarified the economic responsibilities arising from their relevant economic activities.
4. The third round of the inspection on key positions was carried out and focused on the integrity of, among other things, the Company's management, purchasing management, sales management, contract management, inventory management, project management and property management, whether any problems and risks existed in these areas, and facilitated the enhancement of operating quality of the enterprises.
5. Supervision on rectifications was also conducted on the issues and recommendations reported in the audit report for 2017 as well as on the defects discovered during internal control assessment. The relevant departments and enterprises of the Company were supervised to go through each of the required measures, and to formulate and implement rectifications. "Reviews" by special inspections on key positions were conducted to facilitate effective supervision on enterprises to implement rectifications and to ensure that the issues discovered were enforced and rectified.

Q. **THE AUDIT COMMITTEE OF THE SEVENTH SESSION OF THE BOARD IS COMPRISED OF FOUR INDEPENDENTNON-EXECUTIVE DIRECTORS AND ONE OF THEM POSSESSED APPROPRIATE PROFESSIONAL QUALIFICATION. THE AUDIT COMMITTEE HAD REVIEWED THE GROUP'S ACCOUNTING PRINCIPLES, ACCOUNTING STANDARDS AND METHOD AS WELL AS DISCUSSED THE AUDIT AFFAIRS, RISK MANAGEMENT, INTERNAL CONTROLS AND FINANCIAL REPORT WITH THE MANAGEMENT, INCLUDING THE UNAUDITED INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2018.**

R. ENVIRONMENTAL INFORMATION

(A) DESCRIPTIONS OF ENVIRONMENTAL PROTECTION STATUS OF KEY POLLUTANT-DISCHARGING COMPANIES AND THEIR KEY SUBSIDIARIES PUBLISHED BY THE ENVIRONMENTAL PROTECTION AUTHORITY

√ Applicable □ Not applicable

1. Sewage Disposal Information

Chemical Pharmaceutical Factory, a branch of the Company, and Xing Zhu, WLJ Ya' An and Wei Ling all being the subsidiaries of the Company, were among the key pollutants discharging units. The key of items waste being emissions monitored are exhaust gas and wastewater.

Company name	The names of major pollutants and characteristic pollutants	Emission mode	Number of emission ports	Distribution of emission ports	Annual average emission concentration (mg/m3)	Implementation of pollutant emission standards (mg/m3)	Total annual emissions (ton)	Approved total emissions (ton)	Excessive emissions
Chemical Pharmaceutical Factory	Sulfur dioxide	Interval	1	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC	7.20	"Integrated emission standard of air pollutants", ≤50	0.15	1.84	None
	Nitrogen oxides	Interval	1	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC	50.80	"Integrated emission standard of air pollutants", ≤200	0.84	8.16	None
	Particulate matter (smoke dust)	Interval	4	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC	2.63	"Integrated emission standard of air pollutants", ≤30	0.20	8.86	None
	Total VOCs	Interval	5	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC	17.46	"Integrated emission standard of air pollutants", ≤120	0.71	7.67	None
Xing Zhu	Sulfur dioxide	Interval	1	No. 4 Venture Avenue South, Pearl Industrial Park, Conghua, Guangzhou City, Guangdong Province	3.00	"Integrated emission standard of air pollutants", ≤50	0.0003	3.83	None
	Nitrogen oxides	Interval	1	No. 4 Venture Avenue South, Pearl Industrial Park, Conghua, Guangzhou City, Guangdong Province	77.00	"Integrated emission standard of air pollutants", ≤120	3.84	17.92	None
	Particulate matter (smoke dust)	Interval	1	No. 4 Venture Avenue South, Pearl Industrial Park, Conghua, Guangzhou City, Guangdong Province	3.30	"Integrated emission standard of air pollutants", ≤30	0.16	2.30	None
WLJ Ya' An	COD	Discharge after treatment	1	No.1 Deguang Road, Ya'an Economic Development Zone, Sichuan Province	50.00	"Integrated Wastewater Discharge Standard (III-class criteria)"	4.20	5.86	None
Wei Ling	COD	Discharge after treatment	1	No. 36, Huancheng East Road, Heshan Community, Hepo Street, Jiexi County, Guangdong Province	58.50	"Integrated Wastewater Discharge Standard (III-class criteria)"	4.20	4.50	None

Note: COD refers to Chemical Oxygen Demand, VOCs refers to volatile organic compounds.

Major Events

R. ENVIRONMENTAL INFORMATION *(Continued)*

(A) DESCRIPTIONS OF ENVIRONMENTAL PROTECTION STATUS OF KEY POLLUTANT-DISCHARGING COMPANIES AND THEIR KEY SUBSIDIARIES PUBLISHED BY THE ENVIRONMENTAL PROTECTION AUTHORITY *(Continued)*

2. Construction and operation of pollution prevention and control facilities

Chemical Pharmaceutical Factory, Xing Zhu, WLJ Ya' An and Wei Ling 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" and "Integrated Wastewater Discharge Standard (III-class criteria)". Details of the pollution preventive facilities and measures undertaken by Chemical and Pharmaceutical Factory, Xing Zhu, WLJ Ya' An and Wei Ling and their implementations (exhaust gas) are as follows:

Company name	Name of pollution preventing facility	Put into use date	Pollution category	Procedures	Average daily processing capacity (m3/h)
Chemical Pharmaceutical Factory	Sewage treatment facility tail gas treatment system DA008(6#)	2018.02.01	Odor, VOCs	Washing+biofilter	3,895
	202 production exhaust gas treatment facility DA010 (7#)	2007.10.01	Particulate matter, VOCs	Bag-type dust collecting+ lye spray+ activated carbon adsorption	3,672
	205 cephalosporin sterile APIs production exhaust gas treatment facility DA004(5#)	2009.06.01	VOCs	Condensation+absorber recovery	360
	203 oral APIs production exhaust gas treatment facility DA003(9#)	2014.10.01	VOCs, sulfuric acid mist	Condensation+lye spray	714
	205 oral cephalosporin APIs production acidic organic gas treatment facility DA001 (11#)	2016.01.20	VOCs, Hydrochloride	Lye spray+ photo catalytic oxidation	2,579
	205 oral cephalosporin APIs production dust and exhaust gas treatment facility DA002 (10#)	2016.01.20	Particulate matter	Cellulose filter cylinder filtration	5,350
	203 oral raw medicine production dust and exhaust gas treatment facility DA009 (8#)	2014.10.01	Particulate matter	Cellulose filter cylinder filtration	4,870
	205 cephalosporin sterile raw medicine production dust treatment facility DA007(2#)	2009.06.01	Particulate matter	Cellulose filter cylinder filtration	7,205
Xing Zhu	Pulse separator with filter bag + high altitude discharge + high altitude discharge	2017.12.15	Workshop exhaust gas	Bag-type dust collecting	38,200
WLJ Ya' An	Sewage Treatment Station	2015.09.01	COD, ammonia nitrogen	AO Process	40
Wei Ling	Sewage Treatment Station	2016.06.07	COD, ammonia nitrogen	AO Process	40

R. ENVIRONMENTAL INFORMATION *(Continued)*

(A) DESCRIPTIONS OF ENVIRONMENTAL PROTECTION STATUS OF KEY POLLUTANT-DISCHARGING COMPANIES AND THEIR KEY SUBSIDIARIES PUBLISHED BY THE ENVIRONMENTAL PROTECTION AUTHORITY *(Continued)*

3. *Environmental impact assessment of construction projects and other administrative licenses for environmental protection*

The designing, construction and trial run of plants and new projects and reconstruction and expansion projects of each key sewage-discharging entity of the Company went through the environmental impact assessment and the environmental protection completion inspection in strict compliance with relevant laws and regulations. The ancillary environmental protection facilities were designed, constructed and put into trial run concurrently with the main project.

During the Reporting Period, the environmental protection facilities of each units run well, ensuring the legal discharge of water, gas and sound. Hazardous waste is managed according to standardization, and no new projects are started.

4. *Environmental emergency response plan*

Each key sewage-discharging entity of the Company prepared the Environmental Emergency Response Plan according to standard specifications and organized drills of the environmental emergency response and rescue plan on its own.

5. *Environmental self-monitoring program*

Each key sewage-discharging entity of the Company prepared the Environmental Self-monitoring Program and strictly conducted daily monitoring according to the self-monitoring program and disclosed information to external parties. Meanwhile, such entities entered into the Environmental Monitoring Technology and Service Contract with a qualified third-party monitoring authority whereby such authority is entrusted to conduct a third-party test of the sewage, exhaust gas and noise discharged by each plant in accordance with environmental protection and administration requirements and provide a test report.

6. *Other disclosable environmental information*

Applicable Not applicable

Major Events

R. ENVIRONMENTAL INFORMATION *(Continued)*

(B) EXPLANATIONS ON ENVIRONMENTAL PROTECTION OF COMPANIES OTHER THAN KEY SEWAGE-DISCHARGING ENTITIES

Applicable Not applicable

Apart from the above four subsidiaries which are listed as the key pollutant discharge units in Guangzhou, all the other affiliated enterprise are low-energy and low-emission enterprises, and most of them are provincial and municipal cleaner production units as well as natural, 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.

(C) REASONS FOR THE NON-DISCLOSURE OF ENVIRONMENTAL INFORMATION BY COMPANIES OTHER THAN KEY SEWAGE-DISCHARGING ENTITIES

Applicable Not applicable

(D) EXPLANATIONS FOR SUBSEQUENT PROGRESS ON OR CHANGES IN ENVIRONMENTAL INFORMATION DISCLOSED IN THE REPORTING PERIOD

Applicable Not applicable

S. OTHER MAJOR MATTERS

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

Applicable Not applicable

1. Changes in accounting policies

(1) Changes in accounting policies due to the implementation of the new Accounting Standards for Business Enterprises.

The Ministry of Finance of the People's Republic of China issued the Accounting Standards for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments (Revised in 2017) (Caikuai [2017] No. 7), the Accounting Standards for Business Enterprises No. 23 - Transfer of Financial Assets (Revised in 2017) (Caikuai [2017] No. 8), the Accounting Standards for Business Enterprises No. 24 - Hedge Accounting (Revised in 2017) (Caikuai [2017] No. 9) on 31 March 2017, and the Accounting Standards for Business Enterprises No. 37 - Financial Instruments Presentation (Revised in 2017) (Caikuai [2017] No. 14) on 2 May 2017 (the above-mentioned standards are collectively referred to as the "new financial instrument standards"); The Accounting Standards for Business Enterprises No. 14 - Revenue (Revised in 2017) (Caikuai [2017] No. 22) was issued on 5 July 2017 (hereinafter referred to as the "new revenue standards"), which require that enterprises listed both home and abroad and those listed abroad and adopting the international financial reporting standards or accounting standards for business enterprises to prepare financial statements shall implement these Standards from 1 January 2018.

As considered and approved at the 7th meeting of the 15th session of the Board of Directors and the 10th meeting of the 7th session of the Supervisory Committee of the Company, the Group began implementing the above-mentioned five accounting standards at the time required by the Ministry of Finance of the People's Republic of China.

(a) New Revenue Standards

The Group reevaluates the recognition, measurement, calculation, presentation, etc. on the Group's primary revenue from contracts. The Group reviews the sources of income and processes for contracts with customers to assess the impact of the new revenue standards on financial statements. Over 99% of the Group's revenue is generated from sales of goods. The revenue is recognized when the right to control the goods is transferred to customer. The implementation of the new revenue standards has no significant impact on the presentation of the Group's financial statements.

Major Events

S. OTHER MAJOR MATTERS *(Continued)*

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

1. Changes in accounting policies *(Continued)*

(1) Changes in accounting policies due to the implementation of the new Accounting Standards for Business Enterprises. *(Continued)*

(b) New financial instrument standards

All recognized financial assets are measured at amortized cost or fair value subsequent to initial recognition under the new financial instrument standards.

On the implementation date of the new financial instrument standards, through assessing the business model of the management on financial assets based on the Group's existing facts and conditions on that date, and through assessing the features of contract cash flows of the financial assets based on the facts and conditions at the initial recognition of the financial assets, the financial assets are classified into three categories: (1) measured at amortized cost; (2) measured at fair value through comprehensive income; (3) measured at fair value through profit or loss for the Reporting Period.

The expected credit loss model is introduced by the new financial instrument standards to recognize impairment. The model comprises a three-stage approach, which is based on changes in credit quality of financial assets subsequent to initial recognition. In accordance with changes in credit quality, financial assets convert within the three stages, by which the method of measurement for impairment loss and the use manner of effective interest rate are determined.

On the implementation date of the standards, the Group classifies and measures financial instruments in accordance with the provisions of this standard. No adjustments are required if the data relating to the prior period comparison of financial statements are not inconsistent with the requirements of this standard. The difference between the original book value of the financial instrument and the new book value on the date of the implementation of the standard shall be included in the retained earnings or other comprehensive income at the beginning of the annual reporting period in which the standard is applied.

S. OTHER MAJOR MATTERS *(Continued)*

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

1. Changes in accounting policies *(Continued)*

(1) Changes in accounting policies due to the implementation of the new Accounting Standards for Business Enterprises. *(Continued)*

On the implementation date of the new financial instrument standards, the Group made the following adjustments to classification and measurement of financial assets and financial liabilities based on relevant provisions of the new financial instrument standards:

- (i) Equity investment classified as available for sale financial assets in the prior years is reclassified as financial assets measured at fair value through profit or loss for the current period, or irrevocably designated as financial assets measured at fair value through other comprehensive income, changes in fair value of which are accumulatively recognized through other comprehensive income subsequent to initial recognition and cannot be reclassified to profit or loss at disposal.
- (ii) The receivables subsequently measured at amortized cost in the previous year are assessed for business models based on the existing facts and circumstances of the new standard implementation date (1 January 2018), and are tested for contractual cash flow characteristics based on the facts and circumstances at the time of initial recognition. According to the evaluation test results, the receivables measured at the amortized cost are continuously measured at amortized cost. After the assessment and testing, the adoption of the new financial instrument criteria has no significant impact on the presentation of the Group's receivables.

Major Events

S. OTHER MAJOR MATTERS (Continued)

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

1. Changes in accounting policies (Continued)

(1) Changes in accounting policies due to the implementation of the new Accounting Standards for Business Enterprises. (Continued)

The impact of the Company and its subsidiaries' implementation of the new financial instrument standards on items of the consolidated balance sheet and balance sheet of the Company as of 1 January 2018 are summarized as follows:

Item	The Group		
	Carrying amount prior to changes in accounting policies on 31 December 2017 (RMB)	Effect of the new financial instrument standards (RMB)	Carrying amount after changes in accounting policies on 1 January 2018 (RMB)
Assets:			
Financial assets held for trading	4,875,057.73	(4,875,057.73)	—
Available for sale financial assets	1,038,859,674.96	(1,038,859,674.96)	—
Other equity instrument investments	—	62,686,231.77	62,686,231.77
Other non-current financial assets	—	975,856,856.18	975,856,856.18
Deferred tax assets	388,850,739.31	778,746.71	389,629,486.02
Shareholders' equity:			
Other comprehensive income	(70,206,938.27)	63,388,106.49	(6,818,831.78)
Undistributed profit	6,285,996,409.09	(67,801,004.52)	6,218,195,404.57
Item	The Company		
	Carrying amount prior to changes in accounting policies on 31 December 2017 (RMB)	Impact of the new financial instrument standards (RMB)	Carrying amount after changes in accounting policies on 1 January 2018 (RMB)
Assets:			
Financial assets held for trading	4,875,057.73	(4,875,057.73)	—
Available for sale financial assets	1,035,180,994.75	(1,035,180,994.75)	—
Other equity instrument investments	—	57,494,587.03	57,494,587.03
Other non-current financial assets	—	977,369,820.71	977,369,820.71
Deferred tax assets	108,368,848.19	778,746.71	109,147,594.90
Shareholders' equity:			
Other comprehensive income	(64,737,939.47)	64,954,866.01	216,926.54
Undistributed profit	4,024,415,273.84	(69,367,764.04)	3,955,047,509.80

S. OTHER MAJOR MATTERS (Continued)

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

1. Changes in accounting policies (Continued)

(2) Adjustments in the presentation of financial statements

The financial statements for the half year ended 30 June 2018 are prepared by the Group and its subsidiaries in accordance with the format prescribed in Caikuai [2018] No. 15. Presentation of relevant accounts are adjusted retrospectively.

The impact of adjustments in relevant financial statements is as follows:

- (i) Items of the affected consolidated balance sheet and the balance sheet of the Company as of 31 December 2017:

Consolidated Balance Sheet

Item	Prior to adjustment (RMB)	Amount adjusted (RMB)	After adjustment (RMB)
Notes receivable	1,702,655,475.08	(1,702,655,475.08)	—
Accounts receivable	1,113,769,006.51	(1,113,769,006.51)	—
Notes receivable and accounts receivable	—	2,816,424,481.59	2,816,424,481.59
Dividends receivable	552,938,523.45	(552,938,523.45)	—
Other receivables	209,318,838.53	552,938,523.45	762,257,361.98
Notes payable	252,226,384.82	(252,226,384.82)	—
Accounts payable	2,802,200,696.28	(2,802,200,696.28)	—
Notes payable and accounts payable	—	3,054,427,081.10	3,054,427,081.10
Interest payable	253,966.40	(253,966.40)	—
Dividends payable	45,446,017.79	(45,446,017.79)	—
Other payables	2,399,394,477.50	45,699,984.19	2,445,094,461.69
Long-term payables	20,171,809.73	14,954,855.39	35,126,665.12
Special payables	14,954,855.39	(14,954,855.39)	—
Total	9,113,330,051.48	—	9,113,330,051.48

Major Events

S. OTHER MAJOR MATTERS (Continued)

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

1. Changes in accounting policies (Continued)

(2) Adjustments in the presentation of financial statements (Continued)

Balance Sheet of the Company

Item	Prior to adjustment (RMB)	Amount adjusted (RMB)	After adjustment (RMB)
Notes receivable	679,046,805.63	(679,046,805.63)	—
Accounts receivable	265,693,684.36	(265,693,684.36)	—
Notes receivable and accounts receivable	—	944,740,489.99	944,740,489.99
Dividends receivable	656,897,700.00	(656,897,700.00)	—
Other receivables	1,527,015,254.36	656,897,700.00	2,183,912,954.36
Notes payable	908,082.74	(908,082.74)	—
Accounts payable	331,740,567.20	(331,740,567.20)	—
Notes payable and accounts payable	—	332,648,649.94	332,648,649.94
Dividends payable	477,452.11	(477,452.11)	—
Other payables	1,122,916,120.25	477,452.11	1,123,393,572.36
Total	4,584,695,666.65	—	4,584,695,666.65

- (ii) Affected items in the consolidated income statement and the income statement of the Company for the half year ended 30 June 2017:

Consolidated Income Statement

Item	Prior to adjustment (RMB)	Amount adjusted (RMB)	After adjustment (RMB)
General administrative expenses	709,789,679.18	(133,758,130.04)	576,031,549.14
R&D expenses	—	133,758,130.04	133,758,130.04
Total	709,789,679.18	—	709,789,679.18

Major Events

S. OTHER MAJOR MATTERS (Continued)

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

1. Changes in accounting policies (Continued)

(2) Adjustments in the presentation of financial statements (Continued)

Income Statement of the Company

Item	Prior to adjustment (RMB)	Amount adjusted (RMB)	After adjustment (RMB)
General and administrative expenses	176,683,500.17	(31,848,792.88)	144,834,707.29
R&D expenses	—	31,848,792.88	31,848,792.88
Total	176,683,500.17	—	176,683,500.17

(3) No changes in other accounting policies.

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

Applicable Not applicable

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

Applicable Not applicable

Changes in Share Capital and Shareholders

A. CHANGES IN SHARE CAPITAL

(A) Changes in share capital

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

(B) Change in shares subject to selling restrictions

Applicable Not applicable

B. INFORMATION ON SHAREHOLDERS

(A) As at 30 June 2018, there were 58,906 shareholders in total, out of which 58,881 were holders of domestically listed Reminbi-denominated ordinary shares (A shares) and 25 were holders of overseas listed foreign shares (H shares).

(B) Shareholdings of the top ten shareholders of the Company as at the end of the Reporting Period

Shareholders	Increase/ (Decrease) during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Approximate percentage of the total issued share capital (%)	Number of shares subject to selling restrictions (share)	Number of shares pledged or locked shares (share)	Nature of shares
GPHL	0	732,305,103	45.04	148,338,467	0	Domestic shares
HKSCC Nominees Limited	16,000	219,693,469	13.51	0	0	H shares
GZ SOA Development China Securities Finance Corporation Limited	0	87,976,539	5.41	87,976,539	0	Domestic shares
GZ Chengfa	30,834,857	78,438,439	4.82	0	0	Domestic shares
Yunfeng Investment Central Huijin Asset Management Co., Ltd.	0	73,313,783	4.51	73,313,783	0	Domestic shares
The National Social Security Fund – One Zero Five Combination	0	21,222,410	1.31	21,222,410	21,222,410	Domestic shares
HKSCC	0	15,260,700	0.94	0	0	Domestic shares
The National Social Security Fund – Six Zero Three Combination	10,326,823	10,326,823	0.64	0	0	Domestic shares
	2,936,781	6,714,769	0.41	0	0	Domestic shares
	5,863,662	5,863,662	0.36	0	0	Domestic shares

Changes in Share Capital and Shareholders

B. INFORMATION ON SHAREHOLDERS *(Continued)*

(B) Shareholdings of the top ten shareholders of the Company as at the end of the Reporting Period *(Continued)*

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

Shareholders	Number of shares without selling restrictions (share)	Class of Shares and the number of shares	
		Class of shares	The number of shares (share)
GPHL	583,966,636	Domestic shares	732,305,103
HKSCC Nominees Limited	219,693,469	H shares	219,693,469
China Securities Finance Corporation Limited	78,438,439	Domestic shares	78,438,439
Central Huijin Asset Management Co., Ltd.	15,260,700	Domestic shares	15,260,700
The National Social Security Fund – One Zero Five Combination	10,326,823	Domestic shares	10,326,823
HKSCC	6,714,769	Domestic shares	6,714,769
The National Social Security Fund – Six Zero Three Combination	5,863,662	Domestic shares	5,863,662
The Industrial and Commercial Bank of China Co., Ltd. – Southern Consumption Vitality Flexibly Configured Mixed Initiate Securities Investment Funds	5,722,150	Domestic shares	5,722,150
The National Social Security Fund – One One Five Combination	5,500,000	Domestic shares	5,500,000
China AMC – Agricultural Bank of China – Huaxia China Securities Financial Asset Management Plan	5,230,536	Domestic shares	5,230,536

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

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

Changes in Share Capital and Shareholders

B. INFORMATION ON SHAREHOLDERS *(Continued)*

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

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

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

Changes in Share Capital and Shareholders

B. INFORMATION ON SHAREHOLDERS (Continued)

(D) As at 30 June 2018, 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	Number of shares held (share)	Capacity	Approximate	Approximate
				% of the total issued domestic shares (%)	% of the total issued H shares (%)
GPHL	Domestic shares	732,305,103 (Long position)	Beneficial owner	52.09	–
GZ SOA Development	Domestic shares	87,976,539 (Long position)	Beneficial owner	6.26	–
GZ Chengfa	Domestic shares	73,313,783 (Long position)	Beneficial owner	5.21	–
Norges Bank	Foreign shares	12,350,000 (Long position)	Beneficial owner	–	5.62
Citigroup Inc. ^(note 1)	Foreign shares	794,000 (Long position)	Person having a security interest in shares	–	0.36
	Foreign shares	152,000 (Long position), 10,000 (Short position) (note 2)	Interest of corporation controlled by you	–	0.07 0.0045
	Foreign shares	10,703,276 (Long position) (Lending pool)	Approved lending agent	–	4.87

Notes:

1. According to the notice of major corporation shareholders submitted by the Citigroup Inc.,:
 - a) Interests in 946,000 foreign shares and short position in 10,000 foreign shares in the Company were held by Citigroup Global Markets Limited, which was owned as to 92% by Citigroup Global Markets Holdings Bahamas Limited. Citigroup Global Markets Holdings Bahamas Limited was owned as to 49.5% and 50.2% by Citigroup Financial Products Inc. and Citigroup Global Markets (International) Finance AG, respectively. Citigroup Global Markets (International) Finance AG was wholly owned by Citigroup Financial Products Inc. which was in turn wholly owned by Citigroup Global Markets Holdings Inc.. Citigroup Global Markets Holdings Inc. was wholly owned by Citigroup Inc. Each of Citigroup Global Markets Holdings Bahamas Limited, Citigroup Global Markets (International) Finance AG, Citigroup Financial Products Inc., Citigroup Global Markets Holdings Inc. and Citigroup Inc. were deemed to be interested the shares held by Citigroup Global Markets Limited under the SFO.
 - b) Interests in 10,703,276 foreign shares in the Company was held by Citibank, N.A. which was wholly owned by Citicorp LLC. Citicorp LLC was wholly owned by Citigroup Inc. Each of Citicorp LLC and Citigroup Inc. were deemed to be interested in the shares held by Citibank, N.A. under the SFO.
2. This is an unlisted derivative to be settled in cash.

As far as the directors are aware, as at 30 June 2018, 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

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

D. PUBLIC FLOAT

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

E. PRE-EMPTIVE RIGHTS

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

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

Relevant Information on Preferred Shares

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

Directors, Supervisors, Senior Management

A. CHANGES IN SHAREHOLDINGS

(A) During the Reporting Period, the interest of directors', supervisors' and senior managements in shares (A shares) of the Company were as follows

Name	Position	Shares held		Reason for changes
		as at the beginning of the Reporting Period (share)	Shares held as at the end of the Reporting Period (share)	
Li Chuyuan	Chairman	100,000	100,000	/
Chen Mao	Vice Chairman	50,000	50,000	/
Liu Juyan	Executive director	13,000	13,000	/
Cheng Ning	Executive director	21,500	21,500	/
Ni Yidong	Executive director	0	0	/
Li Hong	Executive director, general manager	10000	10000	/
Wu Changhai	Executive director, deputy general manager	13,000	13,000	/
Chu Xiaoping	Independent non-executive director	0	0	/
Jiang Wenqi	Independent non-executive director	0	0	/
Wong Hin Wing	Independent non-executive director	0	0	/
Wang Weihong	Independent non-executive director	0	0	/
Xian Jiaxiong	Chairman of the Supervisory Committee	11,000	11,000	/
Li Jinyun	Supervisor	10,000	10,000	/
Gao Yanzhu	Supervisor	5,000	5,000	/
Zhang Chunbo	Deputy general manager	10,000	10,000	/
Huang Xuezhen	Secretary to the Board	2,500	2,500	/

Note: In the above, the shares held by the directors, supervisors and senior management are held under the Employee Stock Ownership Scheme (2015).

Directors, Supervisors, Senior Management

A. CHANGES IN SHAREHOLDINGS (Continued)

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

Applicable Not applicable

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

- As at 30 June 2018, 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, to be notified to the Company and the HKEx were as follows:

Directors	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
Li Hong	Beneficial Owner	Company (A shares)	10,000	0.0007
	Beneficial Owner	Tian Xin	5,000	Note
Wu Changhai	Beneficial Owner	Company (A shares)	13,000	0.0009
Supervisors	Capacity	Company	Number of shares (long position)	Percentage of issued A shares
Xian Jiexiong	Beneficial Owner	Company (A shares)	11,000	0.0008
Li Jinyun	Beneficial Owner	Company (A shares)	10,000	0.0007
Gao Yanzhu	Beneficial Owner	Company (A shares)	5,000	0.0003
Seniors	Capacity	Company	Number of shares (long position)	Percentage of issued A shares
Zhang Chunbo	Beneficial Owner	Company (A shares)	10,000	0.0007
Huang Xuezhen	Beneficial Owner	Company (A shares)	2,500	0.0002

Note: In the above, the shares of Tian Xin held by Mr. Li Hong are company shares, which are non-listed company shares, account for 0.063% of Tian Xin's company shares. The A shares of the Company held by the directors, supervisors and senior management are held under the Employee Stock Ownership Scheme (2015).



Directors, Supervisors, Senior Management

A. CHANGES IN SHAREHOLDINGS *(Continued)*

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

2. Saved as disclosed above, as at 30 June 2018, 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, to be notified to the Company and the HKEx.

Directors, Supervisors, Senior Management

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

At the 10th meeting of the 7th session of the Board of the Company held on 15 March 2018, Mr. Li Hong was proposed as the candidate of the executive director of the seventh session of the Board. At the 2017 Annual General Meeting of the Company held on 22 June 2018, Mr. Li Hong was elected as the executive director of the seventh session of the Board. The term of office of the directors of the Company commenced from the date of appointment up to the date on which members of the new session of the Board are elected.

In accordance with Rule 13.51(B) (1) of the Listing Rule of HKEx, the details of changes in directors' information after the publication of the annual report for the year ended 31 December 2017 are as follow:

Name of Directors/Supervisors/

Senior management

Details of the changes

Li Chuyuan

Resigned as a director of Ming Xing, Baiyunshan General Factory, Pan Gao Shou, Chen Li Ji, Tian Xin, Chemical Pharmaceutical Factory, Baiyunshan Pharmaceutical Marketing, Baiyunshan Medical and Healthcare Industry Company, Chemical & Pharmaceutical Technology, Guangzhou Baiyunshan Hong Kong Company and WLJ Great Health Corporate Development Company on 30 March 2018 respectively

Resigned as Management Committee Member of He Ji Gong on 30 March 2018

Resigned as vice chairman of GP Corp. on 30 March 2018

Chen Mao

Resigned as a director of Baiyunshan General Factory, Chemical Pharmaceutical Factory, Tian xin, Baiyunshan Medical and Healthcare Industry Company, Chemical & Pharmaceutical Technology, Guangzhou Baiyunshan Hong Kong Company and WLJ Great Health Corporate Development on 30 March 2018 respectively

Liu Juyan

Resigned as a director of Chen Li Ji, Qi Xing and Guangyao Baiyunshan Hong Kong Company on 30 March 2018 respectively

Cheng Ning

Resigned as a director of GP Corp., Qi Xing, WLJ Great Health Corporate Development and WLJ Investment on 30 March 2018 respectively

Resigned as the supervisor and chairman of the supervisory committee of WLJ Great Health on 30 March 2018

Directors, Supervisors, Senior Management

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

Name of Directors/Supervisors/ Senior management	Details of the changes
Ni Yidong	Resigned as a director of WLJ Great Health, Guangzhou Baiyunshan Hong Kong Company and WLJ Great Health Corporate Development Company on 30 March 2018 respectively Appointed as chairman of WLJ Investment on 23 May 2018
Li Hong	Appointed as a director of Pharmaceutical Technology and Guangyao Baiyunshan Hong Kong Company on 23 May 2018 respectively
Wu Changhai	Appointed as a director of Tibet Nyingchi Baiyunshan Tibetan-style Health Preservation Castle Management Co., Ltd.
Wong Hin Wing	Appointed as independent non-executive director of Jiang Xi Bank Holdings Company Limited, listed on HKEx, on 28 February 2018
Xian Jiaxiong	Appointed as a director of Guangyao Baiyunshan Hong Kong Company on 23 May 2018
Zhang Chunbo	Appointed as a director of GP Corp. and Tian Xin on 23 May 2018 respectively

Notes: In the above, Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Yanju, Ms. Cheng Ning, Mr. Ni Yidong, Mr. Xian Jiaxiong also serve in GPL, the controlling shareholder of the Company. Except for Jiang Xi Bank Holdings Company Limited, the companies mentioned in the above table are the subsidiaries of the Company.

Directors, Supervisors, Senior Management

C. EMPLOYEES OF THE GROUP

(I) At the end of the Reporting Period, the number of employees on the payroll register of the Group was 26,399. The total salary payment for the first half of 2018 was approximately RMB1,274 million.

(II) The remuneration policy and employees training plan

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. A new policy was introduced in the first half of 2018 under which the starting salary for Ph.D. holders of the Group had been raised.

(III) Employees training plan

The Group regards staff as its precious assets, adhere to the concept of "talent is the first resource" and the principle of "people oriented", 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 the first half of 2018, the Group, on the basis of "a year of innovation and efficiency enhancement" 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.



Relevant Information of Company Bonds

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

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2018

(UNLESS OTHERWISE STATED, ALL AMOUNTS SHALL BE EXPRESSED IN RMB)

Item	Note	30 June 2018 (unaudited)	31 December 2017 (audited)
Current assets:			
Cash at bank and on hand	VI.1	14,487,134,885.08	11,697,218,882.84
Financial assets held for trading	VI.2	710,709.58	—
Notes receivable and accounts receivable	VI.3	14,408,235,873.65	2,816,424,481.59
Advances to suppliers	VI.4	805,953,459.27	256,571,758.01
Other receivables	VI.5	1,109,807,947.08	762,257,361.98
Inventories	VI.6	7,008,486,698.42	3,700,222,896.01
Current portion of non-current assets		—	—
Other current assets	VI.7	1,859,851,546.31	2,266,983,406.82
Total current assets		39,680,181,119.39	21,499,678,787.25
Non-current assets			
Debt investments		—	—
Other debt investments		—	—
Long-term receivables		—	—
Long-term equity investment	VI.10	2,109,791,885.16	2,008,481,257.05
Other equity instrument investments	VI.8	61,594,898.17	62,686,231.77
Other non-current financial assets	VI.9	362,598,199.43	975,856,856.18
Investment properties	VI.11	218,995,773.72	217,675,779.38
Fixed assets	VI.12	2,887,784,618.87	2,082,244,551.64
Construction in progress	VI.13	377,242,023.08	284,672,127.45
Intangible assets	VI.14	988,081,007.57	728,009,270.29
Development expenditures	VI.15	800,000.00	800,000.00
Goodwill	VI.16	943,848,566.58	11,499,562.74
Long-term prepaid expenses	VI.17	75,536,844.39	49,066,645.52
Deferred tax assets	VI.18	484,989,828.46	389,629,486.02
Other non-current assets		—	—
Total non-current assets		8,511,263,645.43	6,810,621,768.04
TOTAL ASSETS		48,191,444,764.82	28,310,300,555.29

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2018

(UNLESS OTHERWISE STATED, ALL AMOUNTS SHALL BE EXPRESSED IN RMB)

Item	Note	30 June 2018 (unaudited)	31 December 2017 (audited)
Current liabilities			
Short-term borrowings	VI.20	7,202,299,947.47	11,500,000.00
Financial liabilities held for trading		—	—
Notes payable and accounts payable	VI.21	10,551,236,677.57	3,054,427,081.10
Advances from customers	VI.22	1,174,419,442.26	1,888,892,476.97
Employee benefits payable	VI.23	625,936,546.88	631,170,810.62
Taxes payable	VI.24	339,875,309.85	206,462,076.94
Other payables	VI.25	4,382,981,939.46	2,445,094,461.69
Current portion of non-current liabilities	VI.26	69,136,583.11	31,307,337.23
Other current liabilities		—	—
Total current liabilities		24,345,886,446.60	8,268,854,244.55
Non-current liabilities:			
Long-term borrowings	VI.27	665,153,706.06	—
Bonds payable		—	—
Long-term payables	VI.28	136,988,182.06	35,126,665.12
Provisions	VI.30	53,738,480.85	55,348,585.32
Deferred income	VI.31	505,527,892.77	526,890,368.97
Deferred tax liabilities	VI.18	334,837,864.34	114,788,264.17
Long-term employee benefits payable	VI.29	313,035.80	326,532.02
Other non-current liabilities	VI.32	50,225,000.00	50,225,000.00
Total non-current liabilities		1,746,784,161.88	782,705,415.60
Total liabilities		26,092,670,608.48	9,051,559,660.15

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2018

(UNLESS OTHERWISE STATED, ALL AMOUNTS SHALL BE EXPRESSED IN RMB)

Item	Note	30 June 2018 (unaudited)	31 December 2017 (audited)
Shareholders' equity:			
Share capital	VI.33	1,625,790,949.00	1,625,790,949.00
Capital surplus	VI.34	9,875,177,958.43	9,875,177,958.43
Less: Treasury shares		—	—
Other comprehensive income	VI.35	(3,647,762.60)	(6,818,831.78)
Surplus reserve	VI.36	1,154,762,193.41	1,154,762,193.41
Undistributed profits	VI.37	8,217,768,779.26	6,218,195,404.57
Total equity attributable to shareholders of the parent company		20,869,852,117.50	18,867,107,673.63
Minority interest	VI.38	1,228,922,038.84	391,633,221.51
Total shareholders' equity		22,098,774,156.34	19,258,740,895.14
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		48,191,444,764.82	28,310,300,555.29

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

Legal representative:
Li Chuyuan

Person in charge of
accounting function: Li Hong

Person in charge of
accounting department: Yao Zhizhi

CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

Item	Note	6 months ended 30 June 2018 (unaudited)	6 months ended 30 June 2017 (unaudited)
1. Operating income	VI.39	14,840,013,680.03	11,115,338,459.91
Less: Operating costs	VI.39	10,050,615,335.69	6,955,444,360.97
Taxes and surcharges	VI.40	140,027,491.74	117,008,678.16
Selling and distribution expenses	VI.41	2,175,615,387.82	2,236,809,098.97
General and administrative expenses	VI.42	708,303,863.19	576,031,549.14
R&D expenses	VI.43	242,287,110.45	133,758,130.04
Financial expenses	VI.44	(68,120,859.81)	(85,059,169.79)
Including: Interest expense		28,496,077.13	813,546.77
Interest income		104,730,231.45	88,281,084.13
Impairment losses in respect of assets	VI.45	4,078,787.97	(1,915,856.60)
Impairment losses in respect of credit	VI.46	29,224,053.15	—
Add: Other income	VI.47	116,850,169.63	29,495,598.22
Investment income	VI.48	1,056,227,582.23	150,934,202.49
Including: Share of profits in associates and joint ventures		192,362,082.74	146,838,206.96
Gains from changes in fair value	VI.49	251,276,901.50	(1,195,001.81)
2. Operating profit		2,982,337,163.19	1,362,496,467.92
Add: Non-operating income	VI.50	33,876,268.66	48,915,528.71
Less: Non-operating expenses	VI.51	5,050,751.50	10,983,905.26
3. Total profit		3,011,162,680.35	1,400,428,091.37
Less: Income tax expenses	VI.52	351,799,391.67	209,458,422.85
4. Net profit		2,659,363,288.68	1,190,969,668.52
(1) Classified by the continuity of operations			
A. Net profit from continuing operations		2,659,363,288.68	1,190,969,668.52
B. Net profit from discontinued operations		—	—
(2) Classified by ownership of the equity			
A. Minority interest		40,363,562.42	32,829,611.23
B. Net profit attributable to the parent company's shareholders		2,618,999,726.26	1,158,140,057.29

CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

Item	Note	6 months ended 30 June 2018 (unaudited)	6 months ended 30 June 2017 (unaudited)
5. Other comprehensive net income after tax	VI.35	3,171,069.18	(832,843.32)
Other comprehensive net income after tax attributable to owners of the parent company		3,171,069.18	(835,190.92)
(1) Other comprehensive income that cannot be reclassified into profit or loss in the subsequent periods		(927,633.56)	—
A. Changes arising from the re-measurement of defined benefit plans		—	—
B. Other comprehensive income that cannot be transferred to profit or loss under equity method		—	—
C. Change in fair value of other equity instrument investments		(927,633.56)	—
D. Change in fair value of the company's own credit risk		—	—
(2) Other comprehensive income that can be reclassified into profit or loss in the subsequent period		4,098,702.74	(835,190.92)
A. Other comprehensive income that can be transferred to profit or loss under equity method		(227,055.34)	—
B. Change in fair value of other debt investments		—	—
C. Difference arising from the reclassification of financial assets		—	—
D. Provision for credit loss of other debt investments		—	—
E. Cash flow hedge reserve		—	—
F. Difference arising from the translation of foreign currency financial statements		4,325,758.08	(1,677,911.35)
G. Gains and losses arising from changes in fair value of available for sale financial assets		—	842,720.43
Other comprehensive net income after tax attributable to minority shareholders		—	2,347.60

CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

Item	Note	6 months ended 30 June 2018 (unaudited)	6 months ended 30 June 2017 (unaudited)
6. Total comprehensive income		<u>2,662,534,357.86</u>	<u>1,190,136,825.20</u>
(1) Total comprehensive income attributable to shareholders of the parent company		2,622,170,795.44	1,157,304,866.37
(2) Total comprehensive income attributable to minority shareholders' equity		40,363,562.42	32,831,958.83
7. Earnings per share (EPS):			
(1) Basic EPS	VI.53 (a)	1.611	0.712
(2) Diluted EPS	VI.53 (b)	1.611	0.712

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

Legal representative:
Li Chuyuan

Person in charge of
accounting function: Li Hong

Person in charge of
accounting department: Yao Zhizhi

CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2018
(UNLESS OTHERWISE STATED, AMOUNT SHALL BE EXPRESSED IN RMB)

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上海

Item	Note	6 months ended 30 June 2018 (unaudited)	6 months ended 30 June 2017 (unaudited)
1. Cash flows from operating activities			
Cash received from the sale of goods and the rendering of services		13,451,313,120.97	8,420,269,278.47
Refund of taxes and surcharges		4,062,082.96	3,425,619.33
Cash received relating to other operating activities	VI.54 (a)	466,680,277.24	285,268,625.48
Sub-total of cash inflows		13,922,055,481.17	8,708,963,523.28
Cash paid for goods and services		7,579,809,589.31	3,879,767,881.34
Cash paid to and on behalf of employees		1,871,381,827.54	1,667,126,515.75
Payments of taxes and surcharges		1,299,454,475.99	1,124,565,900.94
Cash paid relating to other operating activities	VI.54 (b)	1,968,632,460.01	1,172,504,724.54
Sub-total of cash outflows		12,719,278,352.85	7,843,965,022.57
Net cash flows from operating activities	VI.55 (a)	1,202,777,128.32	864,998,500.71
2. Cash flows from investing activities:			
Cash received from disposal of investments		1,865,943,118.02	411,300,000.00
Cash received from returns on investments		66,997,712.90	45,750,675.77
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		158,342.16	40,995.97
Net cash received from disposals of subsidiaries and other business units			
Cash received relating to other investing activities	VI.54 (c)	430,811,452.98	639,938.98
Sub-total of cash inflows		2,363,910,626.06	457,731,610.72
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets		116,683,080.00	60,004,149.64
Cash paid to acquire investments		1,570,653,877.62	2,264,900,000.00
Net cash paid for acquisitions of subsidiaries		—	—
Cash paid relating to other investing activities	VI.54 (d)	161,611.03	—
Sub-total of cash outflows		1,687,498,568.65	2,324,904,149.64
Net cash flows from investing activities		676,412,057.41	(1,867,172,538.92)

CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(UNLESS OTHERWISE STATED, AMOUNT SHALL BE EXPRESSED IN RMB)

Item	Note	6 months ended 30 June 2018 (unaudited)	6 months ended 30 June 2017 (unaudited)
3. Cash flows from financing activities			
Cash received from capital contributions		28,630,000.00	10,320,000.00
Including: Cash received from capital contributions by minority shareholders to subsidiaries		28,630,000.00	10,320,000.00
Cash received from borrowings		901,153,286.02	10,791,330.22
Cash received relating to other financing activities	VI.54 (e)	1,300,000.00	—
Sub-total of cash inflows		931,083,286.02	21,111,330.22
Cash repayments of borrowings		468,705,389.94	26,161,300.15
Cash paid for interest expenses and distribution of dividends or profits		53,833,160.11	11,462,634.18
Including: Cash paid for distribution of dividends or profit to minorities of subsidiaries		5,318,280.02	9,896,220.32
Cash paid relating to other financing activities	VI.54 (f)	9,856,322.48	—
Sub-total of cash outflows		532,394,872.53	37,623,934.33
Net cash flows from financing activities		398,688,413.49	(16,512,604.11)
4. Effect of foreign exchange rate changes on cash and cash equivalents		1,024,953.78	789,777.60
5. Net increase/(decrease) in cash and cash equivalents	VI.55 (a)	2,278,902,553.00	(1,017,896,864.72)
Add: Opening balance of Cash and Cash Equivalent	VI.55 (c)	11,495,535,159.70	12,586,469,786.51
6. Closing Balance of Cash and Cash Equivalents	VI.55 (c)	13,774,437,712.70	11,568,572,921.79

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

Legal representative:
Li Chuyuan

Person in charge of
accounting function: Li Hong

Person in charge of
accounting department: Yao Zhizhi

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018
(UNLESS OTHERWISE STATED, AMOUNT SHALL BE EXPRESSED IN RMB)

Item	Current period												
	Attributable to shareholders of the Company												
	Share capital	Other equity instruments			Capital surplus	Less Treasury share	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profits	Minority shareholders' equity	Total shareholders' equity
	Preferred shares	Perpetual bonds	Others										
1. Balance at 31 December 2017 (Audited)	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
Add:													
Changes in accounting policies	—	—	—	—	—	—	63,388,106.49	—	—	—	(67,801,004.52)	—	(4,412,898.03)
Corrections of prior period errors	—	—	—	—	—	—	—	—	—	—	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Balance at 1 January 2018	1,625,790,949.00	—	—	—	9,875,177,958.43	—	(6,818,831.78)	—	1,154,762,193.41	—	6,218,195,404.57	391,633,221.51	19,258,740,095.14
3. Movements for the current period													
(1) Total comprehensive income	—	—	—	—	—	—	3,171,069.18	—	—	—	1,999,573,374.69	837,288,817.33	2,840,032,261.20
(2) Capital contribution and withdrawal by shareholders	—	—	—	—	—	—	—	—	—	—	—	796,925,254.91	796,925,254.91
A. Common stock by shareholders	—	—	—	—	—	—	—	—	—	—	—	796,925,254.91	796,925,254.91
B. Capital contribution by owner of other equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—
C. Share-based payment recognized in shareholders' equity	—	—	—	—	—	—	—	—	—	—	—	—	—
D. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(3) Profit distribution	—	—	—	—	—	—	—	—	—	—	(619,426,351.57)	—	(619,426,351.57)
A. Appropriation to surplus reserve	—	—	—	—	—	—	—	—	—	—	—	—	—
B. Appropriation to general risk reserve	—	—	—	—	—	—	—	—	—	—	—	—	—
C. Profit distribution to owners (or shareholders)	—	—	—	—	—	—	—	—	—	—	(619,426,351.57)	—	(619,426,351.57)
D. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(4) Transfer within shareholders' equity	—	—	—	—	—	—	—	—	—	—	—	—	—
A. Transfer from capital surplus to share capital	—	—	—	—	—	—	—	—	—	—	—	—	—
B. Transfer from surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—	—	—	—
C. Surplus reserves used to offset accumulated losses	—	—	—	—	—	—	—	—	—	—	—	—	—
D. Transfer of change in defined benefit plans to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—	—
E. Transfer from other comprehensive income to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—	—
F. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(5) Special reserve	—	—	—	—	—	—	—	—	—	—	—	—	—
A. Current appropriation	—	—	—	—	—	—	—	—	—	—	—	—	—
B. Current utilization	—	—	—	—	—	—	—	—	—	—	—	—	—
(6) Others	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Balance at 30 June 2018	1,625,790,949.00	—	—	—	9,875,177,958.43	—	(3,647,762.60)	—	1,154,762,193.41	—	8,217,768,779.26	1,228,922,038.84	22,088,774,156.34

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

Legal representative:
Li Chuyuan

Person in charge of
accounting function: Li Hong

Person in charge of
accounting department: Yao Zhizhi

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(UNLESS OTHERWISE STATED, AMOUNT SHALL BE EXPRESSED IN RMB)

Item	Prior period												
	Attributable to shareholders of the Company												
	Share capital	Other equity instruments			Capital surplus	Less Treasury share	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profits	Minority shareholders' equity	Total shareholders' equity
	Preferred shares	Perpetual bonds	Others										
1. Balance at 31 December 2016 (Audited)	1,625,790,949.00	—	—	—	9,875,172,584.68	—	9,788,066.97	—	1,052,034,418.97	—	4,782,239,720.24	308,710,708.41	17,653,790,448.27
Add: Changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—
Corrections of prior period errors	—	—	—	—	—	—	—	—	—	—	—	—	—
Business combination 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	—	4,782,239,720.24	308,710,708.41	17,653,790,448.27
3. Movements for the current period	—	—	—	—	—	—	(835,190.92)	—	—	—	702,918,591.57	56,201,958.83	758,286,359.48
(1) Total comprehensive income	—	—	—	—	—	—	(835,190.92)	—	—	—	1,158,140,057.29	33,831,958.83	1,190,136,825.20
(2) Capital contribution and withdrawal by shareholders	—	—	—	—	—	—	—	—	—	—	—	23,370,000.00	23,370,000.00
A Common stock by shareholders	—	—	—	—	—	—	—	—	—	—	—	23,370,000.00	23,370,000.00
B Capital contribution by owner of other equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—
C Share-based payment recognized in shareholders' equity	—	—	—	—	—	—	—	—	—	—	—	—	—
D Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(3) Profit distribution	—	—	—	—	—	—	—	—	—	—	(455,221,465.72)	—	(455,221,465.72)
A Appropriation to surplus reserve	—	—	—	—	—	—	—	—	—	—	—	—	—
B Appropriation to general risk reserve	—	—	—	—	—	—	—	—	—	—	—	—	—
C Profit distribution to owners (or shareholders)	—	—	—	—	—	—	—	—	—	—	(455,221,465.72)	—	(455,221,465.72)
D Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(4) Transfer within shareholders' equity	—	—	—	—	—	—	—	—	—	—	—	—	—
A Transfer from capital surplus to share capital	—	—	—	—	—	—	—	—	—	—	—	—	—
B Transfer from surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—	—	—	—
C Surplus reserves used to offset accumulated losses	—	—	—	—	—	—	—	—	—	—	—	—	—
D Transfer of change in defined benefit plans to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—	—
E Transfer from other comprehensive income to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—	—
F Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(5) Special reserve	—	—	—	—	—	—	—	—	—	—	—	—	—
A Current appropriation	—	—	—	—	—	—	—	—	—	—	—	—	—
B Current utilization	—	—	—	—	—	—	—	—	—	—	—	—	—
(6) Others	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Balance at 30 June 2017 (unaudited)	1,625,790,949.00	—	—	—	9,875,172,584.68	—	8,952,876.05	—	1,052,034,418.97	—	5,485,212,311.81	364,912,667.24	18,412,075,807.75

The accompanying notes is an integral part of these financial statements

Legal representative:
Li Chuyuan

Person in charge of
accounting function: Li Hong

Person in charge of
accounting department: Yao Zhizhi

BALANCE SHEET

AS AT 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

Item	Note	30 June 2018 (unaudited)	31 December 2017 (audited)
Current assets:			
Cash at bank and on hand		6,399,859,571.24	6,148,845,583.90
Financial assets held for trading		—	—
Notes receivable and accounts receivable	XVIII (1)	1,264,103,289.93	944,740,489.99
Advances to suppliers		10,239,044.60	8,408,955.59
Other receivables	XVIII (2)	2,156,585,038.92	2,183,912,954.36
Inventories		698,441,933.99	579,702,447.36
Current portion of non-current assets		—	—
Other current assets		1,501,639,263.54	1,503,465,702.19
Total current assets		12,030,868,142.22	11,369,076,133.39
Non-current assets			
Debt investments		—	—
Other debt investments		—	—
Long-term receivables		—	—
Long-term equity investments	XVIII (3)	7,020,086,400.11	4,764,674,279.23
Other equity instrument investments		61,594,898.17	57,494,587.03
Other non-current financial assets		359,104,965.71	977,369,820.71
Investment properties		204,418,396.47	208,498,363.23
Fixed assets		476,905,811.56	483,033,235.07
Construction in progress		41,122,568.83	37,984,793.35
Intangible assets		372,235,932.73	370,192,435.37
Development expenditures		—	—
Goodwill		—	—
Long-term prepaid expenses		2,161,567.46	2,384,650.49
Deferred tax assets		80,757,835.94	109,147,594.90
Other non-current assets		—	—
Total non-current assets		8,618,388,376.98	7,010,779,759.38
TOTAL ASSETS		20,649,256,519.20	18,379,855,892.77

BALANCE SHEET

AS AT 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

Item	Note	30 June 2018 (unaudited)	31 December 2017 (audited)
Current liabilities			
Short-term borrowings		604,431,644.92	154,431,644.92
Financial liabilities held for trading		—	—
Notes payable and accounts payable		358,424,707.26	332,648,649.94
Advances from customers		198,274,968.40	116,889,039.40
Employee benefits payable		88,210,365.48	78,032,160.23
Taxes payable		103,593,176.24	124,918,499.55
Other payables		2,463,628,576.42	1,123,393,572.36
Non-current liabilities due within one year		—	—
Other current liabilities		—	—
Total current liabilities		3,816,563,438.72	1,930,313,566.40
Non-current liabilities:			
Long-term borrowings		—	—
Bonds payable		—	—
Long-term payables		7,876,324.33	7,802,224.39
Provisions		214,952,515.19	170,214,675.19
Deferred income		82,419,509.87	69,548,966.56
Deferred tax liabilities		28,277,354.74	18,591,820.19
Other non-current liabilities		—	—
Total non-current liabilities		333,525,704.13	266,157,686.33
Total liabilities		4,150,089,142.85	2,196,471,252.73
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 shares		—	—
Other comprehensive income		(937,762.36)	216,926.54
Surplus reserve		782,153,758.81	782,153,758.81
Undistributed profits		4,271,984,935.01	3,955,047,509.80
Total equity attributable to shareholders of the parent company		16,499,167,376.35	16,183,384,640.04
TOTAL LIABILITIES AND SHAREHOLDER EQUITY		20,649,256,519.20	18,379,855,892.77

The accompanying notes is an integral part of these financial statements

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Li Hong

Person in charge of
accounting department:

Yao Zhizhi

INCOME STATEMENT

FROM JANUARY 2018 TO JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

Item	Note	6 months ended 30 June 2018 (unaudited)	6 months ended 30 June 2017 (unaudited)
1. Operating income	XVIII (4)	2,336,084,718.56	1,601,680,758.68
Less: Operating cost	XVIII (4)	1,123,201,974.09	687,595,444.80
Taxes and surcharges		27,790,846.77	24,961,522.32
Selling expenses		307,425,512.17	271,667,986.88
General and administrative expenses		186,484,136.41	144,834,707.29
R&D expenses		99,528,228.67	31,848,792.88
Finance expenses		(26,265,469.30)	(50,923,328.92)
Including: Interest expense		3,045,634.08	2,992,082.82
Interest income		29,458,271.46	54,028,039.78
Impairment losses in respect of assets		7,785,401.49	(1,551,076.14)
Impairment losses in respect of credit		(219,984.96)	—
Add: Other income		2,527,973.43	1,877,535.00
Investment income	XVIII (5)	196,326,091.09	123,063,272.63
Including: Share of profits in associates and joint ventures	XVIII (5)	163,589,038.89	122,861,924.93
Gains from changes in fair value		251,497,016.76	(1,195,001.81)
2. Operating profit		1,060,705,154.50	616,992,515.39
Add: Non-operating income		5,549,221.67	3,824,269.17
Less: Non-operating expenses		1,004,870.02	1,261,477.07
3. Total profit		1,065,249,506.15	619,555,307.49
Less: Income tax expenses		128,885,729.37	68,022,197.12
4. Net profit		936,363,776.78	551,533,110.37
(1) Classified by the continuity of operations			
A. Net profit from continued operations		936,363,776.78	551,533,110.37
B. Net profit from discontinued operations		—	—
(2) Classified by ownership of the equity			
A. Minority interest		—	—
B. Net profit attributable to the parent company's shareholders		936,363,776.78	551,533,110.37

INCOME STATEMENT

FROM JANUARY 2018 TO JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

Item	Note	6 months ended 30 June 2018 (unaudited)	6 months ended 30 June 2017 (unaudited)
5. Other comprehensive net income after tax		(1,154,688.90)	719,950.00
Other comprehensive income after tax attributable to owners of the parent company			—
(1) Other comprehensive income that cannot be reclassified into profit or loss in the subsequent periods		(927,633.56)	—
A. Changes arising from the re-measurement of defined benefit plans		—	—
B. Other comprehensive income that cannot be transferred to profit or loss under equity method		—	—
C. Change in fair value of other equity instrument investments		(927,633.56)	—
D. Change in fair value of the company's own credit risk		—	—
(2) Other comprehensive income that can be reclassified into profit or loss in the subsequent period		(227,055.34)	719,950.00
A. Other comprehensive income that can be transferred to profit or loss under equity method		(227,055.34)	(127,050.00)
B. Change in fair value of other debt investments		—	—
C. Difference arising from the reclassification of financial assets		—	—
D. Provision for credit loss of other debt investments		—	—
E. Cash flow hedge reserve		—	—
F. Gains and losses arising from changes in fair value of available for sale financial assets		—	847,000.00
6. Total comprehensive income		935,209,087.88	552,253,060.37
7. Earnings per share (EPS):			
(1) Basic EPS		—	—
(2) Diluted EPS		—	—

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

Legal representative:
Li Chuyuan

Person in charge of
accounting function: Li Hong

Person in charge
of accounting department: Yao Zhizhi

CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2018
(Unless otherwise stated, amount shall be expressed in RMB)

Item	Note	6 months ended 30 June 2018 (unaudited)	6 months ended 30 June 2017 (unaudited)
1. Cash flows from operating activities			
Cash received from the sale of goods and the rendering of services		1,708,545,604.66	788,108,053.71
Refund of taxes and surcharges		—	—
Cash received relating to other operating activities		156,579,275.78	173,147,674.17
Sub-total of cash inflows		1,865,124,880.44	961,255,727.88
Cash paid for goods and services		839,800,412.80	119,237,054.82
Cash paid to and on behalf of employees		231,852,064.54	206,482,708.19
Payments of taxes and surcharges		301,282,567.76	235,383,316.26
Cash paid relating to other operating activities		99,069,141.62	98,004,824.35
Sub-total of cash outflows		1,472,004,186.72	659,107,903.62
Net cash flows from operating activities	XVIII (6)	393,120,693.72	302,147,824.26
2. Cash flows from investing activities:			
Cash received from disposal of investments		1,500,000,000.00	—
Cash received from returns on investments		549,579,440.16	262,717,583.87
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		630.00	900.00
Cash received relating to other investing activities		594,723,171.20	571,795,206.85
Sub-total of cash inflows		2,644,303,241.36	834,513,690.72
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets		21,661,224.30	16,596,750.70
Cash paid to acquire investments		2,738,716,750.00	2,427,980,500.00
Net cash paid for acquisitions of subsidiaries and other business units		—	—
Cash paid relating to other investing activities		501,200,000.00	551,200,000.00
Sub-total of cash outflows		3,261,577,974.30	2,995,777,250.70
Net cash flows from investing activities		(617,274,732.94)	(2,161,263,559.98)

CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

Item	Note	6 months ended 30 June 2018 (unaudited)	6 months ended 30 June 2017 (unaudited)
3. Cash flows from financing activities			
Cash received from capital contributions		—	—
Including: Cash received from capital contributions by minority shareholders		—	—
Cash received from borrowings		450,000,000.00	—
Cash received relating to other financing activities		—	—
Sub-total of cash inflows		450,000,000.00	—
Cash repayments of borrowings		—	104,431,644.92
Cash paid for interest expenses and distribution of dividends or profits		7,604,245.80	2,992,082.82
Including: Cash paid for distribution of dividends or profit to minorities of subsidiaries		—	—
Cash paid relating to other financing activities		—	—
Sub-total of cash outflows		7,604,245.80	107,423,727.74
Net cash flows from financing activities		442,395,754.20	(107,423,727.74)
4. Effect of foreign exchange rate changes on cash and cash equivalents		—	9.58
5. Net increase/(decrease) in cash and cash equivalents	XVIII (6)	218,241,714.98	(1,966,539,453.88)
Add: Opening balance of Cash and Cash Equivalent		6,147,937,501.16	8,326,923,391.07
6. Closing Balance of Cash and Cash Equivalents		6,366,179,216.14	6,360,383,937.19

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

Legal representative:
Li Chuyuan

Person in charge of
accounting function:
Li Hong

Person in charge of
accounting department:
Yao Zhizhi

STATEMENT OF CHANGES IN SHAREHOLDER EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

Item	Current period										
	Share capital	Other equity instruments			Capital surplus	Less Treasury share	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Total shareholders' equity
	Preferred shares	Perpetual bonds	Others								
1. 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
Add:											
Changes in accounting policies	—	—	—	—	—	—	64,954,866.01	—	—	(69,367,764.04)	(4,412,898.03)
Corrections of prior period errors	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—
2. Balance at 1 January 2018	1,625,790,949.00	—	—	—	9,820,175,495.89	—	216,926.54	—	782,153,758.81	3,955,047,509.80	16,183,384,640.04
3. Movements for the current period											
(1) Total comprehensive income	—	—	—	—	—	—	(1,154,688.90)	—	—	316,937,425.21	315,782,736.31
(2) Capital contribution and withdrawal by shareholders											
A. Common stock by shareholders	—	—	—	—	—	—	—	—	—	—	—
B. Capital contribution by owner of other equity instruments	—	—	—	—	—	—	—	—	—	—	—
C. Share-based payment recognized in shareholders' equity	—	—	—	—	—	—	—	—	—	—	—
D. Others	—	—	—	—	—	—	—	—	—	—	—
(3) Profit distribution											
A. Appropriation to surplus reserve	—	—	—	—	—	—	—	—	—	—	—
B. Profit distribution to owners (or shareholders)	—	—	—	—	—	—	—	—	—	(619,426,351.57)	(619,426,351.57)
C. Others	—	—	—	—	—	—	—	—	—	—	—
(4) Transfer within shareholders' equity											
A. Transfer from capital surplus to share capital	—	—	—	—	—	—	—	—	—	—	—
B. Transfer from surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—	—
C. Surplus reserves used to offset accumulated losses	—	—	—	—	—	—	—	—	—	—	—
D. Transfer of change in defined benefit plans to retained earnings	—	—	—	—	—	—	—	—	—	—	—
E. Transfer from other comprehensive income to retained earnings	—	—	—	—	—	—	—	—	—	—	—
F. Others	—	—	—	—	—	—	—	—	—	—	—
(5) Special reserve											
A. Current appropriation	—	—	—	—	—	—	—	—	—	—	—
B. Current utilization	—	—	—	—	—	—	—	—	—	—	—
(6) Others	—	—	—	—	—	—	—	—	—	—	—
4. Balance at 30 June 2018	1,625,790,949.00	—	—	—	9,820,175,495.89	—	(937,762.36)	—	782,153,758.81	4,271,984,935.01	16,499,167,376.35

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

Legal representative:
Li Chuyuan

Person in charge of
accounting function: Li Hong

Person in charge of
accounting department: Yao Zhizhi

STATEMENT OF CHANGES IN SHAREHOLDER EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

Item	Prior period										
	Share capital	Other equity instruments			Capital surplus	Less Treasury share	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Total shareholders' equity
		Preferred shares	Perpetual bonds	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 period 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 current period											
(1) Total comprehensive income	—	—	—	—	—	—	719,950.00	—	—	96,311,644.65	97,031,594.65
(2) Capital contribution and withdrawal by shareholders											
A. Common stock by shareholders	—	—	—	—	—	—	—	—	—	—	—
B. Capital contribution by owner of other equity instruments	—	—	—	—	—	—	—	—	—	—	—
C. Share-based payment recognized in shareholder' equity	—	—	—	—	—	—	—	—	—	—	—
D. Others	—	—	—	—	—	—	—	—	—	—	—
(3) Profit distribution	—	—	—	—	—	—	—	—	—	(455,221,465.72)	(455,221,465.72)
A. Appropriation to surplus reserve	—	—	—	—	—	—	—	—	—	—	—
B. Profit distribution to owners (or shareholders)	—	—	—	—	—	—	—	—	—	(455,221,465.72)	(455,221,465.72)
C. Others	—	—	—	—	—	—	—	—	—	—	—
(4) Transfer within shareholders' equity											
A. Transfer from capital surplus to share capital	—	—	—	—	—	—	—	—	—	—	—
B. Transfer from surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—	—
C. Surplus reserves used to offset accumulated losses	—	—	—	—	—	—	—	—	—	—	—
D. Transfer of change in defined benefit plans to retained earnings	—	—	—	—	—	—	—	—	—	—	—
E. Transfer from other comprehensive income to retained earnings	—	—	—	—	—	—	—	—	—	—	—
F. Others	—	—	—	—	—	—	—	—	—	—	—
(5) Special reserve	—	—	—	—	—	—	—	—	—	—	—
A. Current appropriation	—	—	—	—	—	—	—	—	—	—	—
B. Current utilization	—	—	—	—	—	—	—	—	—	—	—
(6) Others	—	—	—	—	—	—	—	—	—	—	—
4. Balance at 30 June 2017	1,625,790,949.00	—	—	—	9,820,175,495.89	—	11,907,371.73	—	679,425,984.37	3,651,398,414.29	15,788,698,215.28

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

Legal representative:
Li Chuyuan

Person in charge of
accounting function: Li Hong

Person in charge of
accounting department: Yao Zhizhi

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

I. GENERAL INFORMATION

1. Company overview

According to the Circular Tigaisheng [1997] No.139 issued by the State Commission for Restructuring the Economic Systems, Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (hereinafter referred to as "the Group") was incorporated solely by Guangzhou Pharmaceutical Holdings Limited (hereinafter referred to as "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 into the Company. The Company obtained its business license on 1 September 1997 and the registered number is 440101000005674.

According to the Circular Tigaisheng [1997] No.145 issued by the State Commission for Restructuring the Economic Systems and Circular Zhengweifa [1997] No.56 issued by the Securities Regulatory Commission of the State Council, the Group issued 219,900,000 shares in Hong Kong Stock Exchange (H shares) in October 1997. As approved by China Securities Regulatory Commission on 10 January 2001, 78,000,000 ordinary shares (A share) of the Group were issued and the Group was listed on Shanghai Stock Exchange on 6 February 2001. The stock abbreviation is GZ Phar., and stock code was 600332.

The Group executed and completed a material asset restructuring transaction in 2013, which includes: (1) The Group 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 Group issued an addition of 34,839,645 A shares to GPHL, as consideration payment, to acquire the buildings and trademarks which were owned by GPHL or GPHL had the right to dispose of, and 100% equity interest of Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited ("Guangyao Baiyunshan Hong Kong Company") (Previously named "Polian Development Co., Ltd."), a subsidiary of GPHL, and 12.5% equity interest of Baxter Healthcare Co., Ltd. ("Baxter Healthcare") held by GPHL. The Company completed the registration of the shares on 5 July 2013. After the completion of the above-mentioned assets restructuring processes, the Group's total amount of outstanding shares was 1,291,340,650 shares. The stock abbreviation was changed into BYS.

According to the 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 Group and GPHL, the Group repurchased 261,400 shares of A shares held by GPHL for a total of RMB 1, which was canceled it on 27 April 2015. The registration procedures of repurchase and cancellation were completed on 7 May 2015. After the completion of the above-mentioned restructuring, the Group's general capital is 1,291,079,250 shares.

The Group offered non-public A share amounted to 334,711,699 in 2016. Capital stock was increased by 334,711,699 shares, and the Group's general capital increased to 1,625,790,949 shares.

The parent company and the ultimate controlling party are GPHL and Guangzhou State-owned Assets Supervision and Administration Commission respectively.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

I. GENERAL INFORMATION (Continued)

1. Company overview (Continued)

The approved business scope of the Group and its subsidiaries as included in the consolidated financial statements (together “the Group”) includes: (1) Research, development, manufacturing and sales of Chinese and Western medicine, chemical raw medicine, natural medicine, biological medicine, intermediate product of chemical raw medicine; (2) The wholesale, retail, import and export business of Western medicine, Chinese medicines and medical instruments; (3) Research, development, manufacturing and sale of Great Health products; (4) Investment in medical, health management and youth preservation, etc.

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”), 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 product of the Group is Wang Lao Ji Herbal Tea (“王老吉涼茶”), etc.

The Group has 85 subsidiaries included in the consolidation scope in 2018. For more details, please refer to Note VIII “Interests in Other Entities”. The companies in the consolidation scope of the Group for the current year increased by 28 and decreased by 1 compared to the prior year. For more details, please refer to Note VII “Changes in Consolidation Scope”.

These financial statements were authorized for issue by the Board on 22 August 2018.

2. Scope of consolidation

As of 30 June 2018, subsidiaries in the scope of consolidated financial statements are as follows:

Name of subsidiary	Control
Guangzhou Baiyunshan Xing Qun Pharmaceutical Holdings Co., Ltd. (Xing Qun)	Direct holding
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. (Zhong Yi)	Direct holding
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd. (Chen Li Ji)	Direct holding
Guangzhou Baiyunshan Han Fang Contemporary Pharmaceutical Co., Ltd. (Guangzhou Han Fang)	Direct holding
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	Direct holding
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. (Jing Xiu Tang)	Direct holding
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (Pan Gao Shou)	Direct holding
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (Cai Zhi Lin)	Direct holding
Guangzhou Pharmaceutical Import & Export Co., Ltd. (Pharmaceutical Import & Export)	Direct holding
Guangzhou Baiyunshan Bai Di Bio-Technology Co., Ltd. (Guangzhou Bai Di)	Direct holding

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

I. GENERAL INFORMATION (Continued)

2. Scope of consolidation (Continued)

Name of subsidiary	Control
Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. (WLJ Great Health)	Direct holding
Guangxi Baiyunshan Ying Kang Pharmaceutical Co., Ltd. (Guangxi Ying Kang)	Direct holding
Guangzhou Guangyao Yi Gan Biological Product Co., Ltd. (Yi Gan)	Direct holding
Guangzhou Baiyunshan Xing Zhu Pharmaceutical Co., Ltd. (Xing Zhu)	Direct holding
Guangzhou Baiyunshan Medical and Healthcare Industry Investment Co., Ltd. (Baiyunshan Medical and Healthcare Industry Company)	Direct holding
Guangzhou Baiyunshan Chemical Pharmaceutical Technology Co., Ltd.	Direct holding
Guangzhou Haima Pharmaceutical Advertising Co., Ltd. (Guangyao Haima)	Direct holding
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd. (Baiyunshan Pharmaceutical Marketing)	Direct holding
Guangzhou Baiyunshan Medical Instruments investment Co., Ltd.	Indirect holding
Guangzhou Wang Lao Ji Investment Co., Ltd. (Wang Lao Ji Investment)	Direct holding
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. (Qi Xing Pharmaceutical)	Indirect holding
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd.	Indirect holding
Guangzhou Pan Gao Shou Natural Healthcare Products Co., Ltd.	Indirect holding
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	Indirect holding
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Indirect holding
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.	Indirect holding
Guangzhou Ao Ma Medical Instruments Co., Ltd.	Indirect holding
Tibet Linzhi Guangyao Development Co., Ltd.	Indirect holding
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect holding
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect holding
Jingyu Guangyao Dong'e Chinese Raw Medicine Development Co., Ltd.	Indirect holding
Heilongjiang Sengong Guangyao Raw Medicine Development Co., Ltd.	Indirect holding
Wang Lao Ji Great Health Industry (Ya'an) Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Guang Hua Health Products Co., Ltd. (Guang Hua Health)	Indirect holding
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect holding
Zhejiang Guang Kang Pharmaceutical Co., Ltd.	Indirect holding
Tibet Linzhi Baiyunshan Tibetan Health Castle Management Co., Ltd.	Indirect holding
Guangzhou Wang Lao Ji Great Health Enterprise Development Co., Ltd.	Indirect holding
Guangzhou Wang Lao Ji Industry Company	Indirect holding
Wang Lao Ji Great Health Industry (Beijing) Sales Co., Ltd.	Indirect holding

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

I. GENERAL INFORMATION *(Continued)*

2. Scope of consolidation *(Continued)*

Name of subsidiary	Control
Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd.	Indirect holding
Guangzhou Xing Qun Health Technology Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Hospital Co., Ltd. (Guangzhou Baiyunshan Hospital)	Indirect holding
Guangzhou Baiyunshan Jin Ge Male Health Consulting Co., Ltd.	Indirect holding
Guangzhou WLJ Catering Management Development Co., Ltd. (WLJ Catering)	Indirect holding
Guangzhou Chen Li Ji Great Health Industry Co., Ltd.	Indirect holding
Wang Lao Ji Dazhai Beverages Co., Ltd.	Indirect holding
Guangzhou Wang Lao Ji Dazhai Beverages Co., Ltd.	Indirect holding
Meizhou Guangyao Cai Zhi Lin Pharmaceutical Co., Ltd.	Indirect holding
Guangzhou Wang Lao Ji Great Health E-Commerce Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. (Tian Xin)	Direct holding
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd. (Guang Hua)	Direct holding
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. (Ming Xing)	Direct holding
Baiyunshan Weiling Pharmaceutical Co., Ltd. (Weiling)	Direct holding
Guangzhou Baiyunshan Pharmaceutical Technological Development Co., Ltd. (Pharmaceutical Technological)	Direct holding
Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited (Guangyao Baiyunshan Hong Kong Company)	Direct holding
Guangzhou Pharmaceutical Research Institute ("Guangyao General Institute")	Direct holding
Guangzhou Baiyunshan Macao Co., Ltd.	Direct holding
Guangzhou Baiyunshan Tian Xin Pharmaceutical Technology Co., Ltd.	Indirect holding
Guangyao Baiyunshan Chemical Pharmaceutical (Zhuhai) Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Chemical Pharmaceutical Co., Ltd.	Direct holding
Guangzhou Pharmaceutical Co., Ltd. (GP Corp.)	Direct holding
Guangzhou Jian Min Pharmaceutical Chain Co., Ltd.	Indirect holding
Guangzhou Jian Min Pharmaceutical Co., Ltd.	Indirect holding
Guangzhou Qi Hua Medical Instruments Co., Ltd.	Indirect holding
Fujian Guangyao Jie Da Pharmaceutical Co., Ltd.	Indirect holding
Hubei Guangyao An Kang Pharmaceutical Co., Ltd.	Indirect holding
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	Indirect holding
Guangzhou Xin Te Pharmaceutical Co., Ltd.	Indirect holding

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

I. GENERAL INFORMATION *(Continued)*

2. Scope of consolidation *(Continued)*

Name of subsidiary	Control
Foshan Guangyao Jian Ze Pharmaceutical Co., Ltd.	Indirect holding
Shenzhen Guangyao Lian Kang Pharmaceutical Co., Ltd.	Indirect holding
Hunan Guangyao Heng Sheng Pharmaceutical Co., Ltd.	Indirect holding
Hainan Guangyao Chen Fei Pharmaceutical Co., Ltd.	Indirect holding
Shanxi Guangyao Kang Jian Pharmaceutical Co., Ltd.	Indirect holding
Guangdong Meixian Pharmaceutical Co., Ltd.	Indirect holding
Jiangmen Guangyao Qiao Kang Pharmaceutical Co., Ltd.	Indirect holding
Chengdu Guangyao Xin Hui Yuan Pharmaceutical Co., Ltd.	Indirect holding
Hubei Guangyao Ji Da Pharmaceutical Co., Ltd.	Indirect holding
Guangxi Guangyao Xin Shi Dai Pharmaceutical Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical (Hong Kong) Co., Ltd.	Indirect holding
Jian Min International Co., Ltd.	Indirect holding
Zhuhai Guangyao Kang Ming Pharmaceutical Co., Ltd.	Indirect holding
Foshan Guangyao Feng Kang Pharmaceutical Co., Ltd.	Indirect holding
Guangzhou Wan Kang Orthopedics Medical Instruments Co., Ltd.	Indirect holding
Guangzhou Yi Yao Pharmacy Co., Ltd.	Indirect holding



NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

II. BASIS OF PREPARATION

1. Basis of Preparation

The financial statements are prepared, on a going concern basis, to recognize and measure the transactions and events, which have occurred, in accordance with the *Accounting Standards for Business Enterprises—Basic Standard* (Release of No.33 Order of the Ministry of Finance of the People’s Republic of China and Amendment to No.76 Order of the Ministry of Finance of the People’s Republic of China), 42 specific accounting standards, 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 of the People’s Republic of China on and subsequent to 15 February 2006 (hereinafter collectively referred to as “ASBE”), and the disclosure requirements in the *Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15—General provisions on Financial Reporting* (Revised in 2014) issued by the China Securities Regulatory Commission.

According to relevant provisions of the ASBE, the Group’s accounting is prepared using the accrual basis. The measurement basis of the financial statements is historical cost except for certain financial instruments. According to the ASBE, related provision for impairment shall be provided if asset is impaired.

2. Going Concern

The Group has the ability to continue as a going concern in the next 12 months since the end of the reporting period. There is no material event that may cast significant doubt upon the Group’s ability to continue as a going concern.

III. STATEMENT OF COMPLIANCE WITH ASBE

The financial statements have been prepared in accordance with the *Accounting Standards for Business Enterprises*, present truly and completely, the Company’s financial position as of 30 June 2018, and performance results and cash flows for the period then ended. In addition, the Company’s financial statements are in compliance with all material aspects of the requirements in the *Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15—General provisions on Financial Reporting* (Revised in 2014) issued by the China Securities Regulatory Commission.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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上海

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Group and its subsidiaries are engaged in pharmaceutical operations. Based on the characteristics of the Group's actual productions and operations, the Group and its subsidiaries have determined several specific accounting policies and accounting estimates for revenue recognition and other transactions and events according to ASBE. For more details, please refer to Note IV. 23 "Revenue". For description of significant accounting judgments and estimates made by the management, please refer to Note IV. 29 "Significant Accounting Judgment and Estimates".

1. Accounting Period

Accounting periods are classified into annual periods and interim periods. An interim period is a reporting period shorter than a complete accounting year. The Group has adopted the calendar year as its accounting year, i.e. from 1 January to 31 December. These financial statements cover the accounting period from 1 January 2018 to 30 June 2018.

2. Operating Cycle

The group's operating cycle is of 12 months' duration.

3. Functional Currency

RMB is the currency of the primary economic environment in which the Group and its domestic subsidiaries operate. The Group and its domestic subsidiaries choose RMB as the functional currency. The Group's foreign subsidiaries choose HKD as the functional currency according to the primary economic environment in which the Group's foreign subsidiaries operate. The financial statements are prepared in RMB.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

4. Business Combination

A business combination is a transaction or event that brings together two or more separate enterprises into one reporting entity. Business combinations are classified into business combinations under common control and business combinations not under common control.

(1) Business combination under common control

A business combination under common control is a business combination in which all the combining enterprises are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory. For a business combination under common control, the absorbing party is the party that acquires the control right of other involved enterprises on combination date. The combined party is other enterprises involved in the combination. The combination date refers to the date on which the absorbing party effectively obtains control of the party being absorbed.

Assets and liabilities that are obtained in a business combination by the absorbing party shall be measured at their carrying amounts as recorded by the party being absorbed on the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate face value of shares issued as consideration) shall be adjusted to the capital reserve (share premium). If the capital reserve (share premium) is not sufficient to absorb the difference, excess shall be adjusted against retained earnings.

Cost incurred by the absorbing party that are directly attributable to the combination shall be charged against profit or loss in the period in which the cost is incurred. Transaction cost of equity securities or debt securities issued for the combination shall be included in the measurement of equity securities or debt securities at the initial recognition.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

茶始祖
上海

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

4. Business Combination *(Continued)*

(2) Business combination not under common control

A business combination not under common control is a business combination in which all the combining enterprises are not ultimately controlled by the same party or parties before and after the combination. For a business combination not under common control, the party that, on the acquisition date, obtains control of other enterprises participating in the combination is the acquirer. Other enterprises participating in the combination are the acquiree. Acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

For a business combination not under common control, combination cost is the aggregate of the fair value of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer in exchange for control of the acquiree on the acquisition date. Service expense including audit fees, legal fees, valuation and consulting fees, and other administrative expenses attributable to the business combination shall be charged against profit or loss in the period in which the service expense is incurred. The transaction expense of the equity securities or debt securities issued by the acquirer as combination consideration shall be included in the initial cost of equity securities or debt securities issued. The contingent consideration in the business combination shall be included into the combination cost at its fair value on the acquisition date. In case that within 12 months after the acquisition date, any new or further evidence is found regarding the existing situation as on the acquisition date, which causes adjustment on contingent consideration, goodwill shall be adjusted accordingly. The combination cost incurred by the acquirer and the identifiable net assets acquired in the combination are initially measured at fair value on the acquisition date. The positive difference between the combination cost and the fair value of the identifiable net assets it obtains from the acquiree on the acquisition date is recognized as goodwill. As for the negative difference between the combination cost and the fair value of the identifiable net assets it obtains from the acquiree, it is necessary to review the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities it obtains from the acquiree as well as the combination cost. If the combination cost is still less than the fair value of the identifiable net assets it obtains from the acquiree, the difference shall be recorded through profit or loss for the current period.

Where the deductible temporary difference of the acquiree obtained by the acquirer is not recognized on the ground that the recognition condition of deferred tax asset has not been met on the acquisition date, within 12 months after the acquisition date, if further information is obtained to indicate that the relevant situation on the acquisition date existed and the economic interest brought by the deductible temporary difference of the acquirer on the acquisition date is expected to be realized, the amount of the difference shall be recognized as relevant deferred tax asset and goodwill shall be deducted by the same amount. If the goodwill is insufficient to be deducted, the difference is recognized through profit or loss for the current period; otherwise, the difference recognized as the deferred tax asset which is related to business combination shall be recognized through profit or loss for the current period.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

4. Business Combination *(Continued)*

(2) Business combination not under common control *(Continued)*

For the business combinations not under common control and completed through multiple transactions, according to *Notice of the Ministry of Finance of the People's Republic of China on Issuing Interpretations No.5 on Accounting Standards for Business Enterprises* (Caikuai [2012] No.19) and the criteria about "package deal" in Article 51 of *Accounting Standards for Business Enterprises No.33---Consolidated Financial statements* (refer to Note IV, 5 (2), whether these multiple transactions are included in "package deal" shall be judged. If they are included in "package deal", the accounting treatment shall be conducted in accordance with the descriptions of previous paragraphs of this Part and Note IV. 13 "Long-term Equity Investment"; if they are not included in "package deal", relevant accounting treatment shall be conducted differently in separate financial statements and consolidated financial statements.

In separate financial statements, the sum of the book value of the equity investment of the acquiree held before the acquisition date and the investment cost incurred on the acquisition date shall be the initial investment cost of such an investment. If the equity of the acquiree held before the acquisition date involves other comprehensive income, when handling this project, relevant accounting treatment for other comprehensive income shall be conducted on the same base as the acquiree disposes of relevant assets and liabilities directly (all shares shall be transferred into investment income for the current period, except the corresponding shares changed by net liabilities or net assets in benefit plan redesigned by the acquiree under equity method).

In consolidated financial statements, the equity of the acquiree held before the acquisition date shall be remeasured at fair value of the equity on the acquisition date, and the difference between fair value and book value shall be recorded in the current income from investment. If the equity of the acquiree held before the acquisition date involves other comprehensive income, relevant accounting treatment for other comprehensive income shall be conducted on the same base as the acquiree disposes of relevant assets and liabilities directly (all shares shall be transferred into investment income for the current period which consists of the acquisition date, except the corresponding shares changed by net liabilities or net assets in benefit plan redesigned by the acquiree under equity method).

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

5. Preparation Method for Consolidated Financial Statements

(1) The principle for determining the scope of consolidated financial statements

The scope of consolidated financial statements shall be determined on the basis of control. Control means the Group has power over the investee, by participating in the relevant activities of the investee and have variable returns, and the ability to use the power to influence the return amount of the investee. The combination scope includes the Group and all subsidiaries. Subsidiary is the corporate body controlled by the Group.

The Group will reassess combination scope if relevant elements on the control definition has changed due to the change of the relevant facts and circumstances.

(2) The method for preparation of consolidated financial statements

From the date the Group obtains the actual control over a subsidiary's net assets and production operation decision-making power, the Group includes the subsidiary into the consolidated scope; from the date the Group loses control over a subsidiary, the subsidiary shall cease to be consolidated. For a subsidiary disposed of, the operating results and cash flows before the disposal date are appropriately included in the consolidated income statement and the consolidated cash flow statement; for a subsidiary disposed during the current period, no adjustments are made to the opening balance of the consolidated balance sheet. Where a subsidiary is acquired through a business combination not under common control, the subsidiary's operating results and cash flows after the combination date are appropriately included in the consolidated income statement and the consolidated cash flow statement, and no adjustments is made to the opening balance and comparative figures of the consolidated financial statements. Where a subsidiary is acquired through a business combination under common control, the subsidiary's operating results and cash flows from the beginning of the reporting period to the combination date are appropriately included in the consolidated income statement and the consolidated cash flow statement, and adjustments is made to the comparative figures of the consolidated financial statements accordingly.

When preparing the consolidated financial statements, if subsidiary and the Group adopt the inconsistent accounting policies or accounting periods, the Group shall adjust the financial statements of the subsidiary based on its own accounting period and accounting policies. For a business combination not under common control, the subsidiary shall be adjusted based on the fair value of the identifiable net asset and adjustments to financial statements shall be made.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

5. Preparation Method for Consolidated Financial Statements *(Continued)*

(2) *The method for preparation of consolidated financial statements (Continued)*

All material balances, transactions, and unrealized profits within the scope of consolidated financial statements shall be eliminated in the preparation of consolidated financial statements.

Portion of shareholders' equity and current net profit or loss not attributable to the Group shall be solely presented in shareholders' equity of consolidated balance sheet and net profit of consolidated income statements, respectively. When the amount of loss for the current period attributable to minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of shareholders' equity of the subsidiary, the excess shall be allocated against the minority interests.

If the Group loses control over a subsidiary due to the disposal of a portion of an equity investment or other reasons, the remaining equity shall be remeasured at its fair value at the date when control is lost. The difference obtained through the total amount of consideration received from the disposal of equity and the fair value of the remaining equity, less 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. Other comprehensive income related to original subsidiary will be transferred into the current profit and loss in investment at the date the Group lost control over the subsidiary. (That is, in addition to the remeasurement of changes in the net liabilities or net assets of the defined benefit plan in the original subsidiary, the rest will be transferred into investment income for the current period.) After that, for the remaining part of this part of equity, according to *Accounting Standards For Enterprise No.2-Long Term Equity Investment* or *Accounting Standards For Enterprises No.22-Recognition And Measurement Of Financial Instrument* and related regulation for subsequent measurement, and there are details in Notes IV.13 "Long-term capital investment" or Notes IV.9 "Financial instruments".

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

5. Preparation Method for Consolidated Financial Statements *(Continued)*

(2) The method for preparation of consolidated financial statements (Continued)

If the Group loses control over a subsidiary in multiple transactions in which it disposes equity investments in the subsidiary in stages, the Group is required to determine whether each transaction shall be included in a package deal. If one or more than one of the following conditions are met by all of the terms and conditions of the transactions and their economic effects in regard to the disposal of equity investment in subsidiaries, the accounting treatment for these transactions shall be conducted as a package deal: ①These transactions are carried out simultaneously or in the condition that each part will be impacted; ②These transactions as a whole will achieve a complete business results; ③The occurrence of one transaction are dependent on at least one transaction; ④One transaction may seem to be uneconomic when considered solely, but it can be recognized as economic when considered with other transactions. If one transaction is not included in the package transaction, each of transaction will be according to the "Partly disposal of subsidiaries of a long-term equity investment without losing control" and each of the transaction will respectively follow the part disposal subsidiaries of a long-term equity investment under the control not lost (refer to Notes IV. 13. (2) ④) and "losing control due to disposal of part of equity investments or other reasons" of the original subsidiaries suited for the principle as accounting treatment. If disposal subsidiary Company equity investment at other each transaction belonged to a package transaction until Company losing control, thus each transaction shall be dealt with accounting treatment in which each transaction is recognized as one that dispose of subsidiaries until lose control. However, the difference between the disposals prices of prior before control lost with Company net asset shall be recognized as other comprehensive income, the profit and loss of current year shall be transferred when control is lost.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

6. Classification and Accounting Treatment of Joint Arrangements and Joint Operation

A Joint arrangement is an arrangement of which two or more parties have joint control. The Company divides joint venture arrangement into joint operation and joint venture based on the rights enjoyed and obligations assumed in joint venture arrangements. A joint operation is a joint arrangement whereby the Company has rights to the assets and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the Company has rights to the net assets of the arrangement.

As a joint venture party, for joint operation, the Group recognizes the assets held solely and liabilities assumed solely and recognizes the Group's share of any assets held jointly and liabilities assumed jointly; recognizes the Group's revenue from the sale of its share of the output arising from the joint operation; recognizes the Group's share of the revenue from the sale of the output by the joint operation; recognizes the expenses incurred solely by the Group and the Group's share of any expenses incurred jointly.

When the Group invests or sells assets towards joint operation as a party of the joint-venture (this asset does not constitute business, the same below), or upon purchasing assets by joint operation but before selling such assets to the third party, the Group only recognizes the part belonging to other participants of joint operation in profit or loss caused by this transaction. Where such assets belong to the impairment losses for assets according to Accounting Standard for Business Enterprises No. 8 – Impairment of Assets and other regulations, the Group will recognize losses in full amount for investment or sales of assets from the Group to joint operation. For assets purchased by the Group from joint operation, the Group will recognize these losses according to its shareholding proportion.

As of 30 June 2018, there is no joint operation.

Please refer to Note IV. 13. (2) ② "Long-term equity investments measured under equity method" for accounting policies for joint venture investment.

7. Recognition Criteria for Cash and Cash Equivalents

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

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

8. Foreign Currency Transaction and Translation of Foreign Currency Financial Statements

(1) Methods for Translation of Foreign Currency

For the foreign currency transaction incurred in the Group, the amount in foreign currency shall be translated into the amount in functional currency for initial recognition as per the spot rate on the transaction date; but for foreign exchange businesses and transactions involving foreign exchange, the amount in foreign currency shall be translated into the amount in functional currency as per the actual exchange rate for recording.

(2) Methods for Translation of Foreign Currency Items and Foreign Currency Non-Monetary Items

As for monetary items in foreign currency on the balance sheet date, the amount in foreign currency shall be translated into the functional currency at the spot rate on the balance sheet date; where, the differences arising from the translation shall be recognized through profit or loss for the current period, except that ① differences between foreign exchange incurred from specific borrowings in foreign currency related to assets purchased and construction where capitalization criterion are met shall be treated as per the borrowings capitalization principle; ② differences in foreign exchange arising from other book balance change other than amortized cost for foreign currency monetary items available-for-sale shall be included into other comprehensive incomes.

When preparing the consolidated financial statements involving the overseas operation, if there are foreign-currency monetary items essentially constituting a net investment in an overseas operation, the exchange difference incurred due to the exchange rate change shall be listed in other comprehensive income. When overseas operations are disposed, the current profit or loss shall be transferred to the accounting.

The foreign currency non-monetary items measured at historical cost shall continue to be translated at the spot exchange rates at the dates of the transactions. The foreign currency non-monetary items measured at the fair value shall be translated at the spot exchange rate on the date when the fair value has been determined, and the difference between the translated reporting currency amount and the original one shall be treated as the changes in fair value and included in the current profit or loss or recognized as other comprehensive income.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

8. Foreign Currency Transaction and Translation of Foreign Currency Financial Statements *(Continued)*

(3) Translation Method of Financial Statements Denominated in Foreign Currency

When preparing the consolidated financial statements involving the overseas operation, if there are foreign-currency monetary items essentially constituting a net investment in an overseas operation, the exchange difference incurred due to the exchange rate change shall be presented in other comprehensive income as “difference arising from the translation of foreign currency financial statements”. When disposing of the overseas operation, the current profit or loss shall be transferred to the profit or loss for the current period.

The foreign currency adopted in the foreign exchange statements for overseas operation shall be translated into RMB as per the following methods: Assets and liabilities on the balance sheet shall be translated at the spot rate at the balance sheet date; shareholders’ equity items shall be translated at the spot rate occurred except for the item of “undistributed profit”. The income and expense items in the profit statement shall be translated at the average rate in the current period. The opening undistributed profits are the closing undistributed profits translated at the prior year; for closing undistributed profits, each item shall be calculated and presented as per the translated profits; and the difference between the asset items and the sum of liability items and shareholders’ equity items after translation shall be recognized into other comprehensive incomes as translation difference from translation of foreign financial statements. When disposing overseas operation and losing the control, difference arising from the translation of foreign currency financial statements, which are presented under shareholders’ equity in the balance sheet and related to the overseas operation, shall be transferred to the profit or loss for the current period in whole or in proportion of the disposed overseas operation.

Cash flows in foreign currencies shall be translated using the average exchange rate for the current reporting period. The amount influenced by the changes in exchange rate on cash flows shall be presented individually in cash flow statement as a reconciling item.

Opening amount and prior year’s actual amount are presented in line with the amount after the translation of prior year financial statements.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

茶始祖
上海

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

8. Foreign Currency Transaction and Translation of Foreign Currency Financial Statements *(Continued)*

(3) Translation Method of Financial Statements Denominated in Foreign Currency *(Continued)*

For the preparation of consolidated financial statements, when the disposal of all shareholders' equities with respect to the overseas operations by the Group, as well as parts of equity investments, results in a lost in control over the overseas operations, the Group shall convert the difference, which is presented under the items of the owner's equities of the parent company in the balance sheet and which arises from the translation of foreign currency financial statements relating to this overseas business, into the profit or loss of the period for disposal.

When overseas operational control is retained but the proportion of overseas operational equity held by the Group decreases due to disposal of partial equity investments or other reasons, the difference arising from translation of foreign currency relevant to the disposed portion of such overseas operation will be recognized as minority shareholder equity. The difference shall not be transferred into current profit or loss. In the event that the disposed overseas operation involves partial equities of affiliated enterprises and joint ventures, the difference arising from translation of foreign currency relevant to the disposed portion of such overseas operation will be transferred into the current profit or loss for disposal as per the disposed proportion of overseas operation.

9. Financial Instruments

(1) The amortized cost and the effective interest rate

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant accounting period, using the effective interest rate.

The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument to the net carrying amount (i.e. the amortized cost before deducting by loss provisions) of the financial asset or financial liability.

When calculating the effective interest rate, an enterprise shall estimate future cash flows considering all contractual terms of the financial asset or financial liability (including prepayment, extendable, call and similar options) but shall not consider future credit loss. Transaction cost, premium or discount, and payment or receipt expenses that constitute the effective interest rate shall be included.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

9. Financial Instruments *(Continued)*

(1) The amortized cost and the effective interest rate (Continued)

The credit-adjusted effective interest rate is the rate that discounts estimated future cash flows through the expected life of the purchased or originated credit-impaired financial asset to the amortized cost of the financial asset. When calculating the credit-adjusted effective interest rate, an enterprise shall estimate future cash flows considering all contractual terms of the financial asset (including prepayment, extendable, call and similar options), and expected initial credit loss. Transaction cost, premium or discount, payment or receipt expenses that constitute the effective interest rate, and expected initial credit loss shall be included.

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition after making the following adjustments: minus the principal repayments; add or less the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount; and minus any reduction for impairment (only applicable to financial assets).

When the Group adjust the estimate of future cash flows, the book value of financial assets or financial liabilities are discounted based on the new estimated future cash flows at original effective interest rate. The difference arising from the adjustment shall be recorded in profit and loss.

(2) Initial recognition and measurement of financial assets and financial liabilities

The Group shall recognize a financial asset or financial liability at the date the Group becomes a party to the financial instrument. Normal transactions of financial instrument shall be recognized at transaction date. The transaction date is date when the Group promise to purchase or sell the financial asset.

Financial assets and financial liabilities are initially measured at fair value.

The fair value initially recognized is usually the transaction price of relevant financial assets or financial liabilities. The difference between the fair value and the transaction price of the financial assets or financial liabilities is processed in different methods as follows: If the fair value is estimated according to the price of assets and liabilities with the same features on an active market, or the valuation techniques using solely observable market data, the difference shall be recognized as a profit or loss; If the fair value is estimated through other methods. According to the extent to which certain element changes over the relevant accounting periods, the difference shall be deferred and recognized as profit or loss in relevant accounting periods after the initial recognition. The above-mentioned element is limited within the scope of elements taken into consideration by market participants to price the financial instrument, such as time, etc.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

9. Financial Instruments *(Continued)*

(2) Initial recognition and measurement of financial assets and financial liabilities (Continued)

Relevant transaction cost of financial assets or financial liabilities at fair value through profit and loss for the current period, shall be included into profit and loss. Relevant transaction cost of financial assets or financial liabilities listed in other categories shall be included in the initial recognition.

(3) Methods of recognition of fair value of financial assets and financial liabilities

Fair value refers to the price that can be received through selling an asset or payment for the transfer of a liability by the market participant in the orderly transaction on the measurement date. The fair value of the financial assets or financial liabilities in the active market of the Group shall be determined at the quoted price in the active market in case that the financial instruments exist in the active market. The quoted price in active market refers to price that is easily obtained from the exchange, broker, industry association, pricing service institution, etc. and represents the price of market transaction actually happened in the fair transaction. The fair value of the financial assets or financial liabilities of the Group shall be determined via valuation technique in case that the underlying financial instruments do not exist in the active market.

Under certain conditions, the Group determines whether cost represents for fair value, based on all accessible information after the date of initial recognition in regard to the operation and performance of the investee. If the cost represents the optimal estimate of relevant financial assets in this distribution scope, the Group recognizes the cost as the appropriate estimate of the fair value of the financial asset in this scope. The cost of equity instrument investments or contract with publicly quoted prices shall not be recognized as the optimal estimate of the fair value.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

9. Financial Instruments *(Continued)*

(4) The classification and measurement after the initial recognition of financial assets

The Group classifies financial assets into the following categories at the initial recognition: financial assets measured at amortized cost; financial assets at fair value through other comprehensive income; Financial assets at fair value through profit or loss for the current period.

The classification of financial assets is based on the business model of the Group's management on the financial asset and the features of the cash flows of the financial asset.

Business model: The business model of the Group's management on financial assets is based on certain business objectives, as determined by key management personnel of the Group, of the management of the financial asset, with reference to objective facts. The business model reflects the method adopted by the Group to manage its financial assets to generate cash flows. Namely, whether the Group's objective is to collect the contractual cash flows generated from the financial assets, or to collect the contractual cash flows and to sell the financial assets. If both of the conditions mentioned above are not applicable (e.g. held for Financial assets held for trading), the financial asset shall be classified into the "other" category of business model and measured at fair value, and the gains and losses of the change in fair value are recognized in the profit or loss.

If the business model is collecting contractual cash flows, or a combination of collecting contractual cash flows as well as selling the financial assets, the Group will estimate whether the contractual cash flows of an asset give rise to payments that are solely payments of principal and interest.

The feature of contractual cash flows from the financial assets is the property of cash flows which, as specified in the contract, reflects the economic feature of relevant financial assets. Namely, the feature of its contractual cash flows is in accordance with basic lending arrangement. The contractual cash flows of an asset give rise to payments on specified dates that are solely payments of principal and interest on the principal amount outstanding. The interest includes the time value of money (consideration solely for time as one of the elements of interest), credit risk related to the amount of outstanding principal in certain periods, and consideration for other basic risks of lending, cost and revenue.

The Group shall reclassify financial assets only when the business model in regard to the management of financial assets changes.

The financial assets held by the Group includes investment in debt instruments and investment in equity instruments.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

9. Financial Instruments *(Continued)*

(4) *The classification and measurement after the initial recognition of financial assets (Continued)*

① *Investment in debt instruments*

The debt instrument is a financial instrument that the feature of contractual cash flows generated from which is in accordance with basic lending arrangement (the contractual cash flows of an asset give rise to payments that are solely payments of principal and interest), including loans, government bonds, corporate bonds and non-resource factoring accounts receivables purchased from other parties.

Based on the business model in regard to the management of debt instrument financial assets held by the Group and the feature of contractual cash flows of the financial assets, the Group classifies financial assets into the following three recognition categories for measurement after initial recognition:

Measured at amortized cost: The Group classifies the debt instrument, which is not assigned to be measured at fair value through profit or loss for the current period, into the financial assets measured at amortized cost if both of the two criterion are met: (a) The objective of the business model in regard to the management of the financial asset is to collect contractual cash flows; (b) According to the provisions in the contract to the financial asset, the contractual cash flows of an asset give rise to payments on specified dates that are solely payments of principal and interest on the outstanding principal.

Measured at fair value through other comprehensive income: the Groups classifies investment in debt instrument financial assets, which are not designated to be measured at fair value through profit or loss for the current period, into the category of measured at fair value through other comprehensive income, if both of the two criterion are met: (a) The objective of the business model in regard to the management of the financial asset is to collect contractual cash flows; (b) According to the provisions in the contract to the financial asset, the contractual cash flows of an asset give rise to payments on specified dates that are solely payments of principal and interest on the principal amount outstanding. Impairment loss, interest income, gains and losses arising from foreign exchange which are related to the financial assets are recognized through profit or loss for the current period. In addition to the above-mentioned financial assets, gains and losses arising from change in the carrying amount are recognized through other comprehensive income. When the financial assets are derecognized, accumulated gains and losses recorded in the other comprehensive income are reclassified into profit or loss. Interest revenue of the financial asset is calculated using the effective interest rate.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

9. Financial Instruments *(Continued)*

(4) *The classification and measurement after the initial recognition of financial assets (Continued)*

① *Investment in debt instruments (Continued)*

Measured at fair value through profit or loss: the Group classifies debt instruments, which cannot be classified into the financial assets measured at the amortized cost or at fair value through other comprehensive income, into the category of financial assets at fair value through profit or loss. These financial assets are measured at fair value subsequent to initial recognition, related gains and losses are recognized through profit or loss for the current period.

② *Equity instrument*

An equity instrument is the contract which can prove the holding party are entitled to the remaining equity of a company after all debts have been deducted (please refer to Note IV. 9 (11)). A financial instrument that does not include contractual obligations to pay to other parties and enjoys the issuer's net assets and residual income, such as common stock.

The equity instrument investments held by the Group are measured at fair value through profit or loss (Except for the equity instruments not held for trading which have been irrevocably designated to be measured at fair value through other comprehensive income at the initial recognition). For equity instrument not held for trading of financial assets designated to be measured at fair value through other comprehensive income, changes in fair value subsequent to initial recognition can only be recognized in other comprehensive income, and cannot be reclassified to profit or loss even at disposal. The Group recognizes dividend income through profit or loss for the current period when the right to receive dividends has been established and when it is probably that the economic benefits related to dividends will flow into the company and the amount can be reliably measured.

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FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

永泰始祖
上海永泰

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

9. Financial Instruments *(Continued)*

(5) *Measurement and impairment of expected credit losses on financial assets*

When one or more events in which the expected future cash flows of a financial asset are adversely affected, the financial asset becomes one that has suffered a credit impairment. Evidence that a financial asset has been credit-impaired includes the following observable information: significant financial difficulties with the issuer or debtor; breach of a contract by the debtor, such as default or overdue of the repayment of interest or principal; the creditor gives concessions, which in any other circumstances will not be given, to the debtor for economic or contractual considerations relating to the financial difficulties of the debtor; the debtor is likely to go bankrupt or carry out other financial restructuring; financial difficulties of the issuer or debtor leading to the disappearance of the active market of the financial asset; Buy or source a financial asset at a substantial discount that reflects the fact that credit losses have occurred. The credit impairment of financial assets may be caused by the joint action of multiple events, and may not be caused by separately identifiable events.

On each balance sheet date, the accounting treatment for impairment shall be conducted and provision for loss shall be recognized based on expected credit losses (please refer to Note IV. 28 and 29):

- ① Financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income, including debt investment and other debt investment, such as general corporate bonds;

Accounts receivable (and commercial acceptance notes receivable) formed by the sale of goods or provision of labor services as confirmed in the Accounting Standards for Business Enterprises No. 14 - Revenue (revised in 2017, hereinafter referred to as the 'New Income Guidelines') ("Trade receivables") and contract assets;

- ② Other receivables;
- ③ Lease receivables;
- ④ The loan commitments and financial guarantee contracts issued by the Group that are classified as financial assets measured at fair value through the profit or loss.

Credit loss is the difference between the total contractual cash flows receivable based on a contract and all the cash flows an entity expects to receive, discounted at the original effective interest rate, i.e. the present value of the total cash flows shortage. Purchased or originated credit-impaired financial assets shall be discounted at the credit-adjusted effective interest rate.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

9. Financial Instruments *(Continued)*

(5) Measurement and impairment of expected credit losses on financial assets (Continued)

Expected credit loss is the weighted average credit losses of financial instruments with the respective risks of a default occurring as the weights. For financial assets such as debt instrument investments measured at amortized cost or fair value through other comprehensive income, the Group shall conduct expected credit loss assessment based on forward-looking information. For trade receivables, the expected credit loss is measured by simple method.

The Group's measurement of expected credit losses reflects the following elements: the unbiased probability weighted amount determined by evaluating a range of possible outcomes; the time value of money; and on the balance sheet date, reasonable and evidence-based information about past events, current conditions, and future economic conditions can be obtained without unnecessary additional costs or effort.

(6) Recognition basis and measurement method of transferred financial assets

The financial assets meeting one of the following conditions shall be derecognized: ① Where the contractual right for collecting cash flows from the financial asset is terminated; ② Where the said financial asset has been transferred and almost all risks and rewards of ownership of financial assets have been transferred into the transfer-in party; ③ The financial assets have been transferred; although the Group has neither transferred nor retained almost all risks and rewards of ownership of financial assets, the Group has given up the control to the financial assets.

If the Group does not transfer or retain nearly all of the risks and rewards related to the ownership of a financial asset and give up its control over the financial asset, it shall, according to the extent of its continuing involvement in the transferred financial asset, recognize the related financial asset and recognize the relevant liability accordingly. The degree of the continuing involvement in the transferred financial asset refers to the level of risk faced by the enterprise due to changes of the financial asset.

For a transfer of a financial asset in its entirety that satisfies the derecognition criteria, the difference between (1) the book value of the financial asset transferred; and (2) the sum of the consideration received from the transfer and any cumulative gain or loss that has been recorded in other comprehensive incomes, is recorded in current profit or loss.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

本始祖
上界山

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

9. Financial Instruments *(Continued)*

(6) Recognition basis and measurement method of transferred financial assets (Continued)

If a part of the transferred financial asset qualifies for derecognition, the book value of the transferred financial asset (financial assets involved in the transfer are those classified into financial assets at fair value through other comprehensive according to article 18 of the *Accounting Standards for Business Enterprises No.22-Recognition and Measurement of Financial Instruments* (revised in 2017)) is allocated between the part that continues to be recognized and the part that is derecognized, based on the respective fair values of those parts. The difference between (1) the book value allocated to the part derecognized; and (2) the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to the part derecognized which has been previously recorded in other comprehensive income, is recorded in current profit or loss.

In case of endorsement transfer of the financial assets to be sold by means of attaching the right of recourse or the financial assets held by the Company, the Company shall determine whether almost all risks and remunerations of the ownership of such financial assets are transferred. If almost all risks and remunerations of the ownership of such financial assets are transferred to the transferee, derecognize such financial assets; where retained, do not derecognize such financial assets; where neither transferred nor retained, continue to judge whether the enterprise retains control over such assets, and the accounting treatment shall be conducted according to the principle mentioned in above paragraphs.

(7) Write-off of Financial Assets

The Group reasonably expects that the contractual cash flow of the financial assets can no longer be fully or partially recovered, and is directly reduced to the carrying amount of the financial assets. Such write-offs constitute a derecognition or partial derecognition of the financial assets.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

9. Financial Instruments *(Continued)*

(8) Classification, Recognition and Measurement of Financial Liabilities

Financial liabilities are classified into financial liabilities that are measured at fair value through profit or loss and other financial liabilities. The initial recognition of financial liabilities is measured at fair value. For financial liabilities measured at fair value through profit or loss, the related transaction expense is directly recognized in profit or loss. For other financial liabilities, the related transaction expense is included in the initial recognition amount (deducted from the fair value at initial recognition).

① Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss comprise financial liabilities held for trading (including derivative instruments which are included in financial liabilities) and financial liabilities designated at fair value through profit or loss for the current period at initial recognition.

At initial recognition, the Group classifies financial liabilities that meet one of the following conditions as financial liabilities at fair value through profit or loss: (i) can eliminate or significantly reduce accounting mismatch (consistent with the conditions specified in financial assets designated as at fair value through profit or loss at initial recognition); (ii) the Group's formal written documents specify the risk management and investment strategies for the financial liabilities, manage the financial liability portfolio or financial assets and financial liabilities portfolio and evaluate the performance based on the fair value, and report to key management personnel on this basis within the Group. Once the designation is made, it is irrevocable.

Financial liabilities measured at fair value through profit or loss are subsequently measured at fair value. The gain or loss arising from changes in fair value and the dividend and interest expense related to these financial liabilities are recognized in profit or loss.

② Other Financial Liabilities

Other financial liabilities are measured at the amortized cost using the effective interest rate subsequent to initial recognition with gains and losses arising from derecognition or amortization recognized through profit or loss for the current period. Other financial liabilities include payables, loans, bonds payables and financial guarantee contracts. Payables include accounts payables and other payables.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

茶始祖
上海

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

9. Financial Instruments *(Continued)*

(9) Derecognition of financial liabilities

A financial liability (or a part of it) is derecognized when the obligation (or a part of it) under the liability is discharged or canceled, or expires. If the Group (debtor) makes substantial changes to the contractual terms of the original financial liabilities (or a part thereof), the original financial liabilities are derecognized, and a new financial liability is recognized in accordance with the revised terms.

If the financial liabilities (or a part thereof) are derecognized, the difference between the carrying amount and the consideration paid (including the transferred non-cash assets or liabilities assumed) is recognized in profit or loss.

(10) Offsetting of Financial Assets and Financial Liabilities

Where the Group is entitled to offset the confirmed financial assets and financial liabilities, and the legal rights are executable by now; at the same time, the Group plans netting or simultaneously realizes the financial assets to liquidate the financial liabilities, the financial assets and financial liabilities are presented in the balance sheet with the amount after offsetting each other. In addition, the financial assets and financial liabilities are presented separately in the balance sheet, and shall not offset each other.

(11) Equity Instruments

Equity instrument is any contract that evidences a residual interest in the assets of the Group deducting all liabilities. The Group issues (including re-financing), repurchases, sells or cancels equity instruments for disposal of changes of equity instruments. The Group does not recognize the change amount of fair value of the equity instrument. Transaction expenses related to equity investment shall be deducted from equity.

All the distributions to the holders of equity instruments (excluding share dividends) shall decrease shareholders' equity. The Group does not recognize the change in fair value of the equity instruments.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

10. Receivables

Receivables include accounts receivable, other receivables, notes receivable, etc. Among them, accounts receivable arising from the Group's external sales of goods or rendering of services shall be initially measured at fair value of the contract or agreement with the purchaser or the labor acceptor.

(1) Recognition Criteria of Provision for Bad Debts

The Group determines provision for bad debts for relevant receivables at each balance sheet date, on the basis of expected credit loss, through measuring expected credit loss of relevant receivables. For trade receivables, the expected credit loss is measured by simple method.

(2) Provision for Bad Debts

The Group assesses the credit risk of individually significant receivables separately on the balance sheet date to prepare provision for bad debts based on expected credit loss. The expected credit loss of receivables with similar credit risk features are measured in portfolios to determine provision for bad debts for related receivables.

① Recognition criteria and method of provision for bad debts for receivables that are individually significant

The Group recognizes accounts receivables over RMB 1,000,000 (including RMB 1,000,000) and other receivables over RMB 100,000 (including 100,000) as individually significant accounts receivables.

The Group assesses credit risk on individually significant accounts receivables separately, and the provision for bad debts is provided on the entire duration basis to measure its expected credit loss.

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FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

10. Receivables (Continued)

(2) Provision for Bad Debts (Continued)

② *Basis of recognition and calculation and method of assessing provision for bad debts for receivables according to credit risk profile*

A. Recognition basis of portfolio of credit risk features

As for the receivables that are not individually significant and that are individually significant without impairment in the separate test, the Company classifies the financial asset based on the similarity and correlation of credit risk features. Those credits usually reflect the capability of debtor paying all due amounts as per the contract of such assets and are related to the future cash flow measurement of the asset inspected.

Recognition basis of different portfolio:

Item	Recognition basis of portfolio
Portfolio 1 (Portfolio by aging)	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 forward-looking information.
Portfolio 2 (Other receivable portfolios with extremely low credit risk)	Receivables with extremely low credit risk based on measurement of expected credit loss
Portfolio 3 (Related party portfolio)	Other receivables due from related parties
Portfolio 4 (Security deposit portfolio)	Deposits, margin and advances to employees

The Group conducts aging analysis based on the booking date.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

10. Receivables *(Continued)*

(2) Provision for Bad Debts *(Continued)*

② *Basis of recognition and calculation and method of assessing provision for bad debts for receivables according to credit risk profile (Continued)*

B. Method of assessing provision for bad debts recognized based on portfolio of credit risk features

When credit risk evaluation is performed based on portfolio, the amount of bad debt of relevant receivables is recognized through historical data of loss given default, current economic condition and forward-looking information, the structure of receivable portfolio and similar credit risk features (capability of debtor for paying debt pursuant to contract term) on expected duration basis to measure its expected credit loss.

Recognition criterion for portfolios:

Item	The basis of the provision
Portfolio 1 (Portfolio by aging)	Expected duration
Portfolio 2 (Other receivable portfolios with very low credit risk)	Expected duration
Portfolio 3 (Related party portfolio)	Expected duration
Portfolio 4 (Security deposit portfolio)	Expected duration

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

10. Receivables (Continued)

(2) Provision for Bad Debts (Continued)

② *Basis of recognition and calculation and method of assessing provision for bad debts for receivables according to credit risk profile (Continued)*

C. Expected credit loss rate for each portfolio are listed as follows:

Portfolio 1: Expected credit loss rate

Aging	Proportion for accounts receivable (%)	Proportion for other receivables (%)
Within 1 year (including 1 year, the same below)	1.00	1.00
1 to 2 years	10.00	10.00
2 to 3 years	30.00	30.00
3 to 4 years	50.00	50.00
4 to 5 years	80.00	80.00
Over 5 years	<u>100.00</u>	<u>100.00</u>

Portfolio 2 (Other receivable portfolios with extremely low credit risk): 0%

Portfolio 3 (Related party portfolio): 0%

Portfolio 4 (Security deposit portfolio): 0%

③ *The receivables that are individually insignificant but for which provision for bad debts has been individually assessed and provided*

The Group conducts a credit risk assessment separately for receivables that are individually insignificant but have the following characteristics. The expected credit losses are measured on the basis of the expected duration and provision for bad debts is recognized individually. The characteristics of non-significant receivables that are assessed separately for credit risk are: receivables that are in dispute with the other party or in litigation or arbitration; there are clear indications that the debtor probably unable to meet the obligations to repay the receivables, etc.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

11. Inventories

(1) Category of inventories

Inventories mainly includes materials in transit, raw materials, work in progress, Semi-finished goods, finished goods, low-value consumables, packaging materials, Consigned processing material, goods on consignment, commodity stocks, goods in transit, etc.

(2) Method/formula used to assign cost for inventories

The inventory shall be initially measured at actual costs when acquired. The cost of inventory comprises all costs of purchase, costs of conversion and other costs. 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 overhead allocated based on normal capacity.

(3) Recognition of net realizable value of inventory and accruing method of provision for the loss on decline in value of inventories.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. An enterprise shall determine the net realizable value of inventories based on solid evidence obtained and after taking into consideration the purpose for which the inventory is held, and the effect of events occurring after the balance sheet date.

Inventories are required to be measured at the lower of cost and net realizable value on the balance sheet date. If the cost of inventories is higher than the net realizable value, the provision for the loss on decline in value of inventories shall be made. The provision for the loss on decline in value of inventory is assessed based on the difference between the cost of single inventory item and its net realizable value.

After the provision for the loss on decline in value of inventories is made, if the circumstances that previously caused inventories to be written down below cost no longer exist so that the net realizable value of inventories is higher than their cost, the original provision for the loss on decline in value is reversed and the reversal is included in current profit or loss.

(4) The perpetual inventory system is adopted.

(5) Amortization method for low value consumables

Immediate write-off method is used for low value consumables upon usage.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

12. Assets Held for Sale and Disposal Group

If the Group recovers its book value primarily through the sale instead of the continuous use of a non-current asset or disposal group (including the exchange of non-monetary assets with commercial substance, the same below), then the assets shall be classified as assets held for sale. The specific criteria are all of the following conditions are achieved: a non-current asset or disposal group can be sold immediately under the current conditions based on the practice of selling such assets or disposal groups in similar transactions; the Group has already decided on the sale plan and obtained the purchase commitment; the sale will be completed within one year. Among them, a disposal group refers to a group of assets that are disposed of as a whole through sale or other methods in a transaction, and liabilities that are directly related to these assets are transferred in the transaction. If the asset group or asset group to which the disposal group belongs is allocated the goodwill acquired in the business combination in accordance with *Accounting Standards for Business Enterprises No. 8 - Impairment of Assets*, the disposal group shall include the goodwill allocated to the disposal group.

Upon initial measurement or re-measurement of non-current assets held for sale or disposal group on the balance sheet date, if the book value is higher than the net amount of fair value minus sales expense, the book value shall be written down to the net amount of fair value minus sales expense; the amount written down is recognized as impairment losses for assets and included in current profit or loss. Meanwhile, impairment reserves for assets held for sale is accrued. For the disposal group, firstly, the recognized impairment losses for assets deduct the book value of the goodwill in the disposal group. Then the loss proportionally deducts the book value of the various non-current assets in the disposal group under the measurement regulations based on *Accounting Standards for Business Enterprises No. 42 - Non-current Assets Held for Sale, Disposal Groups and Termination of Operations* (hereinafter referred to as the "holding for sale"). If the fair value of the disposal group held for sale on the subsequent balance sheet date minus the sales proceeds increases, the amount previously written down shall be recovered. This part of amount should be reversed within the impairment losses of non-current assets which are applicable for held for sale measurement criteria after these assets are classified as assets held for sale. The reversal amount is recognized in current profit or loss. Meanwhile, the book value of these non-current assets (except goodwill) in disposal group should be increased proportionally according to the book value of each non-current asset which is applicable to held for sale measurement criteria. The book value of goodwill that has been deducted and the impairment losses recognized before the non-current assets classified as held for sale category cannot be reversed.

Depreciation or amortization shall not be accrued for non-current assets held for sale or non-current assets in the disposal group held for sale. The interest of liabilities and other expenses in the disposal group held for sale shall be recognized.

When a non-current asset or disposal group no longer meets the conditions for the held for sale category, the Group no longer divides it into the held for sale category or removes the non-current assets from disposal groups held for sale., and the asset or asset group is measured by the following two items: (1) the amount of book value classified as held for trading after depreciation, amortization, impairment or other adjustments to be recognized based on the hypothesis that they are not classified as held for trading; (2) the recoverable amount, whichever is lower.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

13. Long-term Equity Investments

Long-term equity investments in this part refers to the long-term equity investments that the Group has joint control or significant influence over the investee.

Joint control refers to joint control owned by the Group over an arrangement as per relevant agreements and relevant activities of this arrangement must be determined upon consent of participants sharing the right of control. The term "significant influence" refers to the power to participate in making determinations on the financial and operating policies of an investment entity, but not to control or do joint control together with other parties over the formulation of these policies.

(1) *Recognition of Investment Cost*

If the long-term equity investment is obtained from the business combination involving enterprises under the common control, the share of book value of owners' equity of the acquiree in consolidated financial statements of the ultimate controlling party under the combination date shall be deemed as the initial investment cost of the long-term equity investment. The difference between the initial investment cost and the carrying amount of cash paid, non-cash assets transferred, and liabilities assumed shall be adjusted to capital reserve. If the balance of capital reserve is not sufficient, any excess shall be adjusted to retained earnings. If the Company issues equity securities as the consideration for combination, the book value of the owners' equity of the combined party on the combination date in consolidated financial statements of the ultimate controlling party shall be the initial investment cost of long-term equity investments. With the total face value of the shares issued as equity, the difference between the initial investment cost of long-term equity investment and the total face value of the shares issued shall be adjusted as capital reserve. If the capital reserve is insufficient to set it off, the retained earnings shall be adjusted. If shares of the acquiree are obtained step by step through several transactions, which results in the combination of enterprises under the different control, it shall be treated respectively as per whether it belongs to "a package deal": where it belongs to "a package deal", the accounting treatment for each transaction shall be conducted as a transaction obtaining the right of control. Where it does not belong to "a package deal", the book value of the ownership interest of the acquiree on the combination date in consolidated financial statements of the ultimate controlling party shall be the initial investment cost of long-term equity investments. The difference among the initial investment cost of long-term equity investments, the book value of long-term equity investment which has reached the amount before the combination and total book value of new payment consideration obtained under the acquisition date shall be adjusted as capital reserve. If the capital reserve is insufficient to set it off, the retained earnings shall be adjusted. As the other comprehensive income is measured under equity method, the accounting treatment on the equity investments held before the combination date shall not be conducted.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

13. Long-term Equity Investments (Continued)

(1) Recognition of Investment Cost (Continued)

For long-term equity investment obtained through business combination not involving enterprises under the common control, the cost of combination shall be deemed as the initial investment cost of long-term equity investments on the acquisition date, and the cost of combination is the aggregate of the fair values, include the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer. If shares of the acquiree are obtained step by step through several transactions, which results in the combination of enterprises under the different control, it shall be treated respectively as per whether it belongs to "a package deal": where it belongs to "a package deal", the accounting treatment for each transaction shall be conducted as a transaction obtaining the right of control. Where it does not belong to "a package deal", the sum of the carrying amount of equity investment of the acquiree held originally and additional investment costs shall be initial investment costs of long-term equity investment if the accounting method is changed as cost approach. If equity held originally is accounted for using equity method, the accounting treatment shall not be conducted on the other comprehensive income related to it.

The intermediary costs for the business combination including the expenses for audit, legal services and consultancy services and other relevant management costs by the merging party and the acquirer shall be recorded into current profit or loss.

Equity investments other than long-term equity investment from business combination are initially measured at cost. Such cost is respectively recognized at the purchase price in cash actually paid by the Company, fair value of equity securities issued by the Company, specified value in investment contracts or agreements, fair value or original book value of transferred assets in non-monetary asset exchange and transactions and fair value of the long-term equity investment itself based on different means of acquiring that long-term equity investment. Expenses, taxes and other necessary expenditures directly related to the acquisition of long-term equity investment are also included into investment cost. In case of being able to implement significant influence or common control to the invested entity due to additional investment but which does not constitute control, cost of long-term equity investment shall be the sum of fair value of original held equity investment recognized as per the *Accounting Standards for Business Enterprises No.22 - Recognition and Measurement of Financial Instruments* and newly increased investment cost.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

13. Long-term Equity Investments *(Continued)*

(2) *Subsequent Measurement and Method of Recognition of Profit or Loss*

Where an investing enterprise can exercise joint control (except those that constitutes the joint operators) or significant influence over the investee, a long-term equity investment shall be accounted for using the equity method. In addition, the Company uses the cost model in the financial statements to calculate long-term equity investment that can control the investee.

① *Long-term Equity Investment Income Accounted by Cost Method*

The long-term equity investment accounted by the cost model shall be measured at the initial investment cost. And the additional or recovered investments shall be used to adjust the cost of long-term equity investment. Except for the cash dividends or distributions declared and not yet distributed in the considerations paid to acquire the investment, the cash dividend or distributions declared by the investee that belong to the investee shall be recognized as the investment gains.

② *Long-term Equity Investment Accounted by Equity Method*

If the initial cost of a long-term equity investment, accounted by equity method, is more than attributable share of the fair value of the investee's identifiable net assets for the investment in the investee, the initial cost of the long-term equity investment may not be adjusted; if the initial cost of a long-term equity investment is less than the attributable share of the fair value of the investee's identifiable net assets for the investment in the investee, the difference shall be recorded into current profit or loss and the cost of the long-term equity investment shall be adjusted simultaneously.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

13. Long-term Equity Investments (Continued)

(2) Subsequent Measurement and Method of Recognition of Profit or Loss (Continued)

② Long-term Equity Investment Accounted by Equity Method (Continued)

When it is accounted by equity method, the investment gains and other comprehensive incomes shall be recognized respectively, and the book value of long-term equity investment shall be adjusted according to the net profit or loss and other comprehensive incomes realized by the investee, which shall be enjoyed or shared. The enjoyed part shall be accounted according to profits or cash dividends announced to be assigned by the investee with the corresponding decrease of the book value of long-term equity investment. For other changes of owners' equity excluding net profit or loss of investee, other comprehensive income and profits distributed, the book value of long-term equity investments shall be adjusted and included into capital reserve. The Company shall, on the ground of the fair value of all identifiable assets of the investee when it obtains the investment, recognize the attributable share of the net profit or loss of the investee after it adjusts the net profits of the investee. If the accounting policies and accounting period adopted by the investee do not consistent with the investor, the financial statements of the investee shall be adjusted according to the accounting policies and accounting periods of the Company, and according to which the investment profits and other comprehensive incomes shall be recognized. If investment and sales of assets cannot be constructed as business in transactions between the Company, associates and joint ventures, the unrealized profit or loss of internal transaction shall be offset through calculating the part attributable to the Company based on sharing ratio so as to recognize the profit or loss of investment. Where the unrealized losses from the internal transactions between the Company and the invested entity belong to the impairment losses from the transferred assets, they shall not be written off. Where the assets contributed by the Company towards joint ventures or associates constitute business, and the investor acquires long-term equity investment but not the control right thereof, the fair value of the contribution shall be the initial investment cost of the newly added long-term equity investment. The balance of book value between initial investment cost and the contribution shall be recorded into current profit or loss in full amount. If the assets sales, from the Company to joint ventures or associates, constitute business, the total difference between consideration achieved and book value of business shall be recorded into current profit or loss. Where the assets purchased by the Company from associates and joint ventures constitute business, accounting treatment shall be carried out based on *Accounting Standards for Business Enterprises No.20 - Business Combination* and recognize the profit or loss in relation to the transaction in full amount.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

13. Long-term Equity Investments *(Continued)*

(2) *Subsequent Measurement and Method of Recognition of Profit or Loss (Continued)*

② *Long-term Equity Investment Accounted by Equity Method (Continued)*

The Company shall recognize the net losses of the investee until the book value of the long-term equity investment and other long-term equity which substantially forms the net investment made to the investee are reduced to zero. In addition, if the Company has the extra obligation towards its investee to undertake extra losses, the extra obligation shall be recognized as Provisions according to expected obligation and recorded into current profit or loss. If the investee realizes any net profits later, the Company shall, after the amount of its attributable share of profits offsets against its attributable share of the unrecognized losses, resume recognizing its attributable share of profits.

③ *Minority Equity Purchase*

When preparing consolidated financial statements, as for the difference between the long-term equity investment increased newly due to purchase minority equity and the net asset proportion continuously calculated from the purchase date (or combination date) by subsidiary based and enjoyed by the Company based on newly increasing shareholding ratio, capital reserve is adjusted. If the capital reserve is insufficient to write down, the retained income shall be adjusted.

④ *Disposal of Long-term Equity Investment*

In the consolidated financial statements, the parent company disposes the long-term equity investment of the subsidiary without losing control right. The difference between the disposing amount and the net asset of the subsidiary enjoyed correspondingly in disposing long-term equity investment is recorded into owner's equity; If the parent company loses its control right on the subsidiary due to the disposal of the long-term equity investment of the subsidiary, the relevant accounting policy as indicated in Note IV, 5 (2) "Method of Preparation of Consolidated Financial Statements" shall be followed for handling.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

13. Long-term Equity Investments (Continued)

(3) *Relevant accounting policies treatments illustrated in "method for preparing consolidated financial statements"*

When disposing of a long-term equity investment under other circumstances, for equity being disposed, the difference between its book value and actual purchase price shall be recorded into current profit or loss.

If long-term equity investment is accounted by equity method while the residual equity after disposal is still accounted for by equity method, the accounting treatment of other comprehensive income included in owners' equity originally shall be conducted as per proportion on the same base as investee disposes of relevant assets and liabilities directly. Other owners' equity, which is recognized for changes of other owners' equity of the investee excluding net profit or loss, other comprehensive incomes and profits distribution, shall be translated into current profit or loss as per proportion.

If long-term equity investment is accounted by the cost model while the residual equity after disposal is still accounted by the cost model, the accounting treatment of other comprehensive incomes which are recognized for being accounted by equity method or recognition and measurement standards of financial instruments shall be conducted on the same base as investee disposes of relevant assets and liabilities directly, and other comprehensive incomes shall be carried over into current profit or loss as per proportion. Owners' equity, which is recognized for changes of other owners' equity of the investee excluding net profit or loss, other comprehensive incomes and profits distribution when the equity method is adopted, shall be carried over into current profit or loss as per proportion.

When the Group loses the control over investee for disposal of some shares, the accounting method shall be changed as equity method in compiling individual financial statements and the remaining shares shall be deemed to be adjusted by equity method upon being obtained if the remaining shares after disposal still have joint control or significant impacts on investee. While the remaining shares after disposal do not have joint control or significant impacts on investee anymore, the accounting treatment shall be conducted as per regulations related to recognition and measurement standards of financial instruments and its difference between fair value and book value on the date of losing the control shall be included into current profit or loss. For other comprehensive income recognized as being accounted by equity method or recognition and measurement standards of financial instruments before the Company obtains the control over investee, its accounting treatment shall be conducted on the same base as investee disposes of relevant assets and liabilities directly upon losing the control over investee, and other owners' entity in net assets of investee accounted for by equity method, excluding net profit or loss, other comprehensive income and profits distribution, shall be carried over into current profit or loss in the event of losing the control over investee. Of which, if the residual equity investment after disposal is calculated by equity method, other comprehensive income and owner's equity shall be transferred by proportion; where the residual equity investment after disposal changes to be conducted with accounting treatment according to standard of recognition and measurement of financial instruments, other comprehensive income and owner's equity shall be transferred.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

13. Long-term Equity Investments *(Continued)*

(3) Relevant accounting policies treatments illustrated in “method for preparing consolidated financial statements” (Continued)

Where the Company's common control or significant influence over the investee is lost due to the disposal of partial equity investment, the residual equity after disposal will change to be calculated by standard of recognition and measurement of financial instruments, the balance between the fair value and book value thereof on the date the common control or significant influence is lost shall be included into current profit or loss. Other comprehensive income recognized by calculating original equity investment by equity method shall go through accounting treatment on the same basis on which the investee directly disposes the relevant assets or liabilities when ceasing to use equity method; for the owner's equity recognized by other changes on owner's equity rather than net profit or loss, other comprehensive income and profit distribution of the investee shall be transferred into current investment income when ceasing to use equity method.

If the Company disposes of equity investment to subsidiaries leading to loss control, the foregoing transaction is package deal, accounting treatment shall be conducted for each transaction as the transaction that disposes of subsidiary with loss of control right; before loss of control right, the difference between each price disposal and the book value of long-term equity investment correspondingly in equity disposed shall be firstly recognized in the other comprehensive income and then wholly transferred into current profit or loss when losing control right.

14. Investment Property

Investment property is property held to earn rentals or for capital appreciation or both, including the land use rights which have been rented, land use right held for transfer after capital gain, and buildings which have been rented.

Investment property is measured initially at cost. Subsequent costs related to investment property are recognized in the cost of the investment property, if the economic benefits of the asset will probably flow in and the cost can be measured reliably. Other subsequent costs are recognized through profit or loss in the periods in which they are incurred.

After initial recognition, the Group uses the cost model to measure the investment property, and depreciates and amortizes the investment property according to provisions that buildings should be consistent with land use rights.

Please refer to Note VI. 20 “Long-term Asset Impairment” for the methods of impairment test and preparing provisions for impairment of investment property.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

14. Investment Property *(Continued)*

When an owner-occupied property or an inventory are transferred into an investment property, or when an investment property is transferred into an owner-occupied property, the carrying amount prior to the transfer is recognized as the book value after the transfer.

When an investment property is transferred into an owner-occupied property, the investment property is reclassified as fixed asset or intangible asset since the date of transfer. When the purpose of an owner-occupied property is transferred to generate rent or receive capital gain, the fixed asset or the intangible asset is transferred to investment property since the date of transfer. After the transfer, investment property measured at cost, recognizes the carrying amount prior to the transfer as the book value after the transfer.

Expected useful life, estimated residual value and methods of depreciation (amortization) of the investment property are reviewed and adjusted appropriately at the end of each year.

An investment property shall be derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in profit or loss in the period of the retirement or disposal.

15. Fixed Assets

(1) Recognition Criteria of Fixed Assets

Fixed assets are tangible assets that are held for use in the production or supply of services, for rental to others, or for administrative purposes, and have useful lives of more than one accounting year. A fixed asset is recognized only when it is probable that economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. Fixed assets are initially measured at cost and the effect of any expected costs of abandoning the asset at the end of its use is considered.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

15. Fixed Assets *(Continued)*

(2) Depreciation Method of Fixed Assets

From the next month of bringing the fixed asset to the expected conditions for use, the fixed assets are depreciated using the straight-line method over their estimated useful lives. Estimated useful life net residual value rate and annual depreciation rate of each category of fixed assets are as follows:

Category	Depreciation Method	Depreciation period (years)	Residual rate (%)	Annual depreciation rate (%)
Buildings	Straight-line method	10-70	0~10	1.29~10
Machinery equipment	Straight-line method	4-18	0~10	5~25
Transportation equipment	Straight-line method	5-10	0~10	9~20
Electronic equipment	Straight-line method	5-10	0~10	9~20
Office equipment	Straight-line method	4-8	0~10	11.25~25
Decoration	Straight-line method	5	0	20

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

(3) Impairment Testing and Accounting Treatment

As for impairment testing method and accounting treatment, please refer to Note IV. 20 "Long-term Asset Impairment".

(4) Recognition and Measurement of Fixed Assets under Finance Lease

A finance lease is a lease that transfers in substance all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. As for the fixed assets under finance lease, the lessee shall adopt a depreciation policy for leased assets consistent with that for depreciable assets which are owned by the lessee in calculating the depreciation of a leased asset. If it is reasonable to be certain that the lessee will obtain the ownership of the leased asset when the lease term expires, the leased asset shall be fully depreciated over its useful life. If it is not reasonable to be certain that the lessee will obtain the ownership of the leased asset at the expiry of the lease term, the leased asset shall be fully depreciated over the shorter one of the lease terms or its useful life.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

15. Fixed Assets *(Continued)*

(5) Additional notes

The subsequent expenses related to a fixed asset, if the economic benefits pertinent to the fixed asset are probably to flow into the enterprise and the cost of the fixed asset can be measured reliably, shall be included in the cost of the fixed asset and the book value of the replaced parts shall be derecognized. Any other subsequent expenses shall be recorded into current profit or loss.

If a fixed asset is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognized. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying value and related taxes is recognized in current profit or loss.

The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least once at the end of each financial year and treats the changes as changes of in accounting estimate.

16. Construction in Progress

The cost of construction in progress is recognized based on actual project expenditure, including each project expenditure during the construction, capitalized borrowing costs before the construction get ready for its intended use and other relevant expenses.

When a construction in progress is available for use, it is recognized in fixed assets and depreciated from the next months. The construction budget, construction cost, construction actual cost, etc. of a construction in progress, which is available for use but not yet completed the final accounts, is recognized at the estimated cost in fixed assets since the date when it is available for use. Provision for depreciation is accrued according to the Group's depreciation policies of fixed assets. The estimated value is adjusted to actual costs subsequent to the completion of settlement.

Please refer to Note IV. 20 "Long-term Asset Impairment" for the impairment test method and impairment provision method of construction in progress.

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FOR THE SIX MONTHS ENDED 30 JUNE 2018

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

17. Borrowing Costs

Borrowing costs include interest, amortization of discounts or premiums related to borrowings, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings. Where the borrowing costs incurred to an enterprise can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, they shall be capitalized: (i) Where the expenditures for the asset are being incurred; (ii) Where the borrowing costs are being incurred; and (iii) where the construction activities which are necessary to prepare the asset for its intended use or sale have commenced capitalization of borrowing costs shall cease when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale. Other borrowing costs shall be recognized as expenses in the period in which it is incurred.

The amount of interest of specific-purpose borrowings to be capitalized shall be the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds. An enterprise shall determine the amount of interest to be capitalized on general-purpose borrowings by applying a capitalization rate to the weighted average of the excess amounts of cumulative expenditures on the asset over and above the amounts of specific-purpose borrowings. The capitalization rate shall be the weighted average of the interest rates applicable to the general-purpose borrowings.

During the period of capitalization, the exchange differences on foreign currency specific-purpose borrowings shall be all capitalized; the exchange differences on foreign currency general-purposes borrowings shall be recorded into current profit or loss.

Assets qualified for casualization are assets (fixed assets, investment property, inventories, etc.) that necessarily take a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.

Capitalization of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally, when the interruption is for a continuous period of more than 3 months until the acquisition, construction or production is resumed.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

18. Intangible Assets

(1) Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Group.

The intangible assets shall be initially measured at cost. The expenses pertinent to an intangible asset shall form part of the cost of the intangible assets, if it is probable that the economic profit related to the asset will flow to the Company and the cost can be measured reliably. In addition, the expenditure of other items shall be recorded into current profit or loss in the period in which it is incurred.

The acquisition of land use right is usually recognized as intangible assets for accounting purposes. Building such as self-constructed plant, relevant expenditure incurred for obtaining land use right and construction cost of the building shall be recognized as intangible asset and fixed asset for accounting purposes. Cost incurred on purchased Building shall be allocated between land use right and building. The cost shall be recognized as fixed asset if it cannot be reasonably allocated.

An intangible asset with a finite useful life shall be amortized using straight line method based on the original value, less estimated residual value and the accumulative amount of impairment provision within the estimated useful life. An intangible asset with an indefinite useful life shall not be amortized.

At the end of the period, it is necessary to review the useful life and amortization method of the intangible asset with limited useful life. In case of any change, it shall be treated as changes in accounting estimation. In addition, according to the available conditions Intangible assets with conclusive evidence that cannot be reasonably estimated for their useful lives shall be recognized as intangible asset with uncertain useful life. The Company owns the trademarks of Baiyunshan, Dashen products and series of Xing Qun, Zhong Yi, Pangaoshou, Chen Li Ji, Jing Xiu Tang, Qi Xing, Jianzhiqiao, Guo Ying, Jian Min, etc. The Company believes that these product trademarks shall be used and bring expected economic benefits inflows in foreseeable future. Therefore, these trademarks are recognized as intangible assets with uncertain life.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

18. Intangible Assets *(Continued)*

(2) Research and development expenditure

The expenditures of the research and development project inside the Company can be divided into research expenditure and development expenditure.

The specific qualifying 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 original medicines). Commencement of Phase III clinical trial is determined based on the approval by authorities.

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

Research expenditures shall be recorded into profit or loss for the periods in which the expenditures are incurred.

Development expenditures are capitalized when the all following conditions are met, otherwise it will be recorded into the profits and losses in the current period:

- ① the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- ② its intention to complete the intangible asset and use or sell it;
- ③ how the intangible asset will generate economic benefits. Among other things, the enterprise can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- ④ the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- ⑤ its ability to measure reliably the expenditure attributable to the intangible asset during its development phase.

If the expenditures cannot be distinguished between research phase and development phase, the Company recognizes all expenditures into current profit or loss.

(3) Impairment test method and impairment provision assessing method of intangible asset

Please refer to Note IV. 20 "Long-term Asset Impairment" for the impairment test method and impairment provision method of intangible asset.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

19. Long-Term Prepaid Expenses

Long-term prepaid expenses include expenses such as improvements on leasehold fixed assets and expenses that have been occurred but borne in the current period and in subsequent periods with amortization term of over one year. Amortization is carried out over the expected benefit period, and disclosed as the net value of the actual expenses minus accumulated amortization.

20. Long-term Asset Impairment

The Company assesses impairment indicators for fixed asset, construction in progress, the intangible asset with limited service life, the investment properties measured at cost pattern, the long-term equity investment in subsidiaries, associates and joint ventures and the non-current and non-financial asset, such as goodwill on the balance sheet date. If the Company finds evidence on asset impairment, the recoverable amount of the asset shall be measured, and impairment test shall be conducted. Impairment test shall be conducted annually for goodwill, the intangible asset with uncertain service life and the intangible asset not reaching available condition, no matter there is impairment indication.

Where the measurement result of the impairment test indicates that an asset's recoverable amount is lower than its book value, impairment reserve shall be withdrawn based on its differences and recorded into the impairment loss. The recoverable amount shall be determined on the basis of the higher one of the net amounts of the fair value of the asset minus the disposal expenses and the present value of the expected future cash flow of the asset. The fair value of asset is recognized based on the price as stipulated in the sales agreement in the fair transaction; where there is no sales agreement but there is an active market of assets, the fair value is recognized based on the price bidden by the buyer of the asset; where there is no sales agreement and no active market of assets, the fair value of an asset shall be estimated in light of the best information available of asset. The disposal expenses shall include the relevant legal expenses, relevant taxes, truckage as well as the direct expenses for bringing the assets into a marketable state. The present value of the expected future cash flow of an asset shall be determined by the discounted cash with an appropriate discount rate, on the basis of the expected future cash flow generated during the continuous use or final disposal of an asset. Asset impairment provision is calculated and recognized based on single asset. In case of the difficulty to estimate the recoverable amount of single asset, the recoverable amount of asset group is recognized in accordance with the asset group that such asset belongs to. The asset group refers to the minimum asset portfolio that can independently generate cash inflow.

Goodwill and intangible assets with an indefinite useful life are tested for impairment at least at the end of each year.

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FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

20. Long-term Asset Impairment *(Continued)*

The Company conducts the impairment test of goodwill. The book value of goodwill formed by business combination is apportioned to the relevant asset group according to a reasonable method from the date of purchase; for the goodwill that is difficult to apportion to the relevant asset group, it is apportioned to relevant asset group portfolio. When allocating the book value of goodwill to the relevant asset group or asset group portfolio, the fair value of each asset group or asset group portfolio to the total fair value of the relevant asset group or asset group portfolio is adopted. If the fair value is difficult to be reliably measured, the book value of each asset group or asset group portfolio to the total fair value of the relevant asset group or asset group portfolio is adopted.

In the case of impairment test for relevant asset groups or asset group portfolios containing goodwill, if there is any indication of impairment of the asset group or asset group portfolio related to goodwill, impairment test for the asset group or asset group portfolio that does not include goodwill is carried out first to calculate the recoverable amount and then compare with the relevant book value to confirm the corresponding impairment loss. The asset group or asset group portfolio containing goodwill is then tested for impairment. After the book value of these related asset group or asset group portfolio (including the book value of the assessed goodwill) and its recoverable amount are compared, if the recoverable amount of the relevant asset group or asset group portfolio is lower than its book value, the impairment loss of goodwill is recognized. Once the above asset impairment loss is confirmed, the part that the value is restored in the future period is not allowed to be transferred back.

21. Employee Benefits

The employee benefits of the Company mainly include the short-term employee benefits, post-employment benefits, termination benefits, and other long-term employee benefits, including:

The short-term benefits mainly include: employee salaries, bonus, allowances and subsidies, staff welfare, social insurance contributions such as premiums or contributions on medical insurance, maternity insurance premiums, work injury insurance, housing funds, labor union running cost, employee education costs, non-monetary benefits, etc. The Company shall recognize, in the accounting period in which an employee provides service, actually occurred short-term employee benefits as a liability, with a corresponding charge to profit or loss for the current period or in the cost of relevant asset. Where, the non-monetary benefits shall be measured at its fair value.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

21. Employee Benefits (Continued)

The domestic enterprises of the Group pay basic pension insurance and unemployment insurance for employees according to the relevant regulations of the local government. In the accounting period in which the employees of the Group's domestic enterprises provide services to the company, the payment shall be calculated according to the local payment base and proportion, and confirmed as liabilities, which are included in current profit or loss or related asset costs. In addition to the basic pension insurance, most of the domestic enterprises of the Group have established an enterprise annuity plan based on the relevant policies of the national enterprise annuity system. The company pays the enterprise annuity according to a certain proportion of the total wages of the employees, and the corresponding expenses are included in the current profit and loss or related asset costs. The Group's Hong Kong company, Guangzhou Pharmaceuticals Baiyunshan Hong Kong Company, provides mandatory provident fund contributions to eligible Hong Kong employees in accordance with the *Mandatory Provident Fund Schemes Ordinance* of Hong Kong. The cost settlement of all plans is deducted from the income statement for the relevant period. The planned assets are held independently by independently managed funds and managed separately from the assets of the company. At the same time, according to the *Employment Ordinance* of Hong Kong, for an employee who is eligible to receive a long service payment at the time of termination of employment, such payment shall be made when the employment is terminated. The Guangzhou Pharmaceutical Baiyunshan Hong Kong Company has made provision for long-term service payments that are expected to be paid in the future. The provision is calculated based on the estimation of the best service wages might be earned by the employee for providing services to the company as of the settlement date.

Where the labor relationship with employees is terminated prior to the expiration of the labor contract with employees, or compensation suggestions are made to encourage employees to accept the cutback voluntarily, the employee payroll liabilities incurred by the dismissal welfare shall be recognized and recorded into the current profit or loss when the Company cannot withdraw unilaterally the dismissal welfare provided for the termination plan of labor relations or cutback suggestions, or when the Company recognizes the cost related to reorganization involving the payment of dismissal welfare, whichever is earlier. However, if it is anticipated that the dismissal welfare cannot be fully paid within 12 months after the end of the annual report period, such welfare shall be handled as other long-term Employee Payroll.

The internal retirement plan for employee shall be handled by the principle the same to the aforesaid dismissal welfare. The Company will pay the salary and contribute social insurance for the internal retirement from the service stopped to be provided by such employee to normal retirement. Such fee is recorded in the current profit or loss (dismissal welfare) when conforming to the reorganization condition of estimated liability.

Accounting treatment shall be conducted on other long-term employee payrolls provided to employees by the Company according to defined contribution plans if such plans are conformed, and besides, accounting treatment shall be conducted according to defined benefit plans.

As of the end of current period, the Group has not set up benefits planning



NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

22. Provisions

An obligation related to a contingency shall be recognized as an estimated liability when all of the following conditions are satisfied: (1) the obligation is a present obligation of the enterprise; (2) it is probable that an outflow of economic benefits will be required to settle the obligation; and (3) the amount of the obligation can be measured reliably.

As at the balance sheet date, the contingent liabilities shall be initially measured in accordance with the best estimate of the necessary expenses for the performance of the current obligation. To determine the best estimate, the Company shall take into full consideration the risks, uncertainty, time value of money, and other factors pertinent to the contingencies. 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. Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement shall be recognized as a separate asset only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the carrying amount of the provision.

23. Revenue

If the following conditions are met by the contract between the Group and the customer, revenue is recognized when the customer obtains control over relevant products: (a) the parties to the contract have approved the contract and are committed to perform their respective obligations; (b) each party's rights regarding the goods or services to be transferred have been specified in the contract; (c) the entity can identify the payment terms for the goods or services to be transferred; (d) the contract has commercial substance, such as the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract; and (e) it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

At the starting date of contract, the Group recognizes individual performance obligations in the contract, and allocates transaction price into each individual performance obligation based on the relevant proportion of the price of good promised in each individual performance obligation when selling separately. The influence of factors such as variable consideration, the existence of a significant financing component in the contract, non-cash consideration, and customer consideration payables are taken into consideration when determining the transaction price.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

23. Revenue *(Continued)*

For each individual performance obligations in the contract, the transaction price shall be recognized into revenue based on performance progress of each individual performance obligation within relevant performance period when one of the following conditions is met: (a) Customer can obtain and consume the economic benefit from the performance of the company at the same time the company performs the contractual obligations; (b) Customer has control over the work in progress when the company performs the contractual obligations; (c) The goods produced from the company's performance of contractual obligations have irreplaceable application. And the company are entitled to receive payments for the accumulated completed portion of the whole contract. Methods of measuring progress include output methods and input methods. When progress cannot be reliably measured, if the cost incurred is expected to be compensated, the amount of cost incurred shall be recognized as revenue until the progress can be reliably measured.

If none of the above-mentioned conditions are met, the portion of transaction price allocated to the individual performance obligation shall be recognized as revenue when the customer obtains the control over relevant goods. When judging whether the customer has obtained the right to control the goods, the enterprise shall consider the following indications: (a) The enterprise is entitled to charge for the goods at present, that is, the customer is obliged to pay for the goods at present; (b) The enterprise has transferred the legal ownership of the goods to the customer, that is, the customer has obtained the legal ownership of the goods; (c) The enterprise has transferred physical possession of the goods to the customer, that is, the customer has physical possession of the goods; (d) The enterprise has transferred the major risks and rewards of the ownership of the goods to the customer, that is, the customer has obtained the major risks and rewards of the ownership of the goods; (e) The customer has accepted the goods; (f) Other indications showing that the customer has obtained the right to control the goods.

Specific accounting policies related to the primary operations from which the Company and its subsidiaries earn income are as follows:

(1) Sale of goods

Revenue from the sale of goods shall be recognized when the Group has transferred the control of goods to the customer.

(2) Rendering of services

The revenue from rendering of services is recognized according to the period in which services are provided.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

23. Revenue *(Continued)*

(3) 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.

24. Government Grants

Government grants are transfer of monetary assets or non-monetary assets from the government to an enterprise at no consideration. However, capital contributions from the government as an owner of the enterprise are excluded. The government grant is classified into government grant related to assets and government grant related to incomes. Government grants of monetary assets are measured at the amount received or receivable. Government grants of non-monetary assets are measured at fair value. If reliably fair value cannot be obtained, nominal amount shall be used for measurement. Government grants measured at nominal amount shall be recognized through profit or loss for the current period.

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

For government grants not clearly specifying subsidy object, basis of determination for asset related government grants or income related government grants are: government grants not clearly specifying subsidy object, but with sufficient evidence indicating that the government supporting fund is related to the formation of long-term asset, shall be recognized as asset related government grant. The others shall be recognized as income related government grant.

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 profit or loss on stages using reasonable and systemic methods during its assets-related useful lives (government grants related to ordinary business of the Group shall be charged into other income; those not related to ordinary business of the Group shall be charged into non-operating income).

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

24. Government Grants *(Continued)*

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 profit or loss during the recognition of related expenses or loss (government grants related to ordinary business of the Group shall be charged into other income; those not related to ordinary 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 profit or loss (government grants related to ordinary business of the Group shall be charged into other income; those not related to ordinary business of the Group shall be charged into non-operating income) or shall offset related expenses or loss.

For government grants not clearly specifying subsidy object, basis of determination for asset related government grants or income related government grants are: government grants not clearly specifying subsidy object, but with sufficient evidence indicating that the government supporting fund is related to the formation of long-term asset, shall be recognized as asset related government grant. The others shall be recognized as income related government grant.

The government subsidies that contain both the portion pertinent to assets and the portion pertinent to income shall be subject to accounting treatment respectively according to different portions; and those that are difficult to be distinguished shall be classified as the government subsidies pertinent to income related as a whole.

The government subsidies pertinent to the daily activities of the Group shall be included in other income or used to offset relevant costs and expenses according to the substance of the economic business. The government subsidies irrelevant with the daily activities of the Group shall be included in non-operating revenues and expenses.

If it is necessary to refund any government subsidy which has been recognized, and there is deferred income, the book balance of the deferred income shall be offset, and the excessive part shall be included in the current profits and losses, or if the book value of relevant assets is offset against when the government subsidy is initially recognized, the book value of the assets shall be adjusted. Under any other circumstance, it shall be directly included in the current profits and losses.

25. Deferred Tax Assets/Deferred Tax Liabilities

(1) Current Income Tax

On the balance sheet date, the current tax liabilities (or assets) incurred in the current period or prior periods shall be measured in light of the expected payable (refundable) amount of income taxes according to the tax law. The taxable income of enterprises, the basis of the measurement of the current tax, shall be measured according to the adjusted accounting profit before tax for the year by tax law.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

25. Deferred Tax Assets/Deferred Tax Liabilities *(Continued)*

(2) *Deferred tax assets and deferred tax liabilities*

As for the temporary difference arising from the difference between the book value of some asset or liability and its tax base and the difference between the book value of an item that has not been recognized as an asset or liability with its tax base determined in light of the tax law and its tax base, it is allowed to recognize it as the deferred income tax assets or the deferred income tax liabilities by balance sheet liability method.

For temporary differences associated with the initial recognition of goodwill and the initial recognition of an asset or liability arising from a transaction (not a business combination) that affects neither the accounting profit nor taxable profits (or deductible losses) at the time of transaction, no deferred tax asset or liability is recognized. Besides, deferred tax liabilities will not be recognized for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except where the Company can control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the foreseeable future. Except the above-mentioned cases, the deferred tax liabilities generated from other all taxable temporary difference are recognized by the Company.

Related to the initial recognition of the assets or liabilities arising from the following transactions that is not business combination and the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected at the time of transaction, the deductible temporary differences are not allowed to recognize relevant deferred tax assets. As for the deductible temporary differences related to the investments of subsidiary, associated enterprises and joint enterprises, corresponding deferred tax asset shall not be recognized if the temporary differences are unlikely to be reversed in the excepted future and it is likely to acquire any amount of taxable income tax that may be used for making up the deductible temporary differences. Except the above-mentioned cases, the Company shall recognize the deferred tax liabilities arising from a deductible temporary difference to the extent of the amount of the taxable income which it is most likely to obtain, and which can be deducted from the deductible temporary difference.

As for any deductible loss or tax deduction that can be carried forward to the next year, the corresponding deferred tax assets shall be recognized to the extent that the amount of future taxable income to be offset by the deductible loss or tax deduction to be likely obtained.

On the balance sheet date, the deferred tax assets and deferred tax liabilities shall be measured at the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled.

The carrying amount of deferred tax assets shall be reexamined at the balance sheet date. If it is unlikely to obtain sufficient taxable income taxes to offset the benefit of the deferred tax assets, the carrying amount of the deferred tax assets shall be written down. When it is probable to obtain sufficient taxable income taxes, such write-down amount shall be subsequently reversed.

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上海
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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

25. Deferred Tax Assets/Deferred Tax Liabilities *(Continued)*

(3) Tax expenses

Tax expenses include current tax and deferred tax.

Except that other comprehensive income is recognized, the current tax and deferred income tax related to the transactions or events directly recorded in the other comprehensive income or shareholders' equity and the carrying amount of goodwill is adjusted due to the deferred income tax arising from business combination, other current taxes and deferred income tax expenses or incomes are recorded in the profit or loss for the period.

(4) Offset of Income Tax

When the Company has a legal right to settle on a net basis and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously, current tax assets and current tax liabilities are offset and presented on a net basis.

When the Company has a legal right to settle current tax assets and liabilities on a net basis, and deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be reversed, deferred tax assets and deferred tax liabilities are offset and presented on a net basis.

26. Lease

A finance lease is a lease that transfers in substance all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. All other leases are classified as operating leases.

(1) Accounting Treatments of Operating Leases for Lessees

The rents from operating leases shall be recorded by the lessee in the relevant asset costs or the current profits or losses by using the straight-line method over each period of the lease term. Initial direct costs incurred are recorded into current profit or loss. Contingent rents are charged to profit or loss for the current period in which they are actually incurred.

(2) Accounting Treatments of Operating Leases for Lessors

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. The initial direct costs with a larger amount shall be capitalized when they actually arise and recorded, on a phased basis, into the current profit or loss on the ground of the recognized rent revenue during the whole lease term; and the other ones with a smaller amount shall be directly recorded into current profit and loss. Contingent rents are charged to profit or loss in the current period in which they actually arise.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

26. Lease *(Continued)*

(3) *Accounting Treatments of Finance Leases for Lessees*

The Company shall, on the commencement of the lease term, record the leased asset at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments at the inception of the lease, and recognize a long-term payable at an amount equal to the minimum lease payments. The difference between the recorded amounts is accounted for as unrecognized finance charge. Besides, initial direct costs that are attributable to the leased item incurred during the process of negotiating and securing the lease agreement are also added to the amount recognized for the leased asset. The net amount of minimum lease payments less unrecognized finance charges is separated into long-term liabilities and the portion of long-term liabilities due within one year for presentation.

Unrecognized finance charges are recognized as finance charge for the period using the effective interest method over the lease term. The contingent rents shall be recorded into current profit or loss in which they actually arise.

(4) *Accounting Treatments of Finance Leases for Lessors*

A lessor shall, on the commencement date of the lease term, recognize the sum of the minimum lease receipts on the lease beginning date and the initial direct costs as the entering value in an account of the finance lease values receivable, and record the unguaranteed residual value at the same time. The balance between the sums of the minimum lease receipts, the initial direct costs and the unguaranteed residual value, and the sum of their present values shall be recognized as unrealized financing income. The balances between the finance lease receivable minus unrealized financing profit are recognized in long-term liabilities and long-term liabilities due within one year respectively.

The unrealized financing profit in the lease period shall adopt the effective interest rate method to calculate and recognize the financing income in the current period. Contingent rents are recorded into profit or loss for the current period in which they are actually incurred.

27. Other Important Accounting Policies and Accounting Estimates

(1) *Discontinued operations*

Discontinued operations is a component that meets one of the following conditions and can be separately distinguished and disposed of by the Group or classified as held for sale: ① this component represents an independent principal business or a separate principal operation area; ② this component is part of an associated program to be disposed of for an independent main business or a separate main business area; ③ this component is a subsidiary acquired for resale.

For the accounting treatment of discontinued operations, please refer to the descriptions in Note IV. 12. "Assets Held for Sale and Disposal Group".

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

28. Significant Changes in Accounting Policies and Accounting Estimates

(1) Changes in accounting policies

- ① *Changes in accounting policies due to the implementation of the new Accounting Standards for Business Enterprises.*

On 31 March 2017, the Ministry of Finance of the People's Republic of China issued the Accounting Standards for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments (Revised in 2017) (Caikuai [2017] No. 7), Accounting Standards for Business Enterprises No. 23 - Transfer of Financial Assets (Revised in 2017) (Caikuai [2017] No. 8), Accounting Standards for Business Enterprises No. 24 - Hedge Accounting (Revised in 2017) (Caikuai [2017] No. 9), and the Accounting Standards for Business Enterprises No. 37 - Financial Instruments Presentation (Revised in 2017) (Caikuai [2017] No. 14) on 2 May 2017 (the above guidelines are collectively referred to as the "new financial instrument standards"); The Accounting Standards for Business Enterprises No. 14 - Revenue (Revised in 2017) (Caikuai [2017] No. 22) was issued on 5 July 2017 (hereinafter referred to as the "new revenue standards"). Enterprises listed both home and abroad and those listed abroad and adopting the international financial reporting standards or accounting standards for business enterprises to prepare financial statements shall implement these Standards from 1 January 2018.

As approved by the resolution of the 15th meeting of the 7th Board of Directors, and the 10th meeting of the 7th board of supervisors of the Company, the Group began implementing the above-mentioned five accounting standards at the time required by the Ministry of Finance of the People's Republic of China.

(i) New Revenue Standards

The Group reevaluates the recognition, measurement, calculation, presentation, etc. on the Group's primary revenue from contracts. The Group reviews the sources of income and processes for contracts with customers to assess the impact of the new revenue standards on financial statements. Over 99% of the Group's revenue is generated from sales of goods. The revenue is recognized when the right to control the goods is transferred to customer. The implementation of the new revenue standards has no significant impact on the presentation of the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

28. Significant Changes in Accounting Policies and Accounting Estimates *(Continued)*

(1) *Changes in accounting policies (Continued)*

① *Changes in accounting policies due to the implementation of the new Accounting Standards for Business Enterprises. (Continued)*

(ii) New Financial Instrument Standards

All recognized financial assets are measured at amortized cost or fair value subsequent to initial recognition under the new financial instrument standards.

On the implementation date of the new financial instrument standards, through assessing the business model of the management on financial assets based on the Group's existing facts and conditions on that date, and through assessing the features of contract cash flows of the financial assets based on the facts and conditions at the initial recognition of the financial assets, the financial assets are classified into three categories: (1) measured at amortized cost; (2) measured at fair value through comprehensive income; (3) measured at fair value through profit or loss for the current period.

The expected credit loss model is introduced by the new financial instrument standards to recognize impairment. The model comprises a three-stage approach, which is based on changes in credit quality of financial assets subsequent to initial recognition. In accordance with changes in credit quality, financial assets convert within the three stages, by which the method of measurement for impairment loss and the use manner of effective interest rate are determined.

On the implementation date of the standards, the Group classifies and measures financial instruments in accordance with the provisions of this standard. No adjustments are required if the data relating to the prior period comparison of financial statements are not inconsistent with the requirements of this standard. The difference between the original book value of the financial instrument and the new book value on the date of the implementation of the standard shall be included in the retained earnings or other comprehensive income at the beginning of the annual reporting period in which the standard is applied.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

28. Significant Changes in Accounting Policies and Accounting Estimates *(Continued)*

(1) Changes in accounting policies *(Continued)*

① Changes in accounting policies due to the implementation of the new Accounting Standards for Business Enterprises. *(Continued)*

(ii) New Financial Instrument Standards *(Continued)*

On the implementation date of the new financial instrument standards, the Group made the following adjustments to classification and measurement of financial assets and financial liabilities based on relevant provisions of the new financial instrument standards:

- (i) Equity investment classified as available for sale financial assets in the prior years is reclassified as financial assets measured at fair value through profit or loss for the current period, or irrevocably designated as financial assets measured at fair value through other comprehensive income, changes in fair value of which are accumulatively recognized through other comprehensive income subsequent to initial recognition and cannot be reclassified to profit or loss at disposal.
- (ii) The receivables subsequently measured at amortized cost in the previous year are assessed for business models based on the existing facts and circumstances of the new standard implementation date (1 January 2018), and are tested for contractual cash flow characteristics based on the facts and circumstances at the time of initial recognition. According to the evaluation test results, the receivables measured at the amortized cost are continuously measured at amortized cost. After the assessment and testing, the adoption of the new financial instrument criteria has no significant impact on the presentation of the Group's receivables.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

28. Significant Changes in Accounting Policies and Accounting Estimates (Continued)

(1) Changes in accounting policies (Continued)

① Changes in accounting policies due to the implementation of the new Accounting Standards for Business Enterprises. (Continued)

(ii) New Financial Instrument Standards (Continued)

The impact of the Group and its subsidiaries' implementation of the new financial instrument standards on items of the consolidated balance sheet and balance sheet of the Company as of 1 January 2018 are summarized as follows:

The Group

Item	Carrying amount prior to changes in accounting policies on 31 December 2017	Effect of the new financial instrument standards	Carrying amount after changes in accounting policies on 1 January 2018
Assets:			
Financial assets held for trading	4,875,057.73	(4,875,057.73)	—
Available for sale financial assets	1,038,859,674.96	(1,038,859,674.96)	—
Other equity instrument investments	—	62,686,231.77	62,686,231.77
Other non-current financial assets	—	975,856,856.18	975,856,856.18
Deferred tax assets	388,850,739.31	778,746.71	389,629,486.02
Shareholders' equity:			
Other comprehensive income	(70,206,938.27)	63,388,106.49	(6,818,831.78)
Undistributed profit	6,285,996,409.09	(67,801,004.52)	6,218,195,404.57

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

28. Significant Changes in Accounting Policies and Accounting Estimates (Continued)

(1) Changes in accounting policies (Continued)

① Changes in accounting policies due to the implementation of the new Accounting Standards for Business Enterprises. (Continued)

(ii) New Financial Instrument Standards (Continued)

The Company

Item	Carrying amount prior to changes in accounting policies on 31 December 2017	Effect of the new financial instrument standards	Carrying amount after changes in accounting policies on 1 January 2018
Assets:			
Financial assets held for trading	4,875,057.73	(4,875,057.73)	—
Available for sale financial assets	1,035,180,994.75	(1,035,180,994.75)	—
Other equity instrument investments	—	57,494,587.03	57,494,587.03
Other non-current financial assets	—	977,369,820.71	977,369,820.71
Deferred tax assets	108,368,848.19	778,746.71	109,147,594.90
Shareholders' equity:			
Other comprehensive income	(64,737,939.47)	64,954,866.01	216,926.54
Undistributed profit	4,024,415,273.84	(69,367,764.04)	3,955,047,509.80

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

28. Significant Changes in Accounting Policies and Accounting Estimates (Continued)

(1) Changes in accounting policies (Continued)

② Adjustments in the presentation of financial statements

The financial statements for the half year ended 30 June 2018 are prepared by the Company and its subsidiaries in accordance with the format prescribed in Caikuai [2018] No. 15. Presentation of relevant accounts are adjusted retrospectively.

The impact of adjustments in relevant financial statements is as follows:

A. Items of the affected consolidated balance sheet and the balance sheet of the Company as of 31 December 2017:

Consolidated balance sheet

Item	Prior to adjustment	Amount adjusted	After adjustment
Notes receivable	1,702,655,475.08	(1,702,655,475.08)	—
Accounts receivable	1,113,769,006.51	(1,113,769,006.51)	—
Notes receivable and accounts receivable	—	2,816,424,481.59	2,816,424,481.59
Dividends receivable	552,938,523.45	(552,938,523.45)	—
Other receivables	209,318,838.53	552,938,523.45	762,257,361.98
Notes payable	252,226,384.82	(252,226,384.82)	—
Accounts payable	2,802,200,696.28	(2,802,200,696.28)	—
Notes payable and accounts payable	—	3,054,427,081.10	3,054,427,081.10
Interests payable	253,966.40	(253,966.40)	—
Dividends payable	45,446,017.79	(45,446,017.79)	—
Other payables	2,399,394,477.50	45,699,984.19	2,445,094,461.69
Long-term payables	20,171,809.73	14,954,855.39	35,126,665.12
Special payables	14,954,855.39	(14,954,855.39)	—
Total	9,113,330,051.48	—	9,113,330,051.48

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

28. Significant Changes in Accounting Policies and Accounting Estimates (Continued)

(1) Changes in accounting policies (Continued)

② Adjustments in the presentation of financial statements (Continued)

- A. Items of the affected consolidated balance sheet and the balance sheet of the Company as of 31 December 2017: (Continued)

Balance sheet of the Company

Item	Prior to adjustment	Amount adjusted	After adjustment
Notes receivable	679,046,805.63	(679,046,805.63)	—
Accounts receivable	265,693,684.36	(265,693,684.36)	—
Notes receivable and accounts receivable	—	944,740,489.99	944,740,489.99
Dividends receivable	656,897,700.00	(656,897,700.00)	—
Other receivables	1,527,015,254.36	656,897,700.00	2,183,912,954.36
Notes payable	908,082.74	(908,082.74)	—
Accounts payable	331,740,567.20	(331,740,567.20)	—
Notes payable and accounts payable	—	332,648,649.94	332,648,649.94
Dividends payable	477,452.11	(477,452.11)	—
Other payables	1,122,916,120.25	477,452.11	1,123,393,572.36
Total	4,584,695,666.65	—	4,584,695,666.65

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

28. Significant Changes in Accounting Policies and Accounting Estimates (Continued)

(1) Changes in accounting policies (Continued)

② Adjustments in the presentation of financial statements (Continued)

- B. Affected items in the consolidated income statement and the income statement of the Company for the half year ended 30 June 2017:

Consolidated income statement

Item	Prior to adjustment	Amount adjusted	After adjustment
Administrative expenses	709,789,679.18	-133,758,130.04	576,031,549.14
Research and development expenses	—	133,758,130.04	133,758,130.04
Total	709,789,679.18	—	709,789,679.18

Income statement of the Company

Item	Prior to adjustment	Amount adjusted	After adjustment
Administrative expenses	176,683,500.17	- 31,848,792.88	144,834,707.29
Research and development expenses	—	31,848,792.88	31,848,792.88
Total	176,683,500.17	—	176,683,500.17

③ No changes in other accounting policies

(2) No changes in accounting estimates

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

29. Significant Accounting Judgments and Estimates

In the application of the accounting policies, due to the intrinsic uncertainty of business operations, the Group needs to judge, estimate, and make assumptions on the book value of report item which cannot be reliably measured. These judgments, estimations, and assumptions are made based on the Group management's historical experiences, and with references of other related factors. These judgments, estimations and assumptions can have impact on the reported amount of income, expenses, assets and liabilities, and the disclosure of contingent liabilities on the balance sheet date. It is probable that the actual results arising from the uncertainty of these estimates are different from the current estimates of the Group's management, and then lead to significant adjustments to the book value of assets or liabilities influenced in future.

The Group performs periodic revision on the above determinations, estimations, and assumptions on the basis of constant operation. When a change in accounting estimation is just influencing the current term, its influenced amount is recognized in the current term. When a change is influencing not only the current term but also the future terms, its influenced amount is recognized in the current term and also the future terms.

Major fields of amount of financial statements to be judged, evaluated and assumed by the Group on balance sheet date are as follows:

(1) Revenue recognition

As stated in Note IV. 23 - Revenue, the Company makes the following significant accounting judgments and estimates in terms of revenue recognition: identifying customer contracts; estimating the recoverability of the considerations that are entitled to be obtained by transferring goods to customers; identifying the performance obligation in the contract; estimating the variable consideration in the contract and cumulative revenue recognized where it is highly probable that a significant reversal therein will not occur when the relevant uncertainty is resolved; assessing whether there is a significant financing component in the contract; estimating the individual selling price of the individual performance obligation in the contract; determining whether the performance obligation is performed in a certain period of time or at a certain point in time; the determination of the progress of the contract, etc. The Group make judgments primarily based on historical experiences and works to. Changes in these significant judgments and estimates can have significant impacts on the operating income, operating costs, and profit or loss of the current or subsequent periods.

(2) Classification of leasing

According to the provisions of *Accounting Standards for Business Enterprises No.21 - Leasing*, leasing is classified into operating leasing and financing leasing. When classifying, the management shall make analysis and judgment on whether all risks and rewards incident upon the ownership of the leased assets have been substantially transferred to the lessee, or whether the Group has assumed all risks and rewards incident upon the ownership of the leased assets.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

29. Significant Accounting Judgments and Estimates *(Continued)*

(3) Measurement of expected credit losses

For financial assets classified as measured at amortized cost and at fair value through other comprehensive income, complex models and a number of assumptions are used in the measurement of expected credit losses. Future macroeconomic conditions and credit behavior of counterparties (debtor/borrower) are involved in these models and assumptions.

(4) Provision for bad debts provided

The Group shall calculate the provision for bad debts using the allowance method based on accounting policies related to receivables. The impairment of receivables is the credit risk based on the assessment of receivables and measured on the basis of expected credit losses. Verification of receivable impairment requires judgment and estimation of the management. Difference between the actual results and the original estimations can have impact on the book value of receivables and the provision for bad debts of receivables provided or recovered in the expected period in which it changes.

(5) Provision for decline in value

The Group accrues inventory falling price reserves of inventories with higher cost than net realizable value and obsolete and unsalable inventories according to their cost and net realizable value, whichever is lower, based on inventory accounting policies. Impairment of inventory to net realizable value is based on the evaluation of its sale ability and net realizable value. The identification of impairment of inventory calls for the management to make judgment and estimation after receiving sound evidence and considering the purpose of holding the inventory and the influence factors of events after balance sheet date. Difference between the actual results and the original estimation will be calculated, provided or reversed by the influence on the book value of inventories and inventory falling price reserves in the estimated change period.

(6) Fair value of financial instruments

The Group recognizes the fair value of financial instruments without active trading market through various valuation methods. These valuation methods include discounted cash flow model analysis, etc. The Group needs to evaluate the future cash flow, credit risks, market volatility and relevance, etc. and choose the proper discount rate. These relevant hypotheses are uncertain, and the changes will inflict impact on the fair value of financial instruments.

Where an equity instrument investment or contract has a public offer, the Group does not use the cost as the best estimate of its fair value.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

29. Significant Accounting Judgments and Estimates *(Continued)*

(7) *Provision for impairment of long-term assets*

The Group will judge whether there exists indication showing that the impairment might incur on non-current assets rather than financial assets on the balance sheet date. Except impairment test conducted each year, when there exists indication of impairment, then impairment test should be conducted too for intangible asset that service life is uncertain. Impairment test should be conducted on non-current assets rather than financial assets if the Group finds evidence that book value is unrecoverable.

The Group will test if the goodwill suffers from impairment at least once a year. It requires estimation of the current value of future cash flow for asset groups or their combinations with good will distributed. Upon estimation of future cash flow, the Group needs to estimate cash flow generated by future asset groups or their combinations and meanwhile choose proper discount rate to recognize the current value of future cash flow.

(8) *Depreciation and Amortization*

The Group calculates and accrues depreciation and amortization by the method of line within service life after considering the remaining value of investment properties, fixed assets and intangible assets. The Group periodically reviews service life to decide the amount to be included into each report period of depreciation and amortization expenses. Service life is recognized by the Group based on past experience for the same type of assets together with anticipated technological updates. If past estimation has been significantly changed, expenses for depreciation and amortization should be adjusted in the future.

(9) *Deferred tax assets*

The Group pays income tax in Mainland and Hong Kong in China. Significant judgment is required when calculating the taxation charges. The final tax implications of many transactions and calculations are uncertain. The Group recognizes liabilities for expected tax audit items based on estimates of whether additional taxes are required. If the final tax impact of these events is different from the amount initially recorded, the difference will affect the taxation charges and deferred tax assets and liabilities for the period in which such calculations are made.

Deferred tax assets are recognized when management believes that it is probable that there will be future taxable income to reverse the deductible temporary differences and tax losses. If there is any discrepancy between the expected and the original estimate, the difference will be affected in the current period of the estimated change.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

29. Significant Accounting Judgments and Estimates *(Continued)*

(10) Income Taxes

During regular business activities of the Group, there are uncertainties in final taxation disposal and calculation for some transactions. Whether some projects can list approval needed from taxation authorities before tax. If the final recognition result of these taxation matters is different from the initially estimated amount, such difference will influence the income tax and deferred income tax of current period during final recognition.

(11) Provisions

Based on the contract terms, existing knowledge and historical experience, the Group estimates and makes provision for product quality assurance, estimated contract losses, and penalty for delay in delivery. In the event that such contingent events have formed a current obligation and the performance of such current obligations is likely to result in the outflow of economic benefits from the Group, the Group recognizes the contingent liabilities as the provisions according to the best estimate of the expenditure required to perform the relevant current obligations. The recognition and measurement of Provisions is mainly dependent on management's judgment. In the process of making judgments, the Group needs to assess factors such as risks, uncertainties and time value of money related to such contingent events.

Among them, the Group will provide provisions for after-sales quality maintenance commitments to customers for the sale, repair and modification of the products sold. The Group's recent maintenance experience data has been taken into account when estimating liabilities, but recent maintenance experience may not reflect future maintenance. Any increase or decrease in this preparation may affect the profit and loss of the future year.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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V. TAXES

1. Main Tax Types and Tax Rate

	Specified tax rate
Value added tax ("VAT")	The taxable income is calculated at the tax rate of 17%, 16%, 11%, 6%, 5%, 3%, and the value-added tax is calculated based on the difference after subtracting the input tax amount that is allowed to be deducted in the current period.
Consumption tax	Calculated and paid at 10% on taxable income of the sale of alcohol products
Urban maintenance and construction tax	Calculated and paid at 7% on the payment of turnover tax.
Education surcharge	Calculated and paid at 3% on the payment of turnover tax.
Local education surcharge	Calculated and paid at 2% on the payment of turnover tax.
Real-estate tax	Calculated and paid at 1.2% of the residual value of the real-estate and 12% of rent income
Corporate income tax	Please refer the details below.

Note: The tax rates of 17% and 11% applicable to the Group's VAT taxable sale or import of goods were adjusted to 16% and 10%, respectively, on 1 May 2018, in accordance with the requirements of the Notice of the Ministry of Finance of the People's Republic of China and the State Administration of Taxation on Adjusting Value-Added Tax Rates (No. 32 [2018], Ministry of Finance of the People's Republic of China).

Corporate income tax

Taxpayer	Income tax rate
The Group, Xing Qun, Zhong Yi, Guangzhou Han Fang, Jing Xiu Tang, Pan Gao Shou, Chen Li Ji, Tian Xin, Guang Hua, Ming Xing, Guangxi Ying Kang, WLJ Great Health, WLJ Great Health (Ya'an)	Calculated and paid at 15% of the taxable income
The Group's domestic subsidiaries other than the above-mentioned enterprises	Calculated and paid at 25% of the taxable income
Guangyao Baiyunshan Hong Kong Company of the Group	Calculated and paid at 16.5% of the taxable income

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

V. TAXES (Continued)

2. Tax Preferential Treatments and Approval Documents

According to the state's relevant tax preferential policies for High/New enterprises, qualified High/New enterprises can enjoy preferential corporate income tax policies and pay corporate income tax at a reduced rate of 15%.

The subsidiaries of the Group, which have obtained the Certificates of Advanced Technology Enterprises, can enjoy preferential tax rate of 15% for current period, which 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), WLJ Great Health (No. GR201644006480).

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 Ya'an Great Health Industry (Ya'an) Co., Ltd., a subsidiary of the Group, can enjoy a preferential tax rate of 15% for the current period.

3. There is no Additional Explanation for the Current Period.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unless otherwise indicated in the following notes (including notes to main items of the financial statements of the Company), the opening balance refers to 1 January 2018, and the closing balance refers to 30 June 2018; the current period refers to the period from January to June of year 2018, and the prior period refers to the period from January to June of year 2017.

1. Cash at Bank and on Hand

Item	Closing balance	Opening balance
Cash on hand	1,164,156.25	908,829.96
Cash at bank	13,626,596,673.42	11,572,752,736.19
Other currency balance	859,374,055.41	123,557,316.69
Total	<u>14,487,134,885.08</u>	<u>11,697,218,882.84</u>
Including: Total amount of cash kept in foreign countries	<u>37,408,998.45</u>	<u>7,793,845.14</u>

Notes:

- (1) As at 30 June 2018, the amount of the Group's cash at bank and on hand with restrictions on ownership was RMB 712,697 thousand (31 December 2017: RMB 201,684 thousand). Breakdown of cash at bank and on hand with restrictions on use is as follows:

Item	Closing balance	Opening balance
Margins for notes payable	605,253,596.17	73,825,106.18
Frozen account funds	85,462,208.13	84,995,913.79
Housing funds	585,303.08	585,303.08
Guarantee deposits	1,396,065.00	1,973,540.00
Pledge funds	20,000,000.00	40,303,860.09
Total	<u>712,697,172.38</u>	<u>201,683,723.14</u>

Please refer to Note XVI. (1) ① (a) for events related to the frozen account funds.

- (2) The amount of other currency balance was RMB 859,374 thousand (31 December 2017: RMB 123,557 thousand), including the Group's third-party payment accounts, agreement deposits, margins for notes payable, term deposits, deposits for special card of finance and taxation.

2. Financial Assets Held for Trading

Item	Closing balance	Opening balance
Financial assets classified at FVTPL	710,709.58	—
Including: Equity instrument investments	<u>710,709.58</u>	—
Total	<u>710,709.58</u>	—

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Notes Receivable and Accounts Receivable

Item	Closing balance	Opening balance
Notes receivable	2,967,385,752.76	1,702,655,475.08
Accounts receivable	11,440,850,120.89	1,113,769,006.51
Total	14,408,235,873.65	2,816,424,481.59

(1) Notes receivable

① Category of notes receivable

Item	Closing balance		
	Carrying amount	Provision for bad debts	Book value
Bank acceptance notes	2,136,271,215.83	—	2,136,271,215.83
Commercial acceptance notes	831,114,536.93	—	831,114,536.93
Total	2,967,385,752.76	—	2,967,385,752.76

(Cont.)

Item	Opening balance		
	Carrying amount	Provision for bad debts	Book value
Bank acceptance notes	1,650,289,946.92	—	1,650,289,946.92
Commercial acceptance notes	52,365,528.16	—	52,365,528.16
Total	1,702,655,475.08	—	1,702,655,475.08

② Notes receivable pledged at the period end

Item	Amount pledged at the period end
Bank acceptance notes	5,682,315.47
Commercial acceptance notes	—
Total	5,682,315.47

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Notes Receivable and Accounts Receivable (Continued)

(1) Notes receivable (Continued)

- ③ Notes which are not matured as at the balance sheet date but have been endorsed or discounted at the period end

Item	Amount derecognized at the period end	Amount not derecognized at the period end
Bank acceptance notes	1,920,254,675.59	—
Commercial acceptance notes	—	67,606,869.00
Total	<u>1,920,254,675.59</u>	<u>67,606,869.00</u>

Notes:

- (a) Pursuant to provisions of the *Negotiable Instruments Law of the People's Republic of China*, if the bank of acceptance refuses to pay the payables, the holding party is entitled to recover the payables (continuing involvement) from the Group. Hence, the Group is in continuing involvement in the notes which are not matured at balance sheet date but have been endorsed or discounted.
- (b) The Group believes that the fair value of the continuing involvement is not significant, as the Group has transferred substantially all the risks and awards of the above-mentioned notes receivable which have been endorsed or discounted. The Group does not recognize any assets or liabilities arising from the continuing involvement in book.
- (c) The maximum loss from the continuing involvement of the above-mentioned notes receivable which have been endorsed or discounted is equal to its book value of RMB 1,920,255 thousand.
- (d) Undiscounted cash flows payable arising from the possibility that the Group may buy back the above-mentioned notes receivable which have been endorsed or discounted is equal to its book value, including the balance of notes receivable as at 30 June 2018 which shall be matured by 30 June 2019.
- (e) For the period from January to June 2018, no profit or loss is recognized at the date of the transfer. The Group did not recognize any current or accumulated income or expenses arising from the continuing involvement of derecognized financial assets.
- (f) The above-mentioned notes receivable, which have been endorsed or discounted, occurred roughly balanced in the current year and the distribution is roughly balanced either.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Notes Receivable and Accounts Receivable (Continued)

(1) Notes receivable (Continued)

- ④ As at 30 June 2018, the bank acceptance notes endorsed by the Group to other parties but not matured was RMB 1,801,286 thousand (31 December 2017: RMB 1,787,530 thousand). The top five drawers by balances are as follows:

Drawers	Billing date	Maturity date	Closing balance
Customer 1	25 June 2018	25 December 2018	11,000,000.00
Customer 2	8 January 2018	8 July 2018	10,000,000.00
Customer 3	8 January 2018	8 July 2018	10,000,000.00
Customer 4	8 January 2018	8 July 2018	10,000,000.00
Customer 5	22 January 2018	22 July 2018	10,000,000.00

- ⑤ As at 30 June 2018, commercial acceptance notes endorsed by the Group but not matured was RMB 52,607 thousand (31 December 2017: RMB 11,379 thousand). The top four drawers by balances are as follows:

Drawers	Billing date	Maturity date	Closing balance
Customer 1	28 June 2018	27 June 2019	15,476,072.00
Customer 2	28 June 2018	27 June 2019	14,535,829.00
Customer 3	28 June 2018	27 June 2019	11,594,968.00
Customer 4	28 June 2018	27 June 2019	11,000,000.00

- ⑥ As at 30 June 2018, bank acceptance notes discounted by the Group but not matured was RMB 118,968 thousand (31 December 2017: RMB 217,465 thousand). The top five drawers by balances are as follows:

Drawers	Billing date	Maturity date	Closing balance
Customer 1	21 March 2018	23 September 2018	7,100,000.00
Customer 2	19 March 2018	19 September 2018	6,334,213.78
Customer 3	5 January 2018	8 July 2018	5,000,000.00
Customer 4	10 April 2018	10 October 2018	5,000,000.00
Customer 5	6 March 2018	3 September 2018	3,712,260.71

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Notes Receivable and Accounts Receivable (Continued)

(1) Notes receivable (Continued)

- ⑦ As at 30 June 2018, commercial acceptance notes discounted by the Group but not matured was RMB 15,000 thousand (31 December 2017: nil). The balance is as follows:

Drawers	Billing date	Maturity date	Closing balance
Customer 1	28 February 2018	9 July 2018	15,000,000.00

- ⑧ As at 30 June 2018 and 31 December 2017, the Group had no accounts receivable transferred from notes receivable due to inability of the companies of issuance.

(2) Accounts receivable

- ① The aging analysis of accounts receivable based on booking date is as follows:

Aging	Closing balance	Opening balance
Within 1 year	11,254,929,815.19	1,025,013,019.97
1 to 2 years	220,641,590.93	16,408,005.59
2 to 3 years	152,846,156.90	14,051,869.29
3 to 4 years	41,063,183.80	118,686,993.67
4 to 5 years	6,960,117.38	6,469,782.39
Over 5 years	52,647,181.81	14,464,938.08
Total carrying amount of accounts receivable	11,729,088,046.01	1,195,094,608.99
Less: Provision for bad debts	288,237,925.12	81,325,602.48
Total net book value of accounts receivable	11,440,850,120.89	1,113,769,006.51

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Notes Receivable and Accounts Receivable (Continued)

(2) Accounts receivable (Continued)

② Accounts receivable disclosed by categories

Category	Closing balance				
	Carrying amount		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss (%)	
Individually significant and subject to separate provision	187,396,542.71	1.60	89,486,413.30	47.75	97,910,129.41
Subject to provision by portfolio of features of credit risk	11,531,407,236.18	98.31	188,800,105.39	1.64	11,342,607,130.79
Individually insignificant but subject to separate provision	10,284,267.12	0.09	9,951,406.43	96.76	332,860.69
Total	11,729,088,046.01	100.00	288,237,925.12	2.46	11,440,850,120.89

(Cont.)

Category	Opening balance				
	Carrying amount		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss (%)	
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 portfolio of features of credit risk	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
Total	1,195,094,608.99	100.00	81,325,602.48	6.80	1,113,769,006.51

Description of the types of accounts receivable: please refer to Note IV.10.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Notes Receivable and Accounts Receivable (Continued)

(2) Accounts receivable (Continued)

- ③ Accounts receivable which are Individually significant and subject to separate provision

Accounts receivable (by debtor)	Closing balance			Reason
	Carrying amount	Provision for bad debts	Expected credit loss (%)	
Customer 1	50,998,659.40	5,099,865.94	10.00	Litigation is involved, please refer to Note XVI. (1) ① (a)
Customer 2	37,710,221.64	3,771,022.16	10.00	Litigation is involved, please refer to Note XVI. (1) ① (a)
Customer 3	27,331,803.42	10,658,494.15	39.00	It is expected that the amount cannot be recovered in full amount.
Customer 4	23,401,515.90	23,401,515.90	100.00	Litigation is involved, please refer to Note XVI. (2) ④ (a)
Customer 5	10,541,832.00	10,541,832.00	100.00	Litigation is involved, please refer to Note XVI. (1) ① (a)
Others	37,412,510.35	36,013,683.15	96.26	It is expected that the amount cannot be recovered.
Total	187,396,542.71	89,486,413.30		

- ④ Accounts receivable which are subject to provision by portfolio of features of credit risk

Aging	Closing balance			Opening balance		
	Carrying amount	Proportion (%)	Provision for bad debts	Carrying amount	Proportion (%)	Provision for bad debts
Within 1 year	11,238,514,336.46	97.46	112,399,327.40	1,003,178,081.54	96.88	10,031,780.80
1 to 2 years	218,113,533.51	1.89	21,811,546.85	14,628,836.14	1.41	1,462,883.62
2 to 3 years	19,983,059.77	0.17	5,994,917.94	10,741,835.97	1.04	3,222,550.80
3 to 4 years	10,000,069.13	0.09	5,000,034.58	2,140,130.72	0.21	1,070,065.38
4 to 5 years	6,009,793.44	0.05	4,807,834.75	725,669.59	0.07	580,535.68
Over 5 years	38,786,443.87	0.34	38,786,443.87	4,012,858.57	0.39	4,012,858.57
Total	11,531,407,236.18	100.00	188,800,105.39	1,035,427,412.53	100.00	20,380,674.85

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Notes Receivable and Accounts Receivable (Continued)

(2) Accounts receivable (Continued)

- ⑤ Accounts receivable which are individually insignificant but subject to separate provision in portfolio

Accounts receivable (by debtor)	Closing balance			Reason
	Carrying amount	Provision for bad debts	Expected credit loss (%)	
Customer 1	896,921.60	896,921.60	100.00	It is expected that the amount could not be recovered.
Customer 2	508,889.00	508,889.00	100.00	Won the lawsuit and under enforcement. It is expected that the possibility of recovery is low.
Customer 3	483,690.00	251,845.00	52.07	The case is now going through judicial procedures. It is expected that the possibility of recovery is low.
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.
Others	7,457,304.12	7,356,288.43	98.65	It is expected that the amount could not be recovered.
Total	<u>10,284,267.12</u>	<u>9,951,406.43</u>		

- ⑥ As at 30 June 2018 and 31 December 2017, accounts receivable which have past due but not impaired were not significant in value.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Notes Receivable and Accounts Receivable (Continued)

(2) Accounts receivable (Continued)

- ⑦ Bad debts provided, recovered or reversed

Provision for bad debts provided in the current period was RMB 28,235 thousand. Provision for bad debts recovered or reversed in the current period was RMB 2,331 thousand.

Including: Significant provision for bad debts recovered or reversed in the current period

Company name	Amount recovered or reversed	Method
Customer 1	1,224,549.96	Received
Customer 2	711,965.81	Received
Customer 3	160,000.00	Received
Customer 4	73,941.37	Received
Customer 5	60,764.99	Received
Others	100,002.64	Received
Total	<u>2,331,224.77</u>	

- ⑧ There are no accounts receivable recovered through restructuring or other ways in the current period

- ⑨ Accounts receivable written off in the current period:

Debtor	Nature	Amount written off	Reason	Procedure performed	Whether arising from related transactions or not
Customer 1	Sale of goods	227.00	Uncollectable	Approved by the management	No
Total		<u>227.00</u>			

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Notes Receivable and Accounts Receivable (Continued)

(2) Accounts receivable (Continued)

⑩ The top five customers by balances are as follows:

Company	Nature	Closing balance	Aging	Proportion to total closing balance of accounts receivable (%)	Closing balance of provision for bad debts
Customer 1	Sale of goods	286,896,123.15	Within 1 year, 1 to 2 years	2.45	3,485,549.72
Customer 2	Sale of goods	222,419,134.55	Within 1 year, 1 to 2 years	1.90	2,236,985.89
Customer 3	Sale of goods	151,022,294.74	Within 1 year, 1 to 2 years	1.29	1,510,317.71
Customer 4	Sale of goods	151,508,310.24	Within 1 year, 1 to 2 years	1.29	1,526,296.65
Customer 5	Sale of goods	147,306,788.23	Within 1 year, 1 to 2 years	1.26	3,602,658.64
Total		<u>959,152,650.91</u>		<u>8.19</u>	<u>12,361,808.61</u>

⑪ There are no accounts receivables derecognized due to transfer of financial assets in the current period.

⑫ There are no assets or liabilities arising from the transfer of the accounts receivable with continuing involvement in the current period.

⑬ There are no accounts receivable securitized that targeted at accounts receivable as at 30 June 2018 and 31 December 2017.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Advances to Suppliers

(1) The aging analysis of advances to suppliers is as follows:

Aging	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	725,119,028.35	89.97	234,892,970.44	91.54
1 to 2 years	39,194,021.27	4.86	15,846,896.39	6.18
2 to 3 years	23,521,180.02	2.92	3,094,700.49	1.21
Over 3 years	18,119,229.63	2.25	2,737,190.69	1.07
Total	<u>805,953,459.27</u>	<u>100.00</u>	<u>256,571,758.01</u>	<u>100.00</u>

(2) The top five suppliers by balances are as follows:

Company	Nature of amount	Closing balance	Aging	Proportion to total closing balance of advance payments (%)
Supplier 1	Advance payment	155,108,536.84	Within 1 year	19.25
Supplier 2	Advance payment	48,057,381.67	Within 1 year, 1 to 2 years	5.96
Supplier 3	Advance payment	42,632,979.46	Within 1 year	5.29
Supplier 4	Advance payment	34,240,763.19	Within 1 year	4.25
Supplier 5	Advance payment	<u>34,159,600.00</u>	Within 1 year	<u>4.24</u>
Total		<u>314,199,261.16</u>		<u>38.99</u>

(3) There are no significant advances to suppliers with aging over 1 year at the period end.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Other Receivables

Item	Closing balance	Opening balance
Other receivables	1,013,229,874.94	209,318,838.53
Dividends receivable	96,578,072.14	552,938,523.45
Total	1,109,807,947.08	762,257,361.98

(1) Other receivables

- ① The aging analysis of other receivables is as follows:

Aging	Closing balance	Opening balance
Within 1 year	966,123,680.41	182,107,335.49
1 to 2 years	25,564,327.15	18,485,632.66
2 to 3 years	19,569,361.01	7,959,823.28
3 to 4 years	5,295,350.71	4,942,069.18
4 to 5 years	7,710,661.64	2,932,681.53
Over 5 years	28,951,141.51	24,249,096.47
Total carrying amount of other receivables	1,053,214,522.43	240,676,638.61
Less: Provision for bad debts	39,984,647.49	31,357,800.08
Total net book value of other receivables	1,013,229,874.94	209,318,838.53

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Other Receivables (Continued)

(1) Other receivables (Continued)

② Other receivables disclosed by categories are as follows:

Category	Closing balance				
	Carrying amount		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss (%)	
Individually significant and subject to separate provision	25,142,597.65	2.39	24,695,597.65	98.22	447,000.00
Subject to provision by portfolio of features of credit risk					
Portfolio 1	702,509,140.27	66.69	10,269,640.14	1.46	692,239,500.13
Portfolio 2	78,645,483.45	7.47	—	—	78,645,483.45
Portfolio 3	12,112,065.64	1.15	—	—	12,112,065.64
Portfolio 4	229,785,825.72	21.81	—	—	229,785,825.72
Individually insignificant but subject to separate provision	5,019,409.70	0.48	5,019,409.70	100.00	—
Total	1,053,214,522.43	100.00	39,984,647.49	3.80	1,013,229,874.94

(Cont.)

Category	Opening balance				
	Carrying amount		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss (%)	
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 portfolio of features of credit risk					
Portfolio 1	14,717,155.61	6.11	2,352,219.24	15.98	12,364,936.37
Portfolio 2	81,671,633.76	33.93	—	—	81,671,633.76
Portfolio 3	28,292,445.77	11.76	—	—	28,292,445.77
Portfolio 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	—
Total	240,676,638.61	100.00	31,357,800.08	13.03	209,318,838.53

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Other Receivables (Continued)

(1) Other receivables (Continued)

- ③ Individually significant and subject to separate provision

Other receivables (by debtor)	Closing balance			Reason
	Carrying amount	Provision for bad debts	Expected credit loss (%)	
Other receivables 1	10,315,700.00	10,315,700.00	100.00	Litigation is involved, please refer to Note XVI. (1) ① (a)
Other receivables 2	2,868,759.75	2,868,759.75	100.00	The company ceased operating. It is expected that the amount cannot be recovered.
Other receivables 3	2,000,000.00	2,000,000.00	100.00	The aging of the prepayment is too long, and the research has not reached the expected progress.
Other receivables 4	1,800,957.60	1,800,957.60	100.00	The company ceased operating. It is expected that the amount cannot be recovered.
Other receivables 5	1,520,000.00	1,520,000.00	100.00	The company ceased operating. It is expected that the amount cannot be recovered.
Others	6,637,180.30	6,190,180.30	93.27	It is expected that the amount cannot be recovered.
Total	25,142,597.65	24,695,597.65	98.22	

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Other Receivables (Continued)

(1) Other receivables (Continued)

- ④ Other receivables which are subject to provision by aging portfolio of features of credit risk

Aging	Closing balance			Opening balance		
	Carrying amount	Proportion (%)	Provision for bad debts	Carrying amount	Proportion (%)	Provision for bad debts
Within 1 year	694,127,822.45	98.82	6,938,930.46	11,173,666.97	75.92	111,736.68
1 to 2 years	4,519,374.19	0.64	451,937.42	500,085.07	3.40	50,008.51
2 to 3 years	236,853.24	0.03	71,055.97	1,079,531.94	7.34	323,859.58
3 to 4 years	1,368,067.22	0.19	684,033.61	131,476.81	0.89	65,738.41
4 to 5 years	666,702.17	0.09	533,361.68	157,593.82	1.07	126,075.06
Over 5 years	1,590,321.00	0.23	1,590,321.00	1,674,801.00	11.38	1,674,801.00
Total	702,509,140.27	100.00	10,269,640.14	14,717,155.61	100.00	2,352,219.24

- ⑤ Other receivables which are individually insignificant but subject to separate provision

Other receivables (by debtor)	Closing balance			Reason
	Carrying amount	Provision for bad debts	Expected credit loss (%)	
Other receivables 1	85,500.00	85,500.00	100.00	It is expected that the amount cannot be recovered.
Other receivables 2	78,580.00	78,580.00	100.00	It is expected that the amount cannot be recovered.
Other receivables 3	71,739.00	71,739.00	100.00	It is expected that the amount cannot be recovered.
Other receivables 4	65,846.20	65,846.20	100.00	It is expected that the amount cannot be recovered.
Other receivables 5	60,080.00	60,080.00	100.00	It is expected that the amount cannot be recovered.
Others	4,657,664.50	4,657,664.50	100.00	It is expected that the amount cannot be recovered.
Total	5,019,409.70	5,019,409.70	100.00	

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Other Receivables (Continued)

(1) Other receivables (Continued)

- ⑥ Bad debts provided, recovered or reversed in the current period

Provision for bad debts provided in the current period is RMB 3,320 thousand. There is no provision for bad debts recovered or reversed in the current period.

- ⑦ There are no other receivables written-off in the current period.

- ⑧ Category of other receivables as per nature

Nature	Closing carrying amount	Opening carrying amount
Petty cash	13,538,655.48	6,021,769.47
Margin, deposit and down payment	144,342,373.85	42,162,681.50
Advances to employees	71,904,796.39	38,494,782.86
Receivables due from external parties	768,103,973.32	95,045,525.40
Receivables due from related parties (Note XII.)	12,112,065.64	28,469,898.59
Tax refund for exports	1,016,035.96	2,217,254.24
Others	42,196,621.79	28,264,726.55
Total	<u>1,053,214,522.43</u>	<u>240,676,638.61</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Other Receivables (Continued)

(1) Other receivables (Continued)

- ⑨ The top five debtors by balances are as follows:

Company	Nature	Closing balance	Aging	Proportion to the total closing balance of other receivables (%)	Closing balance of bad debt provision
Other receivables 1	Receivables due from external parties	52,520,000.00	Within 1 year	4.99	525,200.00
Other receivables 2	Receivables due from external parties	21,407,614.02	Within 1 year	2.03	214,076.14
Other receivables 3	Receivables due from external parties	20,985,186.90	Within 1 year	1.99	209,851.87
Other receivables 4	Receivables due from external parties	18,512,875.28	Within 1 year	1.76	185,128.75
Other receivables 5	Receivables due from external parties	17,985,933.28	Within 1 year	1.71	179,859.33
Total		<u>131,411,609.48</u>		<u>12.48</u>	<u>1,314,116.09</u>

- ⑩ There are no receivables related to government grants.
- ⑪ There are no other receivables that had been derecognized due to transfer of financial assets.
- ⑫ There are no assets or liabilities arising from the transfer accounts receivable with continuing involvement in the current period.
- ⑬ There are no other receivables securitized as at 30 June 2018.
- ⑭ There are no other receivables recovered through restructuring or other ways in the current period.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Other Receivables (Continued)

(2) Dividends receivable

Item (or investee)	Closing balance	Opening balance
Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Co., Ltd. ("HWBYS")	50,000,000.00	50,000,000.00
Guangzhou Promise Biological Products Co., Ltd. ("Nuo Cheng")	44,938,523.45	47,938,523.45
GP Corp.	—	455,000,000.00
Chuangmei Pharmaceutical Co., Ltd. ("Chuangmei Medicines")	1,639,548.69	—
Total	<u>96,578,072.14</u>	<u>552,938,523.45</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Inventories

(1) Disclosure of inventories by categories is as follows:

Item	Closing balance		
	Carrying amount	Provision for decline in value	Book value
Raw materials	1,087,907,275.72	3,043,750.94	1,084,863,524.78
Work in progress	167,832,952.74	—	167,832,952.74
Semi-finished goods	160,415,877.01	891,968.80	159,523,908.21
Finished goods	1,081,227,709.83	26,490,928.53	1,054,736,781.30
Low-value consumables	5,750,472.57	—	5,750,472.57
Packaging materials	136,300,652.81	—	136,300,652.81
Consigned processing material	5,900,628.63	—	5,900,628.63
Commodity stocks	4,426,839,206.06	33,687,758.56	4,393,151,447.50
Others	426,329.88	—	426,329.88
Total	<u>7,072,601,105.25</u>	<u>64,114,406.83</u>	<u>7,008,486,698.42</u>

(Cont.)

Item	Opening balance		
	Carrying amount	Provisions for decline in value	Book value
Raw materials	819,325,060.67	3,116,836.98	816,208,223.69
Work in progress	205,524,976.16	—	205,524,976.16
Semi-finished goods	160,977,472.82	891,968.80	160,085,504.02
Finished goods	1,789,796,974.81	14,030,936.79	1,775,766,038.02
Low-value consumables	7,216,360.33	3,273.00	7,213,087.33
Packaging materials	105,084,792.23	—	105,084,792.23
Consigned processing material	20,184,055.77	—	20,184,055.77
Commodity stocks	618,331,802.63	8,678,616.28	609,653,186.35
Others	503,032.44	—	503,032.44
Total	<u>3,726,944,527.86</u>	<u>26,721,631.85</u>	<u>3,700,222,896.01</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Inventories (Continued)

(2) Provision for decline in value of inventories

Item	Opening balance	Increase		Decrease		Closing balance
		Provided	Others	Transferred or written-off	Others	
Raw materials	3,116,836.98	—	—	2,654.04	70,432.00	3,043,750.94
Semi-finished goods	891,968.80	—	—	—	—	891,968.80
Finished goods	14,030,936.79	17,389,616.64	—	4,929,624.90	—	26,490,928.53
Low-value consumables	3,273.00	—	—	—	3,273.00	—
Commodity stocks	8,678,616.28	—	34,831,444.78	9,822,302.50	—	33,687,758.56
Total	26,721,631.85	17,389,616.64	34,831,444.78	14,754,581.44	73,705.00	64,114,406.83

(3) Basis of provision for decline in value of inventories and reason for reversing or writing off in the current period

Item	Basis of provision for the loss on decline in value of inventory	Reason for the reversing provision for the loss on decline in value of inventory	Reason for writing off provision for the loss on decline in value of inventory
Raw materials	Book value is higher than the net realizable value	Increase in net realizable value	—
Finished goods	Book value is higher than net realizable value	—	Sold
Commodity stocks	Book value is higher than net realizable value	—	Sold

(4) As of 30 June 2018, there is no capitalization of borrowing costs in the inventory.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Other Current Assets

Item	Closing balance	Opening balance
Deductible Input VAT	8,865,025.81	7,156,406.20
Prepaid enterprise income tax	171,141,970.85	180,427,954.70
Unverified input VAT	64,953,781.71	29,694.28
Excess VAT paid	54,908,271.44	1,843,370.73
Unpaid VAT	5,962,341.10	184,948,392.40
Bank finance products	12,000,000.00	6,300,000.00
Structured deposits	1,500,000,000.00	1,850,000,000.00
Undisposed assets for whole relocation	35,847,311.64	35,799,561.27
Others	6,172,843.76	478,027.24
Total	<u>1,859,851,546.31</u>	<u>2,266,983,406.82</u>

Note: According to the notice of Haifuzhengfang [2015] No. 2, Haizhengbankexiezi [2015] No. 1 and Haizhengbankexiezi [2016] No.1, Guangzhou Qi Xing Pharmaceutical Factory and Qingxing Pharmaceutical, subsidiaries of the Group, have ceased production and moved out of the building for whole relocation before September 2015. The values of the land and houses, machinery and equipment and inventories for compensation shall be appraised with a professional appraisal report. As at 30 June 2018, the appraisal is not yet determined, and the report is not yet issued.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Other Equity Instrument Investments

(1) Equity instruments not held for trading designated at FVTOC

Item	Closing balance	Opening balance	Amount	Reason for designation
			of interest accumulated into other comprehensive income and losses transferred to retained earnings for the current period	
Equity investment in the South China Center for Innovative Pharmaceuticals Co., Ltd.	10,000,000.00	10,000,000.00	—	Long-term holding for strategic purposes
Equity investment in Yilin Bio-industry Co., Ltd.	200,000.00	200,000.00	—	Long-term holding for strategic purposes
Equity investment in the Guangzhou Sino-Israel Bio-industry Investment Fund	43,717,021.66	44,808,355.26	—	Long-term holding for strategic purposes
Equity investment in Guangzhou Nanxin Pharmaceutical Co., Ltd.	7,677,876.51	7,677,876.51	—	Long-term holding for strategic purposes
Total	<u>61,594,898.17</u>	<u>62,686,231.77</u>	<u>—</u>	

(2) There is no derecognition of equity instruments not held for trading designated at FVTOC in the current period.

9. Other Non-Current Financial Assets

Item	Closing balance	Opening balance
Financial assets classified at FVTPL		
Including: Equity instrument investments	362,598,199.43	975,856,856.18
Subtotal	362,598,199.43	975,856,856.18
Less: Due within 1 year	—	—
Total	<u>362,598,199.43</u>	<u>975,856,856.18</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Long-term Equity Investments

Investee	Change in the current period										Closing balance of provision for impairment
	Investment costs	Opening balance	Increase	Decrease	Investment gains and losses recognized under equity method	Adjustment to other comprehensive income	Declaration of cash dividends or profits	Provision for impairment provided	Others	Closing balance	
I. Joint ventures											
GP Corp.	396,589,139.78	934,856,877.39	—	—	62,905,714.27	(8,821.96)	—	—	(997,733,769.90)	—	
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. ("Wang Lao Ji") (Note 1)	102,035,124.44	391,297,621.18	—	—	59,771,211.53	—	—	—	—	451,068,832.71	
Mao Cheng	42,000,000.00	(41,227,391.87)	—	—	25,048,482.81	—	—	—	—	166,275,874.88	
HMB'S	100,000,000.00	333,889,342.40	—	—	38,607,105.57	—	—	—	—	372,456,447.97	
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. ("Baxter Qiao Guang")	37,000,000.00	39,447,376.09	—	—	1,248,638.48	—	—	—	—	40,696,014.57	
Subtotal	677,624,264.22	1,847,718,609.13	—	—	187,581,152.66	(8,821.96)	—	—	(997,733,769.90)	1,080,537,669.93	
II. Associates											
Guangzhou Jinsten Pharmaceutical Technology Co., Ltd.	765,000.00	—	—	—	—	—	—	—	—	—	
Hengzhou Zhejiang University Han Fang Traditional Chinese Medicine Information Engineering Co., Ltd.	440,000.00	—	—	—	—	—	—	—	—	—	
Jinying Fund Management Co., Ltd.	50,000,000.00	54,665,915.85	—	—	2,954,547.49	(10,128.80)	—	—	—	57,610,334.54	
Guangzhou Baiyunshan Weyi Medical Investment Management Co., Ltd.	2,020,000.00	2,014,095.94	—	—	8,882.53	—	—	—	—	2,022,618.47	
Chuangmei Medicines Co., Ltd.	60,823,072.51	58,238,389.70	—	—	—	—	—	—	31,533,947.83	61,392,337.53	
Guangzhou Baiyunshan Southern Anti-tumor Biological Products Co., Ltd.	50,225,000.00	49,475,363.28	—	—	(868,242.72)	—	—	—	—	48,577,120.56	
Guangzhou Zhongcheng Medical Instruments Industry Development Co., Ltd.	3,400,000.00	3,388,943.15	—	—	(306,104.37)	—	—	—	—	3,062,838.78	
Guangzhou Baiyunshan Yi Xin Tang Pharmaceutical Investment Development Co., Ltd.	45,000,000.00	—	45,000,000.00	—	—	—	—	—	—	45,000,000.00	
Guangdong Guangao Jinsten Equity Investment Fund Management Co., Ltd.	4,000,000.00	—	4,000,000.00	—	—	—	—	—	—	4,000,000.00	
Yunnan Hongxiang Yi Xin Tang Pharmaceutical (Group) Co., Ltd. ("Yi Xin Tang")	864,570,227.02	—	864,570,227.02	—	—	—	—	—	(6,980,761.67)	857,589,465.35	
Subtotal	1,081,745,239.53	167,762,647.92	913,570,227.02	—	1,758,782.93	(10,128.80)	—	—	(9,836,813.84)	1,079,234,715.23	
Total	1,759,369,503.75	2,006,481,257.05	913,570,227.02	—	188,339,935.59	(18,950.76)	—	—	(1,001,580,583.74)	2,109,791,885.16	

Note 1: Joint operating period of Wang Lao Ji is 10 years and the joint operation expired on 25 January 2015. The Group applied for arbitration to Committee of South China International Economic and Trade Arbitration (Shenzhen International Court of Arbitration) ("Arbitration Committee"), requiring Tongxing Pharmaceutical Co., Ltd. to transfer 48.0465% equity interest in Wang Lao Ji Pharmaceutical to the Group. On 22 December 2017, Arbitration Committee ordered that all of the shares of Wang Lao Ji held by Tongxing Pharmaceutical shall be transferred to Guangyao Baiyunshan. Please refer to Note XVI. (1) (g) for the latest progress of the case. 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 normal operation.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Investment Properties

(1) Investment property measured using the cost model

Item	Buildings	Land use right	Total
I. Original cost			
1. Opening balance	379,314,400.27	18,344,900.69	397,659,300.96
2. Increase	6,847,395.41	—	6,847,395.41
(1) Increase arising from business combinations	6,789,425.25	—	6,789,425.25
(2) Changes in foreign exchange rate	57,970.16	—	57,970.16
3. Decrease	—	—	—
4. Closing balance	386,161,795.68	18,344,900.69	404,506,696.37
II. Accumulated depreciation and amortization			
1. Opening balance	170,871,848.04	9,111,673.54	179,983,521.58
2. Increase	5,341,681.27	185,719.80	5,527,401.07
(1) Provision or amortization	5,034,701.21	185,719.80	5,220,421.01
(2) Increase arising from business combinations	286,925.25	—	286,925.25
(3) Changes in foreign exchange rate	20,054.81	—	20,054.81
3. Decrease	—	—	—
4. Closing balance	176,213,529.31	9,297,393.34	185,510,922.65
III. Provision for impairment			
1. Opening balance	—	—	—
2. Increase	—	—	—
3. Decrease	—	—	—
4. Closing balance	—	—	—
IV. Book value			
1. Closing balance of book value	209,948,266.37	9,047,507.35	218,995,773.72
2. Opening balance of book value	208,442,552.23	9,233,227.15	217,675,779.38

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Investment Properties (Continued)

- (2) As at 30 June 2018, the Group has no investment properties measured at fair value.
- (3) As at 30 June 2018, the Group has no investment properties which do not have certificates of property right.
- (4) As at 30 June 2018, the Group has no transfer of properties.
- (5) Depreciation in the current period is RMB 5,381 thousand (January to June 2017: RMB 5,172 thousand). Amortization in the current period is RMB 186 thousand (January to June 2017: RMB 128 thousand).
- (6) All of the investment properties with land use right are located in Mainland China with useful life vary from 10 to 50 years.

12. Fixed Assets

Item	Closing balance	Opening balance
Fixed assets	<u>2,887,784,618.87</u>	<u>2,082,244,551.64</u>
Total	<u>2,887,784,618.87</u>	<u>2,082,244,551.64</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Fixed Assets (Continued)

(1) Fixed assets

Item	Buildings	Machinery and equipment	Motor vehicles	Electronic equipment	Office equipment	Decoration of fixed assets	Total
I. Original cost							
1. Opening 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. Increase	707,347,859.38	327,835,017.07	44,507,092.76	9,537,340.15	103,058,151.45	1,864,074.41	1,194,149,535.22
(1) Purchases	233,783.25	13,193,166.57	458,494.06	1,624,579.93	3,799,110.22	—	19,309,134.03
(2) Transferred from construction in progress	1,386,090.27	24,344,269.68	316,736.84	588,787.40	5,608,167.14	1,864,074.41	34,108,125.74
(3) Increase arising from business combination	705,455,453.70	290,297,580.82	43,731,861.86	7,323,972.82	93,629,977.29	—	1,140,438,846.49
(4) Changes in foreign exchange rate	272,532.16	—	—	—	20,896.80	—	293,428.96
3. Decrease	—	8,060,462.02	2,133,723.50	2,932,671.79	3,528,689.96	—	16,655,547.27
(1) Disposal or scrap	—	8,060,462.02	2,133,723.50	2,052,977.27	3,528,689.96	—	15,775,852.75
(2) Others	—	—	—	879,694.52	—	—	879,694.52
4. Closing balance	2,821,504,451.04	2,210,872,957.21	128,464,079.91	156,755,571.42	225,571,598.20	42,487,276.14	5,585,655,933.92
II. Accumulated depreciation							
1. Opening 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
2. Increase	139,250,655.36	130,858,170.32	28,912,944.78	12,704,287.11	65,455,233.48	2,246,270.70	379,427,561.75
(1) Provision	28,618,189.21	60,595,203.23	2,266,634.84	6,932,939.09	5,522,075.48	695,505.71	104,630,547.56
(2) Increase	893,212.78	1,125,403.42	210,176.78	233,230.17	1,849,928.94	1,550,764.99	5,862,717.08
(3) Increase arising from business combinations	109,660,219.04	69,137,563.67	26,436,133.16	5,538,117.85	58,062,123.29	—	268,834,157.01
(4) Changes in foreign exchange rate	79,034.33	—	—	—	21,105.77	—	100,140.10
3. Decrease	—	7,565,893.46	2,042,790.95	2,482,689.39	3,371,453.06	—	15,462,826.86
(1) Disposal or scrap	—	7,565,893.46	2,042,790.95	1,648,305.14	3,371,453.06	—	14,628,442.61
(2) Others	—	—	—	834,384.25	—	—	834,384.25
4. Closing balance	1,011,234,082.11	1,295,006,192.31	88,100,558.36	104,723,932.07	148,355,054.50	31,014,844.88	2,678,434,664.23
III. Provision for impairment							
1. Opening balance	4,202,432.60	5,527,252.28	158,224.47	1,556,709.26	2,846.38	—	11,447,464.99
2. Increase	7,564,797.12	424,388.71	—	—	—	—	7,989,185.83
(1) Provision	—	109,402.27	—	—	—	—	109,402.27
(2) Increase arising from business combinations	7,564,797.12	314,986.44	—	—	—	—	7,879,783.56
3. Decrease	—	—	—	—	—	—	—
(1) Disposal or scrap	—	—	—	—	—	—	—
4. Closing balance	11,767,229.72	5,951,640.99	158,224.47	1,556,709.26	2,846.38	—	19,436,650.82
IV. Book value							
1. Closing balance of book value	1,798,503,139.21	909,915,123.91	40,205,297.08	50,474,930.09	77,213,697.32	11,472,431.26	2,887,784,618.87
2. Opening balance of 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

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Fixed Assets (Continued)

(2) Temporary idle fixed assets

Item	Original cost	Accumulated depreciation	Provision for impairment	Book value
Buildings	923,526.05	411,735.83	311,585.66	200,204.56
Machinery and equipment	1,099,608.00	706,884.47	—	392,723.53
Total	<u>2,023,134.05</u>	<u>1,118,620.30</u>	<u>311,585.66</u>	<u>592,928.09</u>

(3) Fixed assets leased under finance lease

Item	Original cost	Accumulated depreciation	Provision for impairment	Book value
Machinery and equipment	238,542,151.75	34,783,220.90	—	203,758,930.85

(4) Fixed assets held under operating lease

Item	Closing balance of book value
Buildings	11,985,524.20
Machinery and equipment	1,713,954.13
Motor vehicles	60,206.31
Electronic equipment	284,923.85
Total	<u>14,044,608.49</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Fixed Assets (Continued)

(5) Fixed assets which do not have a certificate of property right

Item	Book value	Reason for do not have certificate of property right
Buildings	19,633,776.22	Planning acceptance has not been handled
Buildings	12,850,643.29	Not handled yet as necessary procedures were not complete

Notes:

- ① From January to June 2018, the original cost of fixed assets transferred from construction in progress was RMB 34,108 thousand (January to June 2017: RMB 35,892 thousand).
 - ② From January to June 2018, due to change in foreign exchange rate, the original cost and accumulated depreciation of fixed assets increased by RMB 293 thousand and RMB 1,327 thousand, respectively (January to June 2017: decreased by RMB 254 thousand and RMB 80 thousand, respectively).
 - ③ From January to June 2018, the depreciation amount for fixed assets was RMB 106,058 thousand (January to June 2017: RMB 104,488 thousand), among which RMB 59,349 thousand, RMB 6,192 thousand, RMB 28,288 thousand and RMB 10,659 thousand were included in the depreciation costs of operating costs, selling expenses, administrative expenses and R&D expenses respectively (January to June 2017: RMB 68,074 thousand, RMB 1,443 thousand, RMB 25,729 thousand and RMB 9,242 thousand respectively).
- (6) As at 30 June 2018, Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, has buildings with the original costs of HK\$8,893 thousand and the net book value of HK\$6,329 thousand, and investment property with the original costs of HK\$6,843 thousand and the net value of HK\$3,704 thousand pledged as collateral, and obtained credit line with a limit of HK\$300 thousand, the letter of credit and the total amount of 90-day credits of HK\$100,000 thousand, and an issued but unexpired letter of credit of EUR 2 thousand, USD 535 thousand, JPY 94,553 thousand from the Bank of China (Hong Kong) Co., Ltd.

13. Construction in Progress

(1) Construction in progress

Item	Closing balance			Opening balance		
	Carrying amount	Provision for impairment	Book value	Carrying amount	Provision for impairment	Book value
Construction in progress	377,493,757.46	251,734.38	377,242,023.08	284,923,861.83	251,734.38	284,672,127.45
Total	377,493,757.46	251,734.38	377,242,023.08	284,923,861.83	251,734.38	284,672,127.45

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

Project	Budget	Opening balance	Increase	Amount transferred into fixed assets in the current period	Other decrease	Closing balance	Source of funds	Proportion of construction investment	Project progress
3rd GMP construction of modernization of traditional Chinese medicine	82,894,600.00	1,135,547.17	473,060.01	—	—	1,608,607.18	Self-funded, loans	1.94%	3.14%
Pill line of water-honeyed pill and piller	3,500,000.00	1,434,000.00	—	—	1,434,000.00	—	Self-funded	71.94%	100.00%
HMP-L004 special production line	3,000,000.00	218,363.76	—	—	—	218,363.76	Self-funded	7.28%	10.00%
Project of rebuilding raw-food materials with characteristic function and product workshop	5,905,000.00	274,404.56	—	—	—	274,404.56	Self-funded	7.59%	4.65%
Project of special medical use formula food production line	42,400,000.00	9,558,497.00	4,493,706.84	—	—	14,052,203.84	Self-funded	33.23%	40.00%
Project of No.5, No.36 Saiba Rd (iron warehouse)	10,442,701.89	712,629.88	296,929.12	—	—	1,009,559.00	Self-funded	9.67%	9.67%
Boling Center	2,800,000.00	2,187,199.19	788,640.59	—	2,975,839.78	—	Self-funded	106.28%	100.00%
Si Ai Pu	15,000,000.00	9,019,892.95	933,962.26	2,109,401.70	7,844,453.51	—	Self-funded	66.36%	100.00%
Properties in Nancha district	10,000,000.00	19,475.60	—	—	—	19,475.60	Self-funded	79.47%	0.19%
Base of Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd.	400,000,000.00	6,791,398.57	17,531,610.85	—	—	24,323,009.42	Self-funded	10.46%	20.00%
GMP improvement project of 4 workshops	6,920,000.00	11,014.44	—	—	—	11,014.44	Self-funded	73.74%	95.00%
Tongtai Building	8,000,000.00	170,690.29	—	—	—	170,690.29	Self-funded	49.22%	99.00%
Recover Building C	30,000,000.00	17,040,128.16	7,474,610.69	—	—	24,514,738.85	Self-funded	81.72%	81.72%
Program of a building with 6 floors	3,500,000.00	67,066.70	109,094.72	—	—	176,161.42	Self-funded	112.14%	60.00%
Chinese medicine treatment before extraction of the									
modernization of products of stage 1 of GMP improvement	97,564,100.00	14,370,345.91	3,925,449.71	—	2,896,883.70	15,396,911.92	Self-funded	103.57%	18.75%
Oral cephalosporins workshop GMP improvement	47,800,000.00	9,710,876.03	1,955,502.56	1,488,034.20	—	10,178,344.39	Self-funded	74.97%	90.00%
Zhongluotian Wulonggang AB08070981 block	159,750,000.00	3,257,118.81	8,849,639.17	—	—	12,106,757.98	Self-funded	23.53%	23.53%
Liwian oculentum GMP improvement (2017)	11,600,000.00	5,719,820.54	745,321.74	588,034.19	—	5,877,108.09	Self-funded	98.46%	46.00%
Xinshi factory VI improvement	2,800,000.00	1,583,156.14	1,578,142.67	1,864,074.41	—	1,297,224.40	Self-funded	125.45%	80.00%
Tian Xin Powder Injector & Screw Arbor Line	19,800,000.00	600,000.00	—	—	—	600,000.00	Self-funded	8.87%	3.03%
Technology improvement for penicillin oral solid dosage forms workshop	3,000,000.00	2,092,756.49	—	—	—	2,092,756.49	Self-funded	69.76%	69.76%
Productivity improvement for oral solid dosage forms workshop	5,130,000.00	371,200.00	—	64,529.91	10,970.09	295,700.00	Self-funded	7.24%	7.24%
Ming Xing equipment improvement	67,430,000.00	596,563.98	1,960,524.68	943,928.62	—	1,613,160.04	Self-funded	92.00%	92.00%
Ming Xing Decoration	17,200,000.00	189,611.10	—	189,611.10	—	—	Self-funded	25.00%	100.00%

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Construction in Progress (Continued)

(2) Changes of significant construction in progress in the current period

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Construction in Progress (Continued)

(2) Changes of significant construction in progress in the current period (Continued)

Project	Budget	Opening balance	Increase	Amount transferred into fixed assets in the current period	Other decrease	Closing balance	Source of funds	Proportion of construction investment	Project progress
Ming Xing relocation improvement	475,620,000.00	85,285,310.38	1,094,346.18	—	—	86,379,656.56	Self-funded	18.16%	45.00%
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%	0.53%
Sterile production line	103,540,000.00	50,104,127.86	3,269,309.45	—	4,170,251.42	49,203,185.89	Self-funded	54.88%	54.88%
New warehouse	17,056,000.00	4,206,139.40	2,971,298.49	—	—	7,177,437.89	Self-funded	46.15%	80.00%
Extension project A of Hospital service	90,000,000.00	—	1,134,688.91	771,868.41	—	362,820.50	Self-funded	17.96%	17.96%
Extension project B of Hospital service	82,050,000.00	—	9,395,483.53	—	—	9,395,483.53	Self-funded	28.26%	28.26%
Extension project C of Hospital service	341,123,000.00	—	1,336,134.39	—	—	1,336,134.39	Self-funded	12.15%	12.15%
Extension project D of Hospital service	273,800,000.00	—	6,532,813.10	—	—	6,532,813.10	Self-funded	10.35%	10.35%
Extension project E of Hospital service	439,808,000.00	—	9,230,073.38	—	—	9,230,073.38	Self-funded	2.66%	2.66%
Extension project F of Hospital service	211,274,500.00	—	943,759.40	—	—	943,759.40	Self-funded	18.04%	18.04%
Extension project G of Hospital service	163,700,000.00	—	9,411,026.63	—	—	9,411,026.63	Self-funded	22.08%	22.08%
Extension project H of Hospital service	19,030,000.00	—	2,607,360.84	—	—	2,607,360.84	Self-funded	37.80%	37.80%
Extension project I of Hospital service	102,740,000.00	—	2,269,392.71	—	330,235.18	1,939,157.53	Self-funded	4.05%	4.05%
Extension project J of Hospital service	180,423,170.00	—	4,833,260.16	—	—	4,833,260.16	Self-funded	30.58%	30.58%
Extension project K of Hospital service	359,750,000.00	—	382,337.86	—	—	382,337.86	Self-funded	13.35%	13.35%
Extension project L of Hospital service	147,550,000.00	—	273,793.08	—	—	273,793.08	Self-funded	0.19%	0.19%
Baiyun project	503,382,480.00	—	4,734,987.26	—	—	4,734,987.26	Self-funded	10.89%	10.89%
Cai Zhi Lin Meizhou TCM Industrialized production and service base	130,000,000.00	17,215,842.20	16,038,898.15	—	16,706,300.00	16,548,440.35	Self-funded	25.58%	99.00%
Construction of Bio-island R&D Headquarters	800,000,000.00	100,084.09	49,418.83	—	—	149,502.92	Self-funded, public offering	0.02%	0.02%
Others	144,325,554.29	37,069,678.00	38,508,923.50	26,088,643.20	3,086,546.41	46,403,411.89	Self-funded		
Total	6,364,298,206.18	284,923,861.83	166,133,501.46	34,108,125.74	39,455,480.09	377,493,757.46			

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Construction in Progress (Continued)

(3) There is no impairment of construction in progress provided in the current period.

(4) Impairment of construction in progress

Item	31 December 2017	Increase	Decrease	30 June 2018	Reason
Expansion of the Guang Hua sewage station	251,734.38	—	—	251,734.38	Project stopped
Total	251,734.38	—	—	251,734.38	

(5) Progress of significant construction projects:

Item	Construction progress
Project of base of Cai Zhi Lin Meizhou Chinese medicine industrial service	Construction stage
Base of Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd.	Construction stage
Zhongluotan Wulonggang block AB0807098-1	Construction stage
Ming Xing relocation improvement	Construction stage
Construction of Guangyao Baiyunshan Chemical Pharmaceutical (Zhuhai) Co., Ltd.	Construction stage
Sterile production line	Construction stage
Construction of Bio-island R&D Headquarters	Construction stage
Chinese medicine treatment before extraction of the modernization of products of stage 1 of GMP improvement	Commissioning stage
Extension project C of Hospital service	Construction stage
Extension project D of Hospital service	Construction stage
Extension project E of Hospital service	Construction stage
Extension project F of Hospital service	Construction stage
Extension project G of Hospital service	Construction stage
Extension project I of Hospital service	Construction stage
Extension project J of Hospital service	Construction stage
Extension project K of Hospital service	Construction stage
Extension project L of Hospital service	Construction stage

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Intangible Assets

(1) Intangible assets

Item	Land use right	Industrial property right and know-how	Non-patent technology	Trademark	Others	Total
I. Original cost						
1. Opening 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. Increase	106,936,114.18	38,834.95	62,888,593.99	—	168,700,175.09	338,563,718.21
(1) Purchase	16,706,300.00	38,834.95	13,846.15	—	2,483,708.84	19,242,689.94
(2) Increase arising from business combinations	90,229,814.18	—	62,874,747.84	—	158,037,094.15	311,141,656.17
(3) Others	—	—	—	—	8,179,372.10	8,179,372.10
3. Decrease	—	—	—	—	—	—
4. Closing balance	756,797,320.92	16,800,025.34	127,481,315.93	172,291,280.74	193,093,178.71	1,266,463,121.64
II. Accumulated amortization						
1. Opening 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
2. Increase	27,347,129.69	299,004.94	25,927,263.38	113,478.27	24,805,104.65	78,491,980.93
(1) Provision	7,706,806.00	299,004.94	3,687,390.44	113,478.27	3,249,612.44	15,056,292.09
(2) Increase arising from business combinations	19,640,323.69	—	22,239,872.94	—	21,555,492.21	63,435,688.84
3. Decrease	—	—	—	—	—	—
4. Closing balance	147,312,054.34	9,759,171.82	46,356,268.18	32,709,166.71	41,208,536.98	277,345,198.03
III. Provision for impairment						
1. Opening balance	—	453,343.04	—	583,573.00	—	1,036,916.04
2. Increase	—	—	—	—	—	—
3. Decrease	—	—	—	—	—	—
4. Closing balance	—	453,343.04	—	583,573.00	—	1,036,916.04
IV. Book value						
1. Closing balance of book value	609,485,266.58	6,587,510.48	81,125,047.75	138,998,541.03	151,884,641.73	988,081,007.57
2. Opening balance of 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

Note: Amortization of RMB 15,056 thousand for the current period (January to June 2017: RMB 11,198 thousand) are recognized in profit or loss. All of the lands and relevant land use right in the intangible assets are located in Mainland China with useful life vary from 10 to 50 years.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Intangible Assets (Continued)

(1) Intangible assets (Continued)

Recoverable value of brand with indefinite useful life is determined through estimation and calculation using income method. Recoverable value is determined through calculating the total present value of expected future income generated from the brand assets with appropriate discount rate. Expected income can be obtained through the following formula: expected income $R_i = (\text{base for brand fees} \times \text{charging rate for brand fees}) - \text{taxes and surcharges} - \text{enterprise income tax}$. Significant parameter in the calculation including: (1) Discount rate adopted here is 14%; (2) Sales growth rate, generally 2%, while some enterprises adopt a sales growth rate of 10% to 15%; (3) Charge rate for brand fees is obtained through multiplying excess profit margin with contribution ratio of brand. Excess profit margin is the average of historical data of the company in the most recent four years. Contribution ratio of brand is obtained through analytic hierarchy process. Charge rate for brand fees usually lies with the scope of 0.90% to 1.20%

Baiyunshan brand, Dashen product brand, Xing Qun series, Zhong Yi series, Pan Gao Shou series, Chen Li Ji series, Jing Xiu Tang series, Qi Xing series, Jianzhiqiao series, Guo Ying, Jian Min, etc. held by the Company do not have any indication of impairment after test.

(2) In the current period, there is no land use right which do not have certificate of title.

15. Development Expenditure

Item	Opening balance	Increase		Decrease		Closing balance
		Internal development expenditures	Others	Recognized as intangible assets	Transferred into profit or loss in the current period	
Capitalized expenditures	800,000.00	—	—	—	—	800,000.00
Expensed expenditures	—	242,287,110.45	—	—	242,287,110.45	—
Total	800,000.00	242,287,110.45	—	—	242,287,110.45	800,000.00

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Goodwill

(1) Book value of goodwill

The investee's name or the event resulting in goodwill	Opening balance	Increase		Decrease		Closing balance
		Arising from business combination	Purchase	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
GP Corp.	—	—	932,349,003.84	—	—	932,349,003.84
Total	11,975,319.66	—	932,349,003.84	—	—	944,324,323.50

(2) Provision for impairment of goodwill

The investee's name or event resulting in goodwill	Opening balance	Increase		Decrease		Closing balance
		Provided	Others	Disposal	Others	
Guangxi Ying Kang	475,756.92	—	—	—	—	475,756.92
Total	475,756.92	—	—	—	—	475,756.92

At the end of the period, the Company identified Guangzhou Pharmaceutical Haima as an asset group. The management of the company calculated its net free cash flow in certain years based on its industry qualifications, service market, historical financial data, and profit forecast for the next five years. Based on the net free cash flow, after discounted by appropriate discount rate, the value of the business assets is calculated. Then the total equity value of the shareholders is obtained by adding the value of the surplus assets and the value of the non-operating assets to, and subtracting the interest-bearing debts and non-operating liabilities from the value of the business assets. The discount rate here is 14.93%. After testing, no indication of impairment of goodwill arising from the purchase of shares in Guangzhou Pharmaceutical Haima was noted.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Goodwill (Continued)

(2) Provision for impairment of goodwill (Continued)

At the end of the period, the Company identified Guangzhou Baiyun Mountain Hospital as an asset group. The management of the company calculated its net free cash flow in certain years based on its industry qualifications, service market, historical financial data, and profit forecast for the next five years. Based on the net free cash flow, after discounted by appropriate discount rate, the value of the business assets is calculated. Then the total equity value of the shareholders is obtained by adding the value of the surplus assets and the value of the non-operating assets to, and subtracting the interest-bearing debts and non-operating liabilities from the value of the business assets. The discount rate here is 12.81%.

After testing, no impairment of goodwill arising from the purchase of shares in Guangzhou Pharmaceutical Haima was found.

17. Long-term prepaid expenses

Item	Opening balance	Increase	Amortization	Closing balance
Decoration expenses	33,349,277.28	27,785,679.41	5,043,286.39	56,091,670.30
GMP reconstruction expenses	3,760,161.64	468,754.74	670,762.43	3,558,153.95
Exterior wall repair of original supplementary warehouse and decoration	214,666.79	—	55,999.98	158,666.81
AAALAC certificate	146,875.79	—	45,192.60	101,683.19
ABC Buildings certification service (rectify and improve related to house)	5,169,667.75	62,522.53	648,896.74	4,583,293.54
Computer system expenses	661,984.09	1,702,831.64	169,332.61	2,195,483.12
Boiling workshop	—	2,975,839.78	123,993.30	2,851,846.48
Others	5,764,012.18	1,377,526.24	1,145,491.42	5,996,047.00
Total	49,066,645.52	34,373,154.34	7,902,955.47	75,536,844.39

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Deferred Tax Assets and Deferred Tax Liabilities

(1) Breakdown of deferred tax assets

Item	Closing balance		Opening balance	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
Provision for impairment of construction in progress	251,734.38	37,760.16	251,734.38	37,760.16
Provision for decline in value of inventories	48,093,998.41	10,682,468.70	22,535,115.85	4,230,883.10
Provision for bad debts	308,342,073.36	75,892,711.62	107,888,189.11	24,860,987.73
Provision for impairment of fixed assets	8,082,452.17	1,261,575.60	8,092,295.32	1,236,103.30
Long-term prepaid expenses	490,785.73	73,617.86	490,785.73	73,617.86
Financial assets held for trading	786,317.57	117,947.64	636,317.57	95,447.63
Other debt investments	2,900,000.01	435,000.00	—	—
Other equity instrument investments	26,846,782.94	4,073,037.93	193,966,598.22	29,141,010.22
Employee benefits payable	70,791,666.36	15,080,177.67	54,161,289.28	8,409,961.32
Other payables	1,029,785,946.63	218,136,932.68	1,024,052,498.80	198,774,920.91
Provisions	258,874,559.20	38,831,183.89	188,543,448.64	28,281,517.30
Government grant	30,801,226.98	4,620,184.04	—	—
Deferred income	83,185,976.33	13,040,741.27	113,573,052.60	17,555,957.88
Differences arising from accounting and taxation of fixed assets	8,626,176.94	1,293,926.55	10,818,921.31	1,622,838.20
Differences arising from useful life for intangible assets amortization between accounting and taxation	1,016,840.18	152,526.03	1,279,094.64	191,864.20
Deductible tax losses	147,256,573.06	36,814,143.27	210,484,213.33	41,207,417.36
Impact on profit arising from elimination	176,717,114.92	43,833,405.86	130,409,689.36	31,854,782.14
Book value of the appreciated intangible assets and fixed assets in business combination	63,817,677.84	15,954,419.46	—	—
Others	22,034,060.30	4,658,068.23	8,504,466.68	1,275,670.00
Total	2,288,701,963.31	484,989,828.46	2,075,687,710.82	388,850,739.31

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Deferred Tax Assets and Deferred Tax Liabilities (Continued)

(2) Breakdown of deferred tax liabilities (Continued)

Item	Closing balance		Opening balance	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Financial assets held for trading	789,205.19	170,408.46	—	—
Other debt investments	260,140.40	39,021.06	—	—
Other equity instrument investments	179,719,921.66	26,990,981.79	115,864,206.59	17,416,047.68
Book value of depreciation provided for fixed assets appreciation	1,872,876.00	280,931.40	1,872,876.00	280,931.40
Book value of amortization provided for intangible assets appreciation	8,133,688.00	1,220,053.20	8,133,688.00	1,220,053.20
Relocation compensation	327,796,984.69	81,949,246.17	316,040,628.57	53,241,222.90
Book value of the appreciated intangible assets and fixed assets in business combination	671,317,745.60	167,829,436.40	—	—
Differences arising from accounting and taxation depreciations of fixed assets	738,829.02	110,824.35	738,829.02	110,824.35
Other receivables-revenue distribution	214,452,324.00	53,613,081.00	169,714,484.00	42,428,621.00
Others	10,777,025.05	2,633,880.51	603,757.57	90,563.64
Total	1,415,858,739.61	334,837,864.34	612,968,469.75	114,788,264.17

(3) Deductible temporary differences and deductible losses that are not recognized as deferred income tax assets

Item	Closing balance	Opening balance
Deductible temporary difference	468,748.43	729,081.54
Deductible losses	191,414,445.76	158,967,809.87
Total	191,883,194.19	159,696,891.41

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Deferred Tax Assets and Deferred Tax Liabilities (Continued)

(4) *Deductible losses which are not recognized as deferred tax assets will expire in the following years*

Year	Closing balance	Opening balance
2018	11,368,170.27	13,108,321.95
2019	25,792,065.32	25,792,065.32
2020	31,102,837.77	31,102,837.77
2021	35,399,376.92	35,399,376.92
2022	53,565,207.91	53,565,207.91
2023	34,186,787.57	—
Total	191,414,445.76	158,967,809.87

19. Provision for Assets Impairment

Category	Opening balance	Provided in the current period	Increase from business combination not under common control	Decrease			Closing balance
				Reversed	Written off	Other decrease	
Provision for bad debts of accounts receivable	81,325,602.48	28,235,247.01	181,008,527.40	2,331,224.77	227.00	—	288,237,925.12
Provision for bad debts of other receivables	31,357,800.08	3,320,030.91	5,306,816.50	—	—	—	39,984,647.49
Provision for decline in value of inventories	26,721,631.85	17,389,616.64	34,831,444.78	13,420,230.94	1,334,350.50	73,705.00	64,114,406.83
Provision for impairment of other non-current financial assets	4,553,551.23	—	—	—	—	—	4,553,551.23
Provision for impairment of fixed assets	11,447,464.99	109,402.27	7,879,783.56	—	—	—	19,436,650.82
Provision for impairment of construction in progress	251,734.38	—	—	—	—	—	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
Total	157,170,457.97	49,054,296.83	229,026,572.24	15,751,455.71	1,334,577.50	73,705.00	418,091,588.83

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Short-term Borrowings

(1) Category of short-term borrowings

Item	Closing balance	Opening balance
Pledge borrowings	736,456,978.92	—
Guarantee borrowings	921,992,384.70	—
Credit borrowings	5,496,969,987.46	—
Discount of commercial acceptance notes	46,880,596.39	11,500,000.00
Total	<u>7,202,299,947.47</u>	<u>11,500,000.00</u>

Note:

- ① Please refer to Note. VI. 56.Assets with Restricted Ownership or Use Right for details on category and amount of pledge borrowings.
- ② As at 30 June 2018, short-term borrowings of RMB 860,780 thousand of the Group's guarantee borrowings are guaranteed by the Group's internal enterprises. Other guarantee loans are guaranteed by minority shareholders of the sub-subsidiaries.
- ③ As at 30 June 2018, the weighted average annual interest rate of short-term borrowings is 4.8019% (there is no information of weighted average annual interest rate of short-term borrowings on 31 December 2017)

(2) There are no overdue short-term borrowings as of 30 June 2018 or 31 December 2017.

21. Notes Payable and Accounts Payable

Category	Closing balance	Opening balance
Notes payable	1,832,525,989.08	252,226,384.82
Accounts payable	<u>8,718,710,688.49</u>	<u>2,802,200,696.28</u>
Total	<u>10,551,236,677.57</u>	<u>3,054,427,081.10</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Notes Payable and Accounts Payable (Continued)

(1) Notes payable

Category	Closing balance	Opening balance
Commercial acceptance notes	126,041,355.25	3,477,662.87
Bank acceptance notes	1,706,484,633.83	248,748,721.95
Total	1,832,525,989.08	252,226,384.82

Note: As at 30 June 2018, amount expected to be matured within half of a year is RMB 1,832,526 thousand (31 December 2017: RMB 252,226 thousand).

(2) The aging of accounts payable based on the booking date is as follows:

Item	Closing balance	Proportion (%)	Opening balance	Proportion (%)
Within 1 year	8,316,814,870.76	95.39	2,625,069,157.32	93.68
Over 1 year	401,895,817.73	4.61	177,131,538.96	6.32
Total	8,718,710,688.49	100.00	2,802,200,696.28	100.00

Significant accounts payable with aging over 1 year:

Item	Closing balance	Reason for outstanding or carrying forward
Supplier 1	47,405,089.60	Litigation is involved. Please refer to Note XVI. 1. ① (a)
Supplier 2	42,168,733.30	Postpone payment after amicable negotiation
Supplier 3	23,296,969.12	Payment terms not satisfied
Supplier 4	22,576,000.00	Litigation is involved. Please refer to Note XVI. 1. ① (a)
Supplier 5	18,440,000.00	Litigation is involved. Please refer to Note XVI. 1. ① (a)
Total	153,886,792.02	

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. Advances from Customers

(1) Advances from customers are as follows:

Item	Closing balance	Proportion	Opening balance	Proportion
Within 1 year	1,122,875,206.01	95.61%	1,848,907,575.86	97.88%
Over one year	51,544,236.25	4.39%	39,984,901.11	2.12%
Total	1,174,419,442.26	100.00%	1,888,892,476.97	100.00%

(2) As at 30 June 2018 and 31 December 2017, there are no significant advances from customers with aging over 1 year.

23. Employee Benefits Payable

(1) Presentation of employee benefits payable

Item	Opening balance	Increase	Decrease	Closing balance
I. Short-term employee benefits	618,402,334.34	1,718,797,526.57	1,723,605,921.68	613,593,939.23
II. Post-employment benefits - defined contribution plan	12,508,476.28	146,648,048.12	146,813,916.75	12,342,607.65
III. Termination benefits	260,000.00	701,989.11	961,989.11	—
IV. Other benefits due within 1 year	—	—	—	—
Total	631,170,810.62	1,866,147,563.80	1,871,381,827.54	625,936,546.88

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. Employee Benefits Payable (Continued)

(2) Presentation of short-term benefits

Item	Opening balance	Increase	Decrease	Closing balance
1. Wages, bonuses, allowances and subsidies	595,185,678.83	1,478,825,017.88	1,494,211,267.30	579,799,429.41
2. Employee welfare	—	60,089,350.70	51,609,849.94	8,479,500.76
3. Social Insurance premium	264,270.32	64,551,807.17	64,455,434.03	360,643.46
Including: Medical insurance premium	271,097.26	57,182,165.85	57,122,370.84	330,892.27
Industrial injury insurance premium	2,480.59	2,816,630.97	2,813,623.00	5,488.56
Maternity insurance premium	(9,307.53)	4,553,010.35	4,519,440.19	24,262.63
4. Housing funds	(19,916.30)	80,627,391.47	80,593,512.47	13,962.70
5. Labor-union expenditure and employee education funds	8,939,191.89	27,262,564.86	27,513,888.68	8,687,868.07
6. Housing allowance	13,817,006.93	6,476,549.41	4,680,696.61	15,612,859.73
7. Staff and workers' bonus and welfare fund	—	57,950.00	57,950.00	—
8. Short-term paid absences	—	23,699.75	23,699.75	—
9. Short-term profits sharing plan	—	—	—	—
10. Other short-term benefits	216,102.67	883,195.33	459,622.90	639,675.10
Total	618,402,334.34	1,718,797,526.57	1,723,605,921.68	613,593,939.23

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. Employee Benefits Payable (Continued)

(3) Disclosure of defined contribution plan by categories

Item	Opening balance	Increase	Decrease	Closing balance
1. Basic pension insurance	121,564.94	105,141,714.47	105,023,111.05	240,168.36
2. Unemployment insurance premiums	29,327.27	3,862,767.32	3,863,499.20	28,595.39
3. Enterprise annuity	11,384,891.24	27,958,960.72	27,714,921.73	11,628,930.23
4. Others	972,692.83	9,684,605.61	10,212,384.77	444,913.67
Total	<u>12,508,476.28</u>	<u>146,648,048.12</u>	<u>146,813,916.75</u>	<u>12,342,607.65</u>

Note: The ending balance of employee benefits payable is mainly the wages, bonuses and wages of labor assigned by labor service intermediary agent company provided by the Group at the end of June 2018. There are no overdue employee benefits payable. The balance is expected to be paid and utilized this year.

24. Tax Payable

Item	Closing balance	Opening balance
Value-added tax	148,895,287.73	44,901,789.32
Urban maintenance and construction tax	13,027,331.48	3,720,978.49
Educational surcharge	5,581,259.10	1,642,194.87
Local education surcharge	3,754,490.42	1,016,472.23
Enterprise income tax	147,397,279.80	125,580,026.87
Individual income tax	6,634,555.17	9,479,261.76
Property tax	9,627,628.41	11,057,545.06
Land use tax	2,601,425.29	7,468,053.71
Stamp duty	2,170,298.62	1,594,305.76
Others	185.753.83	1,448.87
Total	<u>339,875,309.85</u>	<u>206,462,076.94</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25. Other payables

(1) Disclosure of other payables by natures

Item	Closing balance	Opening balance
Other Payables	3,239,846,813.30	2,399,394,477.50
Including: Within 1 year	3,025,778,270.57	2,213,377,523.13
Over 1 year	214,068,542.73	186,016,954.37
Interests payable	29,908,742.77	253,966.40
Dividends payable	1,113,226,383.39	45,446,017.79
Total	<u>4,382,981,939.46</u>	<u>2,445,094,461.69</u>

Note: Other payables with aging over 1 year comprise primarily fixed assets payable, final payment for intangible assets, and purchase deposits.

(2) Other Payables with aging over one year mainly comprise of fixed assets payable, final payments of intangible, purchase deposit, etc.

① Disclosures of other payables by nature

Nature of amount	Closing balance	Opening balance
Margin, deposit, and down payment received	378,636,650.40	164,129,875.02
Technological development expenses	5,085,149.58	450,896.78
Rental expenses	30,479.62	3,748,736.05
Current accounts to external companies	289,780,129.71	220,462,889.83
Funds received temporarily from employees	17,072,227.58	10,189,611.56
Current accounts to related parties	61,814,691.02	48,866,587.27
Accruals for fixed assets	24,442,013.20	26,776,270.31
Sales discounts	1,496,402,712.19	624,591,585.51
Accrued expenses	884,180,443.46	1,260,413,310.58
Others	82,402,316.55	39,764,714.59
Total	<u>3,239,846,813.31</u>	<u>2,399,394,477.50</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25. Other payables (Continued)

(2) Other Payables with aging over one year mainly comprise of fixed assets payable, final payments of intangible, purchase deposit, etc. (Continued)

② Breakdown of accrued expenses

Item	Closing balance	Opening balance
Rental expenses	10,899,733.05	10,084,679.88
Advertisement and promotion expenses	249,649,679.92	169,831,180.97
Utilities expenses	8,162,112.07	6,982,581.16
Freight expenses	181,396,061.62	151,285,018.17
Conference expenses	1,786,805.11	4,150,209.40
Research and development expenses	52,864,679.88	17,287,664.24
Medicine service expenses	46,638,156.61	—
Terminal expenses	220,599,475.24	809,551,481.82
Travel expenses	21,214,217.90	21,656,537.14
Agent expenses	4,790,669.79	11,765,279.49
Brand expenses	7,697,425.28	3,900,000.00
Others	78,481,426.99	53,918,678.31
Total	<u>884,180,443.46</u>	<u>1,260,413,310.58</u>

(3) Interest payable

Item	Closing balance	Opening balance
Interest on long-term borrowings which is paid in installments with principal repaid at maturity date	1,637,588.87	253,966.40
Interest payable of short-term borrowings	<u>28,271,153.90</u>	—
Total	<u>29,908,742.77</u>	<u>253,966.40</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25. Other payables (Continued)

(4) Dividend payable

Item	Closing balance	Opening balance
Minority shareholders	493,321,586.86	44,968,565.68
Domestic public shares	340,896,507.28	477,407.10
State shares	279,008,244.24	—
BYS Group	45.01	45.01
Total	<u>1,113,226,383.39</u>	<u>45,446,017.79</u>

26. Current portion of non-current liabilities

Item	Closing balance	Opening balance
Long-term borrowings due within 1 year (Note VI. 27)	19,115,335.13	31,307,337.23
Long-term payables due within 1 year (Note VI. 28)	<u>50,021,247.98</u>	<u>—</u>
Total	<u>69,136,583.11</u>	<u>31,307,337.23</u>

27. Long-term Borrowings

Item	Closing balance	Opening balance
Guarantee borrowings	29,000,000.00	—
Credit borrowings	655,269,041.19	—
Less: Long-term borrowings due within 1 year (Note VI. 26)	<u>19,115,335.13</u>	<u>—</u>
Total	<u>665,153,706.06</u>	<u>—</u>

Notes:

- (1) Guarantee loans are guaranteed by minority shareholders of the Group's sub-sub-sidiaries.
- (2) Interest rate for long-term borrowings vary from 4.35% to 6.65%.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28. Long-term Payables

Item	Closing balance	Opening balance
State funds	16,902,425.90	16,902,425.90
Department of Finance of Guangxi Zhuang Autonomous Region	2,264,426.47	2,264,426.47
State Administration of Medicine	305,000.00	305,000.00
Finance lease payables	152,655,857.37	—
Others	482,987.30	699,957.36
Special payables	14,398,733.00	14,954,855.39
Less: Finance lease payables maturing within 1 year (Note VI. 26)	50,021,247.98	—
Total	136,988,182.06	35,126,665.12

The least finance lease payables after 30 June 2018 are disclosed as follows:

Item	Closing balance	Opening balance
Within 1 year	55,974,260.55	—
1 to 2 years	44,128,101.53	—
2 to 3 years	34,796,555.32	—
Over 3 years	31,928,528.47	—
Subtotal	166,827,445.87	—
Less: Unrecognized finance expenses	(14,171,588.50)	—
Book value	152,655,857.37	—

Including: special payables presented as follows:

Item	Opening balance	Increase	Decrease	Closing balance	Reason
Compensation for relocation due to policies	14,954,855.39	—	556,122.39	14,398,733.00	Government compensation for relocation due to policies
Total	14,954,855.39	—	556,122.39	14,398,733.00	

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29. Long-term Employee Benefits Payable

Item	Closing balance	Opening balance
Post-employment benefits - provision for long service bonus	313,035.80	326,532.02
Total	313,035.80	326,532.02

30. Provisions

Item	Opening balance	Closing balance	Cause
Estimated loss on return of products	500,191.19	500,191.19	Estimated based on the disposal assets agreement. It has not been settled yet.
Employee benefits for restructuring of Guangyao General Institute	51,241,106.85	50,741,135.31	Note (1)
Unemployed fee for relocation of Qi Xing	3,607,287.28	2,497,154.35	Note (2)
Total	55,348,585.32	53,738,480.85	

Note:

- (1) The Company obtained 100% of the share of Guangyao General Institute through business combination involving enterprises under common control in year of 2015. According to the employee resettlement scheme, when agreed in the restructuring, Guangyao General Institute should offer pension and medical benefits for the retirees, in-service staff, family members and dependents who were enrolled as at 30 June 2014, and employee benefits are accrued consequently.
- (2) According to the employee resettlement scheme arising from the relocation of Qi Xing, the employee who has provided continuous service for 15 years and within 5 years to the age of mandatory retirement shall be paid salary monthly till retirement if no position is assigned to them. The settlement fee for relocation of Qi Xing were accrued consequently.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. Deferred income

Item	Opening balance	Current increase in grants	Amount recognized into non-operating income	Amount recognized into other income	Amount offset costs	Appropriation to cooperators	Other decrease	Closing balance	Reason
Government grants related to assets	130,807,949.11	9,013,784.63	2,371,616.04	6,133,075.09	—	4,846,000.00	—	126,471,042.61	
Including:									
Technology funds granted by the government	57,172,286.13	1,087,500.00	—	3,719,864.73	—	4,846,000.00	—	49,693,921.40	Government grant
Compensation for relocation	767,662.82	—	—	—	—	—	—	767,662.82	Government grant
Government subsidies on interests	—	—	—	—	—	—	—	—	Government grant
Special project funds for environmental protection	2,663,159.28	—	36,498.78	133,131.66	—	—	—	2,493,528.84	Government grant
Construction funds for innovation platform and laboratory	12,780,163.15	1,273,717.99	—	1,067,293.57	—	—	—	12,986,587.57	Government grant
Land support funds granted by the government	26,145,041.01	—	—	334,128.00	—	—	—	25,810,913.01	Government grant
Support funds for industrial development	17,034,413.88	—	—	482,793.06	—	—	—	16,551,620.82	Government grant
Others	14,245,222.84	6,652,566.64	2,335,117.26	395,864.07	—	—	—	18,166,808.15	Government grant
Other government grants related to income	396,082,419.86	143,733,292.75	22,681,965.64	110,717,094.54	25,396,386.60	2,310,000.00	(326,584.33)	379,056,850.16	
Including:									
Technology funds granted by the government	76,948,942.86	41,046,829.44	—	10,560,435.01	—	—	(326,584.33)	107,761,921.62	Government grant
Special funds for technology exports	94,962.06	—	—	—	—	—	—	94,962.06	Government grant
Medical industrial research project funds	5,571,453.93	4,012,882.01	—	3,202,820.13	—	2,310,000.00	—	4,071,515.81	Government grant
Special funds for energy-saving project	683,550.00	—	—	6,300.00	—	—	—	677,250.00	Government grant
Special fund for innovative enterprises	—	—	—	—	—	—	—	—	Government grant
Compensation for relocation	311,389,731.98	—	22,581,965.64	—	25,396,386.60	—	—	263,411,379.74	Government grant
Support funds for industrial development	1,393,779.03	98,693,581.30	100,000.00	96,947,539.40	—	—	—	3,039,820.93	Government grant
Others	526,890,368.97	152,767,077.38	25,053,581.68	116,850,169.63	25,396,386.60	7,156,000.00	(326,584.33)	505,527,892.77	
Total	526,890,368.97	152,767,077.38	25,053,581.68	116,850,169.63	25,396,386.60	7,156,000.00	(326,584.33)	505,527,892.77	

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32. Other non-current liabilities

Item	Closing balance	Opening balance
Commitment to the investment in Southern Antitumor Company	<u>50,225,000.00</u>	<u>50,225,000.00</u>
Total	<u><u>50,225,000.00</u></u>	<u><u>50,225,000.00</u></u>

Note: Performance obligation according to the agreement and prospectus as the subsidiaries of the Group acquired 50% shares of Southern Antitumor company.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33. Share capital

	31 December 2017				Changes in the current period				30 June 2018	
	Amount	Proportion (%)	Issuance	Share dividends	Capitalizing of capital reserves	Others	Subtotal	Amount	Proportion (%)	
Restricted shares										
Shares held by state-owned companies	236,315,006.00	14.54	—	—	—	—	—	236,315,006.00	14.54	
Shares held by other domestic investors	98,396,693.00	6.05	—	—	—	—	—	98,396,693.00	6.05	
Including:										
Shares held by companies other than state-owned companies	—	—	—	—	—	—	—	—	—	
Shares held by domestic natural persons	—	—	—	—	—	—	—	—	—	
Others	98,396,693.00	6.05	—	—	—	—	—	98,396,693.00	6.05	
Shares held by foreign investors	—	—	—	—	—	—	—	—	—	
Total restricted shares	334,711,699.00	20.59	—	—	—	—	—	334,711,699.00	20.59	
Unrestricted shares										
Ordinary shares denominated in RMB	1,071,179,250.00	65.88	—	—	—	—	—	1,071,179,250.00	65.88	
Domestically-listed shares held by foreign investors	—	—	—	—	—	—	—	—	—	
Overseas-listed shares held by foreign investors	219,900,000.00	13.53	—	—	—	—	—	219,900,000.00	13.53	
Others	—	—	—	—	—	—	—	—	—	
Total Unrestricted shares	1,291,079,250.00	79.41	—	—	—	—	—	1,291,079,250.00	79.41	
Total shares	1,625,790,949.00	100.00	—	—	—	—	—	1,625,790,949.00	100.00	

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34. Capital Surplus

Item	Opening balance	Increase	Decrease	Closing balance
Capital premium	9,058,363,544.42	—	—	9,058,363,544.42
Other capital reserves	816,814,414.01	—	—	816,814,414.01
Including:				
Capital reserve transferred under previous accounting system	24,955,836.66	—	—	24,955,836.66
Total	9,875,177,958.43	—	—	9,875,177,958.43

35. Other Comprehensive Income

Item	Opening balance	Current amount before tax	Current period			Attributable to minority shareholders, net of tax	Closing balance
			Less: profit or loss transferred from other comprehensive income in previous periods	Less: Income tax expense	Attributable to the parent company, net of tax		
I. Other comprehensive income which cannot be reclassified into profit or loss	1,448,181.81	(1,091,333.60)	—	(163,700.04)	(927,633.56)	—	520,548.25
Including: Remeasurement of change in defined benefit plans	—	—	—	—	—	—	—
Other comprehensive income which cannot be transferred to profit or loss under equity method	1,448,181.81	—	—	—	—	—	1,448,181.81
Change in fair value of other equity instrument investments	—	(1,091,333.60)	—	(163,700.04)	(927,633.56)	—	(927,633.56)
Change in fair value of the enterprise's own credit risk	—	—	—	—	—	—	—
II. Other comprehensive income reclassified into profit or loss	(8,267,013.59)	4,306,807.32	208,104.58	—	4,098,702.74	—	(4,168,310.85)
Including: Other comprehensive income which can be transferred to profit or loss under equity method	216,926.54	(18,950.76)	208,104.58	—	(227,055.34)	—	(10,128.80)
Change in fair value of other debt investments	—	—	—	—	—	—	—
Difference arising from the reclassification of financial assets	—	—	—	—	—	—	—
Provision for credit loss of other debt investments	—	—	—	—	—	—	—
Reserve for cash flow hedge	—	—	—	—	—	—	—
Differences arising from translation of foreign currency	(8,483,940.13)	4,325,758.08	—	—	4,325,758.08	—	(4,158,182.05)
Total other comprehensive income	(6,818,831.78)	3,215,473.72	208,104.58	(163,700.04)	3,171,069.18	—	(3,647,762.60)

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36. Surplus Reserve

Item	Opening balance	Increase	Decrease	Closing balance
Statutory surplus reserve	1,035,836,575.92	—	—	1,035,836,575.92
Discretionary surplus reserve	118,925,617.49	—	—	118,925,617.49
Total	1,154,762,193.41	—	—	1,154,762,193.41

Note: In accordance with the Company Law and the Company's Articles of Association, the Group should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Group can cease appropriation when the statutory surplus reserve accumulated reaches 50% of the registered capital. Statutory surplus reserve can be utilized to cover losses of the previous years or to increase equity after the approval.

The withdrawal of discretionary surplus reserve shall be proposed by the board of directors and approved by the general meetings of shareholders. Discretionary surplus reserve can be utilized to cover losses of the previous years or to increase equity after the approval.

37. Undistributed profits

Item	Current period	Last period
Closing balance of undistributed profits of prior period before adjustments	6,285,996,409.09	4,782,293,720.24
Adjustments to opening balance of undistributed profits at the current period (Add: +; Less: -)	(67,801,004.52)	—
Undistributed profits at the beginning of current period after adjustments	6,218,195,404.57	4,782,293,720.24
Add: Net profit attributable to shareholders of the parent company for the current period	2,618,999,726.26	1,158,140,057.29
Less: Appropriation of statutory surplus reserve	—	—
Appropriation of discretionary surplus reserve	—	—
Appropriation of provision for general risk	—	—
Ordinary share dividends payable	619,426,351.57	455,221,465.72
Ordinary shares dividends converted to share capital	—	—
Others	—	—
Closing balance of undistributed profits	8,217,768,779.26	5,485,212,311.81

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37. Undistributed profits (Continued)

Note:

- (1) Adjustment to the opening balance of undistributed profits of RMB (67,801) thousand results from adjustment to the classification of financial instruments at the first implementation date of the new financial instrument standards. Please refer to Note IV. 28. (1) ①.
- (2) As at 30 June 2018, surplus reserve of subsidiaries comprised in undistributed profit, attributable to the parent company, was RMB 753,467 thousand (31 December 2017: RMB 753,467 thousand).
- (3) According to the resolution of the 2017 annual general meeting held on 22 June 2018, the Company shall issue cash dividends to all shareholders at RMB 0.381 per share (tax included), RMB 619,426 thousand in total, based on the 1,625,790,949 outstanding shares at the year end of 2017.

38. Minority Interest

Investee	Relationship with the Company	30 June 2018	31 December 2017
Xing Qun	Holding subsidiary	26,148,111.35	25,526,996.16
Guangzhou Chen Li Ji Great Health Industry Co., Ltd.	Indirectly controlled subsidiary	4,918,874.14	4,488,081.92
Guangzhou Han Fang	Holding subsidiary	90,528.15	77,717.50
Jing Xiu Tang	Holding subsidiary	20,286,005.25	19,231,429.97
Pan Gao Shou	Holding subsidiary	29,409,110.78	26,819,776.09
Tibet Linzhi Guangyao Development Co., Ltd	Indirectly controlled subsidiary	160,231.19	168,374.96
Guangxi Ying Kang	Holding subsidiary	21,332,385.54	18,588,095.67
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd.	Indirectly controlled subsidiary	5,021,310.27	4,072,239.87
Yi Gan	Holding subsidiary	413,265.83	(682,790.11)
Xing Zhu	Holding subsidiary	22,020,554.36	23,424,278.65
Tian Xin	Holding subsidiary	49,118,418.21	43,732,326.89
Guang Hua	Holding subsidiary	37,279,967.90	29,865,897.41
Pharmaceutical Technology	Holding subsidiary	125,363,698.16	108,917,961.61
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirectly controlled subsidiary	185,836.20	195,877.25
Wang Lao Ji Dazhai Beverages Co., Ltd.	Indirectly controlled subsidiary	16,084,683.51	15,789,387.84
Jingyu Guangyao Dong'e Chinese Raw Medicine Development Co., Ltd.	Indirectly controlled subsidiary	2,392,981.91	2,396,617.91
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirectly controlled subsidiary	2,262,116.33	2,275,733.58
Heilongjiang Sen Gong Guangyao Raw Medicine Development Co., Ltd.	Indirectly controlled subsidiary	1,511,164.14	1,497,651.56

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38. Minority Interest (Continued)

Investee	Relationship with the Company	30 June 2018	31 December 2017
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirectly controlled subsidiary	2,030,596.32	1,917,707.38
Zhejiang Guang Kang Pharmaceutical Co., Ltd.	Indirectly controlled subsidiary	24,800,526.43	23,010,593.25
Guang Hua Health	Indirectly controlled subsidiary	405,616.38	464,823.85
Guangzhou Baiyunshan Hospital	Indirectly controlled subsidiary	39,217,110.17	38,380,063.85
Guangzhou WLJ Catering Management Development Co., Ltd.	Indirectly controlled subsidiary	1,041,859.77	1,474,378.45
GP Corp.	Holding subsidiary	499,727,844.93	—
Hubei Guangyao An Kang Pharmaceutical Co., Ltd.	Indirectly controlled subsidiary	8,926,730.02	—
Fujian Guangyao Jie Da Pharmaceutical Co., Ltd.	Indirectly controlled subsidiary	11,253,266.55	—
Foshan Guangyao Jian Ze Pharmaceutical Co., Ltd.	Indirectly controlled subsidiary	27,289,754.02	—
Hainan Guangyao Chen Fei Pharmaceutical Co., Ltd.	Indirectly controlled subsidiary	92,826,360.16	—
Shanxi Guangyao Kang Jian Pharmaceutical Co., Ltd.	Indirectly controlled subsidiary	50,132,069.18	—
Guangzhou Jian Min Pharmaceutical Co., Ltd.	Indirectly controlled subsidiary	(1,242.80)	—
Guangdong Meixian Pharmaceutical Co., Ltd.	Indirectly controlled subsidiary	16,918,188.34	—
Chengdu Guangyao Xin Hui Yuan Pharmaceutical Co., Ltd.	Indirectly controlled subsidiary	54,367,418.71	—
Guangxi Guangyao Xin Shi Dai Pharmaceutical Co., Ltd.	Indirectly controlled subsidiary	23,896,047.73	—
Hubei Guangyao Ji Da Pharmaceutical Co., Ltd.	Indirectly controlled subsidiary	12,099,951.23	—
Guangzhou Qi Hua Medical Instruments Co., Ltd.	Indirectly controlled subsidiary	(98.43)	—
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	Indirectly controlled subsidiary	(6,870.51)	—
Guangzhou Xin Te Pharmaceutical Co., Ltd.	Indirectly controlled subsidiary	(2,332.58)	—
Total		1,228,922,038.84	391,633,221.51

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39. Operating Income and Operating Costs

(1) Operating Income and Operating Costs

Category	Current period		
	Income	Cost	Gross profit
Main businesses	14,725,777,236.68	10,032,269,562.05	4,693,507,674.63
Other businesses	114,236,443.35	18,345,773.64	95,890,669.71
Total	<u>14,840,013,680.03</u>	<u>10,050,615,335.69</u>	<u>4,789,398,344.34</u>

Category	Prior period		
	Income	Cost	Gross profit
Main businesses	11,033,455,701.37	6,935,669,520.85	4,097,786,180.52
Other businesses	81,882,758.54	19,774,840.12	62,107,918.42
Total	<u>11,115,338,459.91</u>	<u>6,955,444,360.97</u>	<u>4,159,894,098.94</u>

(2) Breakdown of primary operating income

① Disclosure by primary operating region

Reporting segment	Current period		Prior period	
	Income	Cost	Income	Cost
Southern China Area	8,221,051,979.82	6,037,160,956.45	6,157,585,574.77	4,163,939,683.45
Eastern China Area	2,662,352,347.56	1,587,760,932.79	1,907,062,262.70	1,092,632,566.21
Northern China Area	1,205,524,967.04	711,036,909.16	1,191,186,835.43	658,653,905.09
Northeast Area	256,064,243.22	167,462,020.41	173,790,755.07	99,295,936.47
Southwest Area	1,797,451,324.71	1,150,627,518.93	1,222,052,153.31	711,741,546.07
Northwest Area	567,898,578.39	363,289,189.90	374,843,391.18	202,791,112.37
Export	15,433,795.94	14,932,034.41	6,934,728.91	6,614,771.19
Total	<u>14,725,777,236.68</u>	<u>10,032,269,562.05</u>	<u>11,033,455,701.37</u>	<u>6,935,669,520.85</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39. Operating Income and Operating Costs (Continued)

(2) Breakdown of primary operating income (Continued)

② Category by business

Reporting segment	Current period		Prior period	
	Income	Cost	Income	Cost
Great Southern TCM	5,185,909,732.92	2,854,651,458.44	3,982,815,061.64	2,118,454,388.07
Great Health	5,275,237,534.84	3,298,878,873.56	4,999,154,853.29	2,940,968,465.70
Great Commerce	4,215,089,681.00	3,840,290,083.68	2,015,425,114.52	1,845,026,355.61
Others	49,540,287.92	38,449,146.37	36,060,671.92	31,220,311.47
Total	<u>14,725,777,236.68</u>	<u>10,032,269,562.05</u>	<u>11,033,455,701.37</u>	<u>6,935,669,520.85</u>

③ The top five customers by sales: Total sales to the top five customers are RMB 865,806 thousand (January to June 2017: RMB 1,084,635 thousand), accounting for 5.88% of the Group's primary operating income for the current year (January to June 2017: 9.83%)

Customer	Income	Proportion to total income (%)
Customer 1	381,790,903.99	2.59
Customer 2	176,974,451.92	1.20
Customer 3	141,046,086.98	0.96
Customer 4	92,507,795.58	0.63
Customer 5	73,487,016.80	0.50
Total	<u>865,806,255.27</u>	<u>5.88</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39. Operating Income and Operating Costs (Continued)

(3) Other business income

Category	Current period	Prior period
Leases of assets	61,341,028.25	43,014,536.97
Sales of materials	54,325.47	1,706,196.59
Income from franchise store management fee	1,639,767.86	—
Trademark fee income	10,095,140.95	8,518,482.44
Consulting fee	3,148,289.56	850,467.17
Medicine listing fee	113,445.18	287,387.19
Promoting fee	3,139,023.06	—
Collection of utility on behalf of others	2,705,781.48	3,767,256.25
Service income	1,560,031.11	1,891,554.69
Property management fee	5,488,220.33	2,058,136.76
Technical service income	120,867.92	272,508.97
Others	4,594,456.16	6,593,242.81
License fee for franchise	20,236,066.02	12,922,988.70
Total	<u>114,236,443.35</u>	<u>81,882,758.54</u>

(4) Other business costs

Category	Current period	Prior period
Leases of assets	7,969,131.29	6,962,700.21
Sales of materials	100,184.93	58,748.70
Collection of utility on behalf of others	4,272,395.02	5,155,066.40
Service costs	2,890,726.90	3,268,796.53
Property management fee	31,968.48	38,747.18
Technical service costs	—	2,358,284.95
Others	3,081,367.02	1,932,496.15
Total	<u>18,345,773.64</u>	<u>19,774,840.12</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40. Taxes and Surcharges

Item	Current period	Prior period
Urban maintenance and construction tax	63,150,363.22	52,171,030.76
Education surcharge	27,293,060.68	22,579,173.57
Local education surcharge	18,228,735.59	15,109,211.76
Increment tax on land value	—	40,864.86
House property tax	14,040,679.45	11,573,573.72
Vehicle and vessel use tax	65,812.58	152,961.64
Land use tax	2,460,078.00	4,529,885.66
Stamp duty	14,200,101.10	10,697,706.78
Others	588,661.12	154,269.41
Total	<u>140,027,491.74</u>	<u>117,008,678.16</u>

Note: Please refer to Note V. Taxes for basic rates of the above taxes and surcharges.

41. Selling and Distribution Expenses

Item	Current period	Prior period
Employee benefits	931,452,461.18	817,896,993.84
Sales and service fees	239,347,604.00	992,768,195.23
Traveling expenses	61,904,326.27	60,247,628.13
Office expenses	10,922,945.05	7,898,305.74
Freight and miscellaneous charges	300,830,311.96	198,972,446.35
Rental expenses	16,029,962.13	11,540,762.75
Conference expenses	21,847,104.25	18,283,088.34
Advertising and promotion fees	523,318,532.47	93,651,305.99
Consulting fees	5,771,259.40	4,156,358.01
Depreciation expenses	6,191,625.19	1,442,553.33
Others	57,999,255.92	29,951,461.26
Total	<u>2,175,615,387.82</u>	<u>2,236,809,098.97</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42. General and administrative Expenses

Item	Current period	Prior period
Employee benefits	426,832,315.07	346,618,205.10
Insurance premium	1,747,545.97	1,661,706.30
Depreciation expenses	28,288,519.03	25,729,078.43
Utilities	4,930,690.10	4,387,092.63
General and administrative expenses	22,418,788.36	30,009,479.03
Traveling expenses	9,316,221.48	9,634,039.83
Freight and miscellaneous charges	7,865,303.13	8,056,720.96
Repairing expenses	15,083,713.22	7,522,598.86
Rental expenses	20,867,375.68	17,236,749.47
Conference expenses	2,191,570.23	2,920,651.04
Taxation charges	94,724.61	34,403.96
Amortization	20,231,262.57	14,878,627.12
Professional service fees	7,299,553.35	7,806,802.05
Consulting fees	4,102,037.08	1,809,728.17
Trademark license fees	76,360,519.75	60,630,277.52
Others	60,673,723.56	37,095,388.67
Total	708,303,863.19	576,031,549.14

43. Research and development expenses

Item	Current period	Prior period
Employee benefits	93,847,117.87	77,327,452.50
Special funds for R&D	65,604,586.15	10,036,837.53
Raw materials	25,210,674.86	18,608,893.61
Depreciation expenses	10,939,895.30	8,740,071.64
Amortization	2,077,933.43	1,462,986.72
Safety research	2,352,073.54	—
Technique research expenses	402,993.64	302,568.57
Clinical trial expenses	12,692,353.26	7,503,851.27
Trial production expenses	12,816,443.71	8,560,210.13
Others	16,343,038.69	1,215,258.07
Total	242,287,110.45	133,758,130.04

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44. Financial expenses

Item	Current period	Prior period
Interest expenses	28,496,077.13	813,546.77
Interest expenses of notes	2,346,077.43	1,186,953.42
Interest income	(104,730,231.45)	(88,281,084.13)
Exchange losses/(gains)	(250,739.44)	(264,675.55)
Service charge of finance institutions	5,105,816.23	1,136,913.15
Cash discount	25,273.50	228,482.77
Others	886,866.79	120,693.78
Total	<u>(68,120,859.81)</u>	<u>(85,059,169.79)</u>

Interest expenses for January to June 2018 and January to June 2017 are interest for bank loans whose due dates of the final instalment are within 5 years.

45. Impairment loss in respect of Assets

Item	Current period	Prior period
Loss on bad debts	—	(1,714,892.73)
Loss on decline in value of inventories	3,969,385.70	(200,963.87)
Loss on fixed asset impairment	109,402.27	—
Total	<u>4,078,787.97</u>	<u>(1,915,856.60)</u>

46. Impairment Losses in respect of Credit

Item	Current period	Prior period
Loss on bad debts of notes receivable and accounts receivable	25,904,022.24	—
Including: Loss on bad debts of notes receivable	—	—
Loss on bad debts of accounts receivable	25,904,022.24	—
Loss on bad debts of other receivables	3,320,030.91	—
Total	<u>29,224,053.15</u>	<u>—</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47. Other Income

Item	Current period	Prior period	Asset related/ income related
Government grants related to assets:			
Technology funds granted by the government	3,719,864.73	2,386,353.56	Asset related
Government subsidies on interest	—	35,933.46	Asset related
Special project fund for environmental protection	133,131.66	165,819.16	Asset related
Construction funds for innovation platform and laboratory	1,067,293.57	235,730.77	Asset related
Land support funds granted by the government	334,128.00	—	Asset related
Support funds for industrial development	482,793.06	117,390.00	Asset related
Other items related to assets	395,864.07	482,793.06	Asset related
Subtotal	<u>6,133,075.09</u>	<u>3,424,020.01</u>	
Government grants related to income:			
Technology funds granted by the government	10,560,435.01	22,201,192.08	Income related
Medical industrial research project funds	3,202,820.13	3,455,151.58	Income related
Special funds for energy-saving project	6,300.00	6,300.00	Income related
Special fund for innovative firms	—	2,190.36	Income related
Other items related to income	96,947,539.40	406,744.19	Income related
Subtotal	<u>110,717,094.54</u>	<u>26,071,578.21</u>	
Total	<u><u>116,850,169.63</u></u>	<u><u>29,495,598.22</u></u>	

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48. Investment Income

Item	Current period	Prior period
Long-term equity investment income under equity method	192,362,082.74	146,838,206.96
Investment income from disposal of long-term equity investment	827,082,321.78	—
Investment income from the period in the period in which the Group held the financial assets at FVTPL	206,043.85	219,316.30
Interest income from finance products and structured deposits	36,577,133.86	3,876,679.23
Total	<u>1,056,227,582.23</u>	<u>150,934,202.49</u>

49. Gains from changes in fair value

(1) Sources of gains from changes in fair value

Sources of gains from change in fair value	Current period	Prior period
1. Financial assets held for trading	(34,668.77)	—
Including: Financial assets classified at FVTPL (except for income from change in fair value of derivatives)	(34,668.77)	—
2. Financial liabilities held for trading	—	—
3. Investment property remeasured at fair value	—	—
4. Other non-current financial assets	251,311,570.27	(1,195,001.81)
Total	<u>251,276,901.50</u>	<u>(1,195,001.81)</u>

(2) There is no change in fair value of financial liabilities designated at FVTPL arising from the change in the enterprise's own credit risk

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

50. Non-operating income

Item	Current period	Prior period
Gains on damaging and scrapping of non-current assets	78,284.75	10,800.00
Government grants irrelevant to the enterprise's day-to-day operations	25,053,581.68	43,740,206.49
Penalty Income	57,548.23	40,198.15
Sales of scraps	1,827,759.61	1,793,833.15
Waived payments	6,858.58	28,789.82
Compensation for relocation	266,517.78	310,937.41
Indemnity income	665,885.70	815,712.22
Expatriates benefits	2,088,498.56	925,701.89
Others	3,831,333.77	1,249,349.58
Total	<u>33,876,268.66</u>	<u>48,915,528.71</u>

51. Non-operating expenses

Item	Current period	Prior period
Losses on damage and scrapping of non-current assets	827,581.17	1,170,321.15
Donation	1,787,117.76	3,238,170.53
Penalty and overdue fines	1,581,506.63	5,703,024.66
Reward of family planning	—	16,000.00
Others	854,545.94	856,388.92
Total	<u>5,050,751.50</u>	<u>10,983,905.26</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

52. Income Tax Expenses

(1) Income tax expenses

Item	Current period	Prior period
Current tax expenses	150,313,771.48	218,441,425.10
Deferred tax expenses	201,485,620.19	(8,983,002.25)
Total	<u>351,799,391.67</u>	<u>209,458,422.85</u>

(2) Adjustment processes of accounting profit and income tax expenses

Item	Current period	Prior period
Total profit	3,011,162,680.35	1,400,428,091.37
Income tax expenses calculated at statutory/applicable rates	752,790,670.09	350,107,022.84
Tax effect of different rates applicable to subsidiaries	(285,181,082.54)	(119,441,088.67)
Adjustment effect of income tax of prior period	3,957,931.44	(3,408,680.42)
Gains or losses attributable to associates & joint venture	(27,936,155.70)	(24,412,756.39)
Non-taxable revenue	(126,335,315.14)	(332,243.91)
Costs, expenses and losses not deductible for tax purposes	21,635,572.25	2,946,333.23
Effect for the balance of deferred income tax in initial stage of changes on tax rate	4,321,022.12	—
Tax effect of deductible temporary differences & deductible loss which are not recognized in current period	8,460,300.79	4,104,766.95
Use of deductible losses from previous years	86,448.36	(104,930.78)
Income tax expenses	<u>351,799,391.67</u>	<u>209,458,422.85</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

53. Earnings per share

(1) Basic EPS

① Weighted average basic EPS

	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Net consolidated profit attributable to ordinary shareholders of the parent company	2,618,999,726.26	1,158,140,057.29
The number of weighted average outstanding ordinary shares	1,625,790,949	1,625,790,949
Weighted average basic EPS	1.611	0.712

② EPS based on the number of shares as at the period end

	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Net consolidated profit attributable to ordinary shareholders of the parent company	2,618,999,726.26	1,158,140,057.29
The number of outstanding ordinary shares as at the period end	1,625,790,949	1,625,790,949
EPS based on the number of shares as at the period end	1.611	0.712

(2) Diluted EPS

Diluted EPS is calculated by dividing the portion of net consolidated profit of dilutive potential ordinary shares, which are attributable to the ordinary shareholders of the parent company after adjustment to ordinary shares, by the number of weighted average outstanding ordinary shares. For the period from January to June of year 2018, the Company had no dilutive potential ordinary share (for January to June of year 2017: nil). The diluted EPS is equal to basic EPS.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

54. Items in the Cash Flow Statement

(1) Cash received from other operating activities

Item	Current period	Prior period
Non-operating income	8,729,155.16	5,135,732.40
Other operating income	114,236,443.35	81,882,758.54
Government grant	152,767,077.38	82,529,453.06
Interest income	104,730,231.45	88,281,084.13
Deposit received and other items	86,217,369.90	27,439,597.35
Total	<u>466,680,277.24</u>	<u>285,268,625.48</u>

(2) Cash paid for other operating activities

Item	Current period	Prior period
Cash paid for operating expenses	1,653,673,708.19	865,815,939.41
Cash paid for general and administrative expenses	119,843,764.25	244,946,756.66
Financial expenses-bank charges	5,105,816.23	1,136,913.15
Others	190,009,171.34	60,605,115.32
Total	<u>1,968,632,460.01</u>	<u>1,172,504,724.54</u>

(3) Cash received from other investing activities

Item	Current period	Prior period
Cash received from Bozhou Baiyunshan for repayment of internal borrowings	15,618,641.39	—
Interest income	15,657.85	19,976.53
Difference between consideration paid and cash and cash equivalents of the acquiree	415,177,153.74	619,962.45
Total	<u>430,811,452.98</u>	<u>639,938.98</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

54. Items in the Cash Flow Statement (Continued)

(4) Cash paid to other investing activities

Item	Current period	Prior period
Carrying amount of currency assets at the time the Group's subsidiaries are excluded from consolidation scope	161,611.03	—
Total	161,611.03	—

(5) Cash received from other financing activities

Item	Current period	Prior period
Borrowings from minority shareholders of the Group's sub-subsidiary	1,300,000.00	—
Total	1,300,000.00	—

(6) Cash paid to other financing activities

Item	Current period	Prior period
Finance lease	9,342,024.81	—
Refund of borrowings from minority shareholders	514,297.67	—
Total	9,856,322.48	—

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

茶始祖
上海川沙

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

55. Supplementary Information of Cash Flow Statement

(1) Supplementary information of cash flow statement

Supplementary information	Current period	Prior period
1.Reconciliation from net profit to cash flows from operating activities:		
Net profits	2,659,363,288.68	1,190,969,668.52
Add: Provision for assets impairment	33,302,841.12	(1,915,856.60)
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of bearer biological assets	109,850,968.58	109,786,898.60
Amortization of intangible assets	14,942,813.82	11,197,777.57
Amortization of long-term prepaid expenses	7,902,955.47	4,383,500.60
Losses on disposal of fixed assets, intangible assets and other long-term assets	749,296.42	1,159,521.15
Losses on scrapping of fixed assets	—	—
Loss on changes in fair value	(251,276,901.50)	1,195,001.81
Financial expenses	29,842,474.28	1,439,205.36
Investment losses	(1,056,227,582.23)	(150,934,202.49)
Decrease in deferred tax assets	(13,254,293.50)	(22,456,500.98)
Increase in deferred tax liabilities	217,444,333.63	13,473,498.73
Decrease in inventories	103,628,984.68	349,497,493.26
Decrease of operating receivables	(332,403,932.78)	(375,984,319.60)
Increase of operating payables	(321,088,118.35)	(266,813,185.22)
Others	—	—
Net cash flows from operating activities	<u>1,202,777,128.32</u>	<u>864,998,500.71</u>
2.Significant 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	—	—
3.Net changes in cash and cash equivalents		
Cash at the end of period	13,774,437,712.70	11,568,572,921.79
Less: Cash at the beginning of year	11,495,535,159.70	12,586,469,786.51
Add: Cash equivalents at the end of the period	—	—
Less: Cash equivalents at the beginning of the year	—	—
Net increases in cash and cash equivalents	<u>2,278,902,553.00</u>	<u>(1,017,896,864.72)</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

55. Supplementary Information of Cash Flow Statement (Continued)

(2) Net cash paid for the acquisition of subsidiaries in the current period

Item	Amount
Cash or cash equivalents paid in the current period for business combination in the current year	1,094,100,000.00
Including: GP Corp.	1,094,100,000.00
Less: Cash and cash equivalents held by the subsidiaries at the purchase date	1,509,277,153.74
Including: GP Corp.	1,509,277,153.74
Add: Cash and cash equivalents paid in the current period for combinations in the prior periods	—
Net cash paid for the acquisition of subsidiaries	<u>(415,177,153.74)</u>

(3) Breakdown of cash and cash equivalents

Item	Closing balance	Opening balance
I. Cash	13,774,437,712.70	11,495,535,159.70
Including: Cash on hand	1,164,156.25	908,829.96
Bank deposits that are readily available for payment	13,541,134,465.29	11,487,756,822.40
Other cash that are readily available for payment	232,139,091.16	6,869,507.34
Deposits in the central bank that are readily available for payment	—	—
Due from banks	—	—
Due to banks	—	—
II. Cash equivalents	—	—
Including: Debt investment maturing within three months	—	—
III. Closing balance of cash and cash equivalents	<u>13,774,437,712.70</u>	<u>11,495,535,159.70</u>
Including: Cash and cash equivalents in the parent or subsidiaries with restriction in use	—	—

Note: Cash and cash equivalents do not include those of the parent company and subsidiaries with restriction in use.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

茶始祖
上海

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

56. Assets with Restriction on Ownership or Use Right

Item	Closing balance of book value	Reason for restriction
Cash at bank and on hand	712,697,172.38	The Group's margin of notes payable is RMB 605,253,596.17, with guarantee deposit of RMB 1,396,065.00, frozen account funds of RMB 85,462,208.13, pledged amount of RMB 20,000,000.00, and housing fund is RMB 585,303.08.
Accounts receivable	793,876,326.17	The Group's short-term borrowings of RMB 793,876,326.17 is derived from accounts receivable as pledge or factoring.
Total	<u>1,506,573,498.55</u>	

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

57. Foreign Currency Funds Items

(1) Foreign Currency Funds Item

Item	Closing Balance of Foreign Currency	Exchange rate	Closing balance of RMB in equivalent
Cash at bank and on hand			
Including: USD	2,906,595.38	6.6166	19,231,778.99
EUR	2,160.00	7.6515	16,527.24
HKD	3,020,221.29	0.8431	2,546,348.57
JPY	90,255,590.16	0.0599	5,407,573.43
Accounts receivable			
Including: USD	1,963,584.98	6.6166	12,992,256.38
EUR	40,740.00	7.6515	311,722.11
HKD	11,198,661.25	0.8431	9,441,591.30
Other receivables			
Including: HKD	683,023.50	0.8431	575,857.11
Accounts payable			
Including: USD	1,953,621.99	6.6166	12,926,335.26
EUR	42,840.00	7.6515	327,790.26
HKD	172,075.20	0.8431	145,076.60
Advances to suppliers			
Including: USD	143,610.00	6.6166	950,209.93
EUR	71,400.00	7.6515	546,317.10
Advances from customers			
Including: USD	4,717.71	6.6166	31,215.20
HKD	1,930,307.31	0.8431	1,627,442.09
Other payables			
Including: HKD	60,068,237.62	0.8431	50,643,531.14

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

茶始祖
玉冰燒

VII. CHANGE IN THE SCOPE OF CONSOLIDATION

1. Business combination not under the common control

(1) Business combinations not under common control in the current period

Acquiree	Acquisition date	Acquisition cost	Shareholding (%)	Acquisition method	Purchase date	Recognition basis of purchase date	Income of the acquiree from the purchase date to the period end	Net profits of acquiree from the purchase date to the period end
GP Corp.	31 May 2018	2,917,600,000.00	80.00	Business combinations not under common control	31 May 2018	The share transfer agreement has been approved by the Group's board of directors; All purchase price has been paid; Property rights have been transferred; The Group obtains control over the acquiree's finance and operating policies, enjoys relevant benefits and undertakes relevant risks	2,820,500,769.15	20,366,914.98

Condition about realizing business combination by steps and acquiring control over the reporting period.

Acquisition date	Acquisition cost	Shareholding (%)	Acquisition method
31 May 2018	1,094,100,000.00	30.00	Cash

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VII. CHANGE IN THE SCOPE OF CONSOLIDATION (Continued)

1. Business combination not under the common control (Continued)

(2) Combination cost and goodwill (Continued)

Item	GP Corp.
Combination cost	
– Cash	1,094,100,000.00
– Fair value of non-cash assets	1,823,500,000.00
– Fair value of debt issued or assumed	—
– Fair value of equity securities issued	—
– Fair value of contingent consideration	—
– Fair value on purchase date of equity held before purchase date	—
– Others	—
Total combination costs	2,917,600,000.00
Less: Fair value of identifiable net assets obtained	<u>1,985,250,996.16</u>
Goodwill/combination cost lower than the fair value of identifiable net assets	<u><u>932,349,003.84</u></u>

① Recognition of the fair value of combination cost

The fair value of the non-cash assets in the combination cost has been adjusted and determined by the valuation results determined using the income method valuation method by Guozhonglian Assets Evaluation and Land and Real Estate Appraisal Co., Ltd.

② Contingent considerations and explanation for change

③ The main reason for the significant amount of goodwill

The acquiree has engaged in pharmaceutical circulation industry for several years. Both the business network it builds that radiates across the country with Guangdong as the center and the basically stable suppliers it maintains contribute to the generation of a significant amount of goodwill.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VII. CHANGE IN THE SCOPE OF CONSOLIDATION (Continued)

1. Business combination not under the common control (Continued)

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

Item	GP Corp.	
	Fair value at the purchase date	Book value at the purchase date
Assets:		
Cash at bank and on hand	2,091,914,169.84	2,091,914,169.84
Financial assets held for trading	745,378.34	745,378.34
Notes receivable and accounts receivable	11,402,687,240.77	11,402,687,240.77
Advances to suppliers	480,420,214.12	480,420,214.12
Other receivables	804,794,691.48	805,250,142.03
Inventories	3,415,844,222.20	3,415,844,222.20
Other current assets	80,732,420.57	80,732,420.57
Investment properties	6,502,500.00	124,276.05
Fixed assets	866,610,501.48	338,096,751.59
Construction in progress	54,151,645.64	54,151,645.64
Intangible assets	247,710,677.72	112,935,483.44
Goodwill	—	50,941,295.57
Long-term prepaid expenses	26,899,032.11	26,899,032.11
Deferred tax assets	88,990,218.67	73,035,799.22
Liabilities:		
Short-term borrowings	6,489,095,825.15	6,489,095,825.15
Notes payable and accounts payable	7,778,249,741.47	7,778,249,741.47
Advances from customers	48,806,283.66	48,806,283.66
Employee benefits payable	46,533,213.84	46,533,213.84
Taxes payable	82,276,190.24	82,276,190.24
Interest payable	41,920,797.28	41,920,797.28
Dividend payable	910,000,000.00	910,000,000.00
Other Payables	416,973,204.68	416,973,204.68
Current portion of non-current liabilities	70,079,623.29	70,079,623.29
Long-term borrowings	666,153,706.06	666,153,706.06
Long-term payables	107,861,341.84	107,861,341.84
Deferred income	2,883,392.79	2,883,392.79
Deferred tax liabilities	171,173,341.58	2,605,266.54
Net assets	2,735,996,251.06	2,270,339,484.65
Less: Minority interest	254,432,505.87	251,867,551.12
Net assets acquired	<u>2,481,563,745.19</u>	<u>2,018,471,933.53</u>

Note: Fair value of identifiable assets and liabilities is valued by Zhonglian International Appraisal and Consultation Co., Ltd. under cost method.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VII. CHANGE IN THE SCOPE OF CONSOLIDATION (Continued)

1. Business combination not under the common control (Continued)

(4) Gains or losses arising from the re-measurement of equity held before the date of purchase at fair value

	Book value on the purchase date of the originally held equity prior to the purchase date	Fair value on purchase date of originally held share before purchase date	Gains or loss from re-measurement of equity originally held before purchase date	Recognition method and main assumption of fair value on purchase date of originally held share before purchase date	Amount of OCI related to equity held originally before purchase date transferred to investment income
Acquiree	997,725,159.89	1,823,500,000.00	825,774,840.12	Adjustments of matters affecting fair value on the basis of the income approach	208,104.58

(5) Related information of the fair value of the acquiree's identifiable net assets and liabilities and consideration for combination, which cannot be obtained reliably on the purchase date or at the current year end.

Nil.

2. Changes in Consolidation Scope due to Other Reasons

The reasons for the addition of 4 companies in scope of consolidation comparing to the prior period are:

- (1) The Company established Guangzhou Baiyunshan Chemical Pharmaceutical Co., Ltd in January 2018, and registered capital of the Company accounts for 100% of registered capital amounted to RMB 100,000 thousand.
- (2) Chemical Pharmaceutical Technology Co., Ltd., a subsidiary of the Company, established Guangyao Baiyunshan Chemical Pharmaceutical (Zhuhai) Co., Ltd. in January 2018, and registered capital of Chemical Pharmaceutical Technology Co., Ltd. accounts for 100% of registered capital amounted to RMB 42,000 thousand.
- (3) Tian Xin Pharmaceutical Co., Ltd., a subsidiary of the Company, established Guangzhou Baiyunshan Tian Xin Pharmaceutical Technology Co., Ltd. in January 2018, capital contribution subscribed by Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. accounts for 100% of registered capital amounted to RMB 800 thousand.
- (4) Guangyao Baiyunshan Hong Kong Co., Ltd., a subsidiary of the Company, established Guangyao Baiyunshan Macao Co., Ltd. in January 2018, capital contribution subscribed by Guangyao Baiyunshan Hong Kong Co., Ltd. accounts for 99.90% of registered capital amounted to MOP 1,000 thousand.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

茶始祖
五洲大藥房

VII. CHANGE IN THE SCOPE OF CONSOLIDATION (Continued)

2. Changes in Consolidation Scope due to Other Reasons (Continued)

The reasons for the reduction of 1 company in scope of consolidation comparing to the prior period are:

In May 2018, according to the application lodged by the Company, the Intermediate People's Court of Guangzhou accepted the application of liquidation from Guangzhou Guangyao Baiyunshan Great Health Hotel Co., Ltd. Guangdong Qiyuan Law Firm was assigned to be the insolvency administrator for Guangzhou Guangyao Baiyunshan Great Health Hotel Co., Ltd. The Company cannot have effective control over Guangzhou Guangyao Baiyunshan Great Health Hotel Co., Ltd. Hence the company is excluded from the scope of consolidation.

VIII. EQUITY IN OTHER ENTITIES

1. Equity in subsidiaries

(1) Composition of Enterprises Group

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'0,000)	Shareholding (%)		Voting (%)		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 Co., Ltd.	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
Wang Lao Ji 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

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VIII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(1) Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'0,000)	Shareholding (%)		Voting (%)		Acquisition method
					Direct	Indirect	Direct	Indirect	
Xing Zhu	Guangzhou	Guangzhou	Pharmaceutical manufacturing	12,648.00	75.00	—	75.00	—	Establishment or Investment
Baiyunshan Medical and Healthcare Industry Co., Ltd.	Guangzhou	Guangzhou	Commercial services	10,650.00	100.00	—	100.00	—	Establishment or Investment
Guangzhou Baiyunshan Chemical Pharmaceutical Technology Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	16,347.00	100.00	—	100.00	—	Establishment or Investment
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	4,000.00	100.00	—	100.00	—	Establishment or Investment
Guangzhou Baiyunshan Medical Instruments Investment Co., Ltd.	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 Beishang Chinese Raw Medicine Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	500.00	—	100.00	—	100.00	Establishment or Investment
Guangzhou Ao Ma Medical Instruments Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	668.00	—	100.00	—	100.00	Establishment or Investment
Tibet Linzhi Guangyao Development Co., Ltd. ⁽¹⁾	Linzhi	Linzhi	Pharmaceutical trading	200.00	—	54.82	—	55.00	Establishment or Investment
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Wulanchabu	Wulanchabu	Pharmaceutical trading	100.00	—	80.00	—	80.00	Establishment or Investment

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

茶始祖
王老吉

VIII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(1) Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'0,000)	Shareholding (%)		Voting (%)		Acquisition method
					Direct	Indirect	Direct	Indirect	
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Linyi	Linyi	Pharmaceutical trading	200.00	—	60.00	—	60.00	Establishment or Investment
Jingyu County 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.	Ha'erbin	Ha'erbin	Pharmaceutical trading	300.00	—	60.00	—	60.00	Establishment or Investment
Wang Lao Ji Great Health Industry (Ya'an) Co., Ltd.	Ya'an	Ya'an	Pharmaceutical manufacturing	5,000.00	—	100.00	—	100.00	Establishment or Investment
Guang Hua Health ⁽¹⁾	Guangzhou	Guangzhou	Pharmaceutical manufacturing	1,000.00	—	63.36	—	75.00	Establishment or Investment
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Fengshun	Fengshun	Pharmaceutical trading	200.00	—	60.00	—	60.00	Establishment or Investment
Zhejiang Guang Kang Pharmaceutical Co., Ltd.	Shengzhou	Shengzhou	Pharmaceutical manufacturing	4,400.00	—	51.00	—	51.00	Establishment or Investment
Tibet Linzhi Baiyunshan Tibetan Health Castle Management Co., Ltd.	Linzhi	Linzhi	Pharmaceutical manufacturing	3,500.00	—	100.00	—	100.00	Establishment or Investment
Guangzhou Wang Lao Ji Great Health Enterprise Development Co., Ltd.	Guangzhou	Guangzhou	Food manufacturing	1,000.00	—	100.00	—	100.00	Establishment or Investment
Guangzhou Wang Lao Ji Industry Co., Ltd.	Guangzhou	Guangzhou	Food manufacturing	100.00	—	100.00	—	100.00	Establishment or Investment
Wang Lao Ji Great Health Industry (Beijing) Sales Co., Ltd.	Beijing	Beijing	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	—	88.99	—	100.00	Establishment or Investment
Wang Lao Ji Investment Co., Ltd.	Guangzhou	Guangzhou	Commercial services	2,400.00	100.00	—	100.00	—	Establishment or Investment

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VIII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(1) Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'0,000)	Shareholding (%)		Voting (%)		Acquisition method
					Direct	Indirect	Direct	Indirect	
Guangzhou WUJ Catering Management Development Co., Ltd.	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 Li 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
Guangzhou Wang Lao Ji Great Health E-Commerce Co., Ltd.	Guangzhou	Guangzhou	Trading	1,000.00	—	100.00	—	100.00	Establishment or Investment
Tian Xin Pharmaceutical	Guangzhou	Guangzhou	Pharmaceutical manufacturing	4,569.00	82.49	—	82.49	—	Business combination under common control
Guang Hua Pharmaceutical	Guangzhou	Guangzhou	Pharmaceutical manufacturing	5,529.00	84.48	—	84.48	—	Business combination under common control
Ming Xing Pharmaceutical	Guangzhou	Guangzhou	Pharmaceutical manufacturing	10,929.05	100.00	—	100.00	—	Business combination under common control
Weiling Pharmaceutical	Jiexi	Jiexi	Pharmaceutical manufacturing	1,179.00	100.00	—	100.00	—	Business combination under common control
Pharmaceutical Technological	Guangzhou	Guangzhou	Pharmaceutical trading	200.00	51.00	—	51.00	—	Business combination under common control

NOTES TO FINANCIAL STATEMENTS

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(Unless otherwise stated, amount shall be expressed in RMB)

茶始祖
五洲大藥房

VIII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(1) Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'0,000)	Shareholding (%)		Voting (%)		Acquisition method
					Direct	Indirect	Direct	Indirect	
Guangyao Baiyunshan Hong Kong Company	Hong Kong	Hong Kong	Pharmaceutical trading	HKD 13,250.00	100.00	—	100.00	—	Business combination under common control
Guangyao General Institute	Guangzhou	Guangzhou	Medical research	8,000.00	100.00	—	100.00	—	Business combination under common control
Guangyao Hai Ma	Guangzhou	Guangzhou	Advertising	50.00	100.00	—	100.00	—	Business combination not under common control
Guangxi Ying Kang	Nanning	Nanning	Pharmaceutical manufacturing	3,188.00	51.00	—	51.00	—	Business combination not under common control
Guangzhou Baiyunshan Hospital	Guangzhou	Guangzhou	Medical	4,081.60	—	51.00	—	51.00	Business combination not under common control
Guangyao Baiyunshan Macao Co., Ltd.	Macao	Macao	Pharmaceutical trading	MOP 100.00	99.90	—	99.90	—	Establishment or Investment
Guangzhou Baiyunshan Tian Xin Pharmaceutical Technology Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	10,000.00	—	100.00	—	100.00	Establishment or Investment
Guangyao Baiyunshan Chemical Pharmaceutical (Zhuhai) Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	4,200.00	—	100.00	—	100.00	Establishment or Investment
Guangzhou Baiyunshan Chemical Pharmaceutical Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	80.00	100.00	—	100.00	—	Establishment or Investment
GP Corp.	Guangzhou	Guangzhou	Pharmaceutical trading	70,000.00	80.00	—	80.00	—	Business combination not under common control

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FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VIII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(1) Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'0,000)	Shareholding (%)		Voting (%)		Acquisition method
					Direct	Indirect	Direct	Indirect	
Guangzhou Jian Min Pharmaceutical Chain Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	8,600.00	—	80.00	—	80.00	Business combination not under common control
Guangzhou Jian Min Pharmaceutical Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	800.00	—	80.00	—	80.00	Business combination not under common control
Guangzhou Qi Hua Medical Instruments Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	1,188.00	—	80.00	—	80.00	Business combination not under common control
Fujian Guangyao Jie Da Pharmaceutical Co., Ltd.	Fuzhou	Fuzhou	Pharmaceutical trading	3,010.00	—	41.60	—	41.60	Business combination not under common control
Hubei Guangyao An Kang Pharmaceutical Co., Ltd.	Wuhan	Wuhan	Pharmaceutical trading	600.00	—	40.80	—	40.80	Business combination not under common control
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	46,500.00	—	80.00	—	80.00	Business combination not under common control
Guangzhou Xin Te Pharmaceutical Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	5,000.00	—	80.00	—	80.00	Business combination not under common control
Foshan Guangyao Jian Ze Pharmaceutical Co., Ltd.	Foshan	Foshan	Pharmaceutical trading	1,350.00	—	48.00	—	48.00	Business combination not under common control
Shenzhen Guangyao Lian Kang Pharmaceutical Co., Ltd.	Shenzhen	Shenzhen	Pharmaceutical trading	1,500.00	—	80.00	—	80.00	Business combination not under common control

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

茶始祖
五洲大藥房

VIII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(1) Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'0,000)	Shareholding (%)		Voting (%)		Acquisition method
					Direct	Indirect	Direct	Indirect	
Hunan Guangyao Heng Sheng Pharmaceutical Co., Ltd.	Changsha	Changsha	Pharmaceutical trading	5,500.00	—	80.00	—	80.00	Business combination not under common control
Hainan Guangyao Chen Fei Pharmaceutical Co., Ltd.	Haikou	Haikou	Pharmaceutical trading	5,600.00	—	48.00	—	48.00	Business combination not under common control
Shanxi Guangyao Kang Jian Pharmaceutical Co., Ltd.	Xi'an	Xi'an	Pharmaceutical trading	8,750.00	—	48.00	—	48.00	Business combination not under common control
Guangdong Meixian Pharmaceutical Co., Ltd.	Meizhou	Meizhou	Pharmaceutical trading	1,400.00	—	48.00	—	48.00	Business combination not under common control
Jiangmen Guangyao Qiao Kang Pharmaceutical Co., Ltd.	Jiangmen	Jiangmen	Pharmaceutical trading	1,500.00	—	80.00	—	80.00	Business combination not under common control
Chengdu Guangyao Xin Hui Yuan Pharmaceutical Co., Ltd.	Chengdu	Chengdu	Pharmaceutical trading	5,000.00	—	40.80	—	40.80	Business combination not under common control
Hubei Guangyao Ji Da Pharmaceutical Co., Ltd.	Wuhan	Wuhan	Pharmaceutical trading	600.00	—	56.00	—	56.00	Business combination not under common control
Guangxi Guangyao Xin Shi Dai Pharmaceutical Co., Ltd.	Nanning	Nanning	Pharmaceutical trading	5,000.00	—	56.00	—	56.00	Business combination not under common control
Guangzhou Pharmaceutical (Hong Kong) Co., Ltd.	Hong Kong	Hong Kong	Pharmaceutical trading	500.00	—	80.00	—	80.00	Business combination not under common control
Jian Min International Co., Ltd.	Hong Kong	Hong Kong	Pharmaceutical trading	HKD 30.00	—	80.00	—	80.00	Business combination not under common control

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

VIII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(1) Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'0,000)	Shareholding (%)		Voting (%)		Acquisition method
					Direct	Indirect	Direct	Indirect	
Zhuhai Guangyao Kang Ming Pharmaceutical Co., Ltd.	Zhuhai	Zhuhai	Pharmaceutical trading	55.00	—	80.00	—	80.00	Business combination not under common control
Foshan Guangyao Feng Kang Pharmaceutical Co., Ltd.	Foshan	Foshan	Pharmaceutical trading	510.00	—	80.00	—	80.00	Business combination not under common control
Guangzhou Wan Kang Orthopedics Medical Instruments Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	1,000.00	—	80.00	—	80.00	Business combination not under common control
Guangzhou Yi Yao Pharmacy Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	6,000.00	—	80.00	—	80.00	Business combination not under common control

Note:

- (1) The reason of difference between ratio of equity interest held and ratio of voting rights held of these 7 companies is that the Company indirectly holds these 7 companies through subsidiaries which are not wholly-owned by the Company, leading to the ratio of equity interest held lower than ratio of voting rights held.
- (2) Reasons for the Group that controlling this company with less than half voting rights held is that the Group has the power to decide on its financial and operating policies and profit from its operating activities.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

茶始祖
五十年
五十年

VIII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(2) Significant non-wholly owned subsidiaries

Subsidiary	Shareholding of minority shareholders (%)	Profit or loss attributable to minority shareholders in the current period	Dividend paid to minority shareholders in the current period	Closing balance of minority shareholders' equity
GP Corp.	20.00	3,417,926.98	—	499,727,844.93

(3) Primary financial information of significant non-wholly owned subsidiaries

Subsidiary	Current assets	Non-current assets	Closing balance			Total liabilities
			Total assets	Current liabilities	Non-current liabilities	
GP Corp.	18,989,149,814.91	1,295,390,384.37	20,284,540,199.28	16,548,227,418.12	939,931,971.20	17,488,159,389.32

Subsidiary	Current period			
	Operating income	Net profit	Total comprehensive income	Operating cash flows
GP Corp.	2,826,028,291.30	20,366,914.98	20,366,914.98	(1,366,770,047.47)

2. Equity in Joint Ventures or Associates

(1) Summary for financial information of insignificant associates and joint ventures

Item	Closing balance/ Current period	Opening balance/ Prior period
Joint ventures:		
Total carrying amount of investments	1,030,537,169.93	1,840,718,609.13
Calculated by rate of interests held:		
– Net profit	187,318,602.73	135,682,107.17
– Other comprehensive income	4,410.98	196,496.74
– Total comprehensive income	187,323,013.71	135,878,603.91
Associates		
Total carrying amount of investments	1,079,254,715.23	167,762,647.92
Calculated by rate of interests held:		
– Net profit	11,183,585.31	10,027,838.21
– Other comprehensive income	(10,128.80)	—
– Total comprehensive income	11,173,456.51	10,027,838.21

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Group's operating activities are subject to various financial risks: market risk (mainly foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management plan addresses the unpredictability of financial markets and seeks to reduce potential adverse effects on the Group's financial performance.

1. Market risk

(1) Foreign exchange risk

Foreign exchange risk refers to the risk of loss due to exchange rate changes. The Group's foreign exchange risk is mainly related to the US Dollar, the Euro, the Japanese Yen and the Hong Kong Dollar. Except that the purchase and sale of several subsidiaries of the Group are in US dollars, Euros, Japanese Yen and Hong Kong dollars, the Group's other major business activities are settled in Renminbi ("RMB"). As at 30 June 2018, except for the assets or liabilities described in the following table, which are in US dollars, Euros, Japanese Yen, and Hong Kong Dollars, the Group's assets and liabilities balances are all in Renminbi. The foreign exchange risk arising from the assets and liabilities of these foreign currency balances may have an impact on the Group's operating results.

Item	Closing Balance	Opening Balance
Cash at bank and on hand	27,202,228.23	10,187,248.89
Accounts receivable	22,745,569.79	26,545,890.62
Advances to suppliers	1,496,527.03	936,351.27
Other receivables	575,857.11	516,764.75
Total financial assets in foreign currency	<u>52,020,182.16</u>	<u>38,186,255.53</u>
Accounts payable	13,399,202.12	13,890,397.99
Advances from customers	1,658,657.29	156,950.18
Other payables	50,643,531.14	980,294.04
Current portion of non-current liabilities	—	31,307,337.23
Total financial liabilities in foreign currency	<u>65,701,390.55</u>	<u>46,334,979.44</u>

Note: The financial department of the Group's headquarters is responsible for monitoring the scale of the Group's foreign currency transactions and foreign currency assets and liabilities in order to minimize the foreign exchange risks; for this reason, the Group may sign forward exchange agreements or currency swap agreements to achieve the purpose of avoiding foreign exchange risks.

As at 30 June 2018, for all types of financial assets and financial liabilities of the Group in US dollar and Hong Kong dollar, if the RMB appreciates or depreciates against the US dollar and Hong Kong dollar by 10% and other factors remain unchanged, the Group's net profit will increase or decrease by approximately RMB 1,026 thousand (As at 31 December 2017: approximately RMB 611 thousand).

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

1. Market risk (Continued)

(2) Interest rate risk

As at 30 June 2018, the Group's long-term interest-bearing debt balance was RMB 662,154 thousand. If the annual interest rate decreased by 50 basis points and other factors remained unchanged, the Group's net profit will increase by RMB 12,323 thousand (As at 31 December 2017: RMB 0).

(3) Other price risks

The equity investments in listed companies held by the Company are as below:

Item	Closing Balance	Opening Balance
Other equity instrument investments	—	—
Other non-current financial assets	278,518,903.29	891,777,560.04
Total	278,518,903.29	891,777,560.04

As at 30 June 2018, if all other variables remain unchanged and the value of equity instruments rises or falls by 10%, the Company's net profit will increase or decrease by RMB 27,852 thousand (As at 31 December 2017: net profit and other comprehensive income will increase by RMB 488 thousand and RMB 75,382 thousand respectively). The management believes that 10% reasonably reflects the reasonable range of possible changes in the value of equity instruments in the next year.

2. Credit risk

The Group manages credit risk by portfolio. Credit risk mainly arises from bank deposits, accounts receivable, other receivables, notes receivable, etc.

The Group's bank deposits are mainly deposited in state-owned banks and other large and medium-sized listed banks. The Group believes that it does not have significant credit risk and will not incur any significant losses due to default by the other party.

In addition, for accounts receivable, other receivables and notes receivable, the Group has established relevant policies to control credit risk exposure. The Group assesses the creditworthiness of customers and sets the corresponding credit period based on their financial status, the possibility of obtaining guarantees from third parties, credit history and other factors such as current market conditions. The Group also monitors customers' credit records regularly. For customers with poor credit history, the Group will adopt methods such as sending written reminders, shortening credit terms or cancelling credit terms to ensure that the Group's overall credit risk stays within the controllable range.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

3. Liquidity risk

Each subsidiary of the Group is responsible for its own cash flows forecast. Based on the summary of cash flows forecasts of the subsidiaries, the finance department of the headquarter continuously monitors short-term and long-term capital needs at the group level to ensure that sufficient cash reserves and marketable securities are readily available; meanwhile the finance department of the headquarter continuously monitors compliance with the terms of the loan agreement and obtains commitments from major financial institutions to provide sufficient backup funds to meet short-term and long-term funding needs.

As at the balance sheet date, the Group's financial assets and financial liabilities stated in undiscounted contractual cash flows by the expiration date are as following:

Period	Closing balance					Total
	Within 1 year	1-2 years	2-5 years	Over 5 years	No fixed maturity date	
Financial assets:						
Cash at bank and on hand	14,487,134,885.08	—	—	—	—	14,487,134,885.08
Notes receivable and accounts receivable	14,696,473,798.77	—	—	—	—	14,696,473,798.77
Other receivables	1,139,567,778.51	—	—	—	—	1,139,567,778.51
Subtotal	30,323,176,462.36	—	—	—	—	30,323,176,462.36
Financial liabilities:						
Short-term borrowings	7,203,897,359.51	—	—	—	—	7,203,897,359.51
Current portion of non-current liabilities	69,176,262.85	—	—	—	—	69,176,262.85
Notes payable and accounts payable	10,551,236,677.57	—	—	—	—	10,551,236,677.57
Other payables	4,382,981,939.46	—	—	—	—	4,382,981,939.46
Long-term payables	—	—	—	122,589,449.06	—	122,589,449.06
Subtotal	22,207,292,239.39	—	—	122,589,449.06	—	22,329,881,688.45
Tender guarantee	—	—	—	—	—	—

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

3. Liquidity risk (Continued)

(cont.)

Period	Opening balance					Total
	Within 1 year	1-2 years	2-5 years	Over 5 years	No fixed maturity date	
Financial assets:						
Cash at bank and on hand	11,697,218,882.84	—	—	—	—	11,697,218,882.84
Notes receivable and accounts receivable	2,897,750,084.07	—	—	—	—	2,897,750,084.07
Other receivables	789,158,809.34	—	—	—	—	789,158,809.34
Subtotal	15,384,127,776.25	—	—	—	—	15,384,127,776.25
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 and accounts payable	3,054,427,081.10	—	—	—	—	3,054,427,081.10
Other payables	2,445,094,461.69	—	—	—	—	2,445,094,461.69
Long-term payables	—	—	—	20,171,809.73	—	20,171,809.73
Subtotal	5,542,656,176.59	—	—	20,171,809.73	—	5,562,827,986.32
Tender guarantee	—	—	—	—	—	—

Analysis of bank loan and other loan repayment periods are follows: by periods

Item	Closing balance		Opening balance	
	Bank borrowings	Other borrowings	Bank borrowings	Other borrowings
Borrowings with the last repayment date within five years	7,273,073,622.36	—	43,134,633.80	—



NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

X. DISCLOSURE OF FAIR VALUE *(Continued)*

1. Financial instruments not measured at fair value

Financial assets and financial liabilities not measured at fair value comprise: receivables, short-term borrowings, payables and long-term payables.

Difference between book value and fair value of financial assets and financial liabilities not measured at fair value is insignificant.

2. Financial instruments measured at fair value

According to the lowest hierarchy of input value, which is significant to the overall measurement, in the measurement of fair value, hierarchies of the fair value can be divided into:

The first hierarchy: Quoted price (unadjusted) of the same assets or liabilities in active market;

The second hierarchy: Direct (i.e. price) or indirect (i.e. estimated results based on price) observable input value of assets or liabilities excluding quoted market price in the first hierarchy;

The third hierarchy: Input value of assets or liabilities based on variables excluding observable market date (unobservable input value).

The hierarchy of a fair value measurement result is determined by the bottom level of the input value, which is significant to the overall measurement of fair value.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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X. DISCLOSURE OF FAIR VALUE (Continued)

2. Financial instruments measured at fair value (Continued)

(1) Closing balance of fair value of assets and liabilities measured at fair value

Item	Closing balance of fair value			Total
	The first hierarchy	The second hierarchy	The third hierarchy	
I. Continuous measurement at fair value				
A. Financial assets held for trading				
1. Financial assets measured at FVTPL				
(1) Equity instrument investments	710,709.58	—	—	710,709.58
2. Financial assets designated at FVTPL				
B. Other debt investments				
C. Other equity instrument investments				
(1) Equity instrument investments	—	—	61,594,898.17	61,594,898.17
D. Other non-current financial assets				
(1) Equity instrument investments	28,212,765.39	—	334,385,434.04	362,598,199.43
E. Investment property				
F. Biological assets				
Total assets continuously measured at fair value	<u>28,923,474.97</u>	<u>—</u>	<u>395,980,332.21</u>	<u>424,903,807.18</u>

(2) The basis for determining the market price of the first-level fair value measurement project: The fair value of the listed company's stock is determined according to the closing price of the exchange on the last trading day of the period.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

X. DISCLOSURE OF FAIR VALUE (Continued)

2. Financial instruments measured at fair value

(3) Valuation methods and qualitative and quantitative information of important parameters adopted in valuation techniques for the continuing third hierarchy fair value measurement projects are as follows:

Item	Closing balance of fair value	Valuation method	Significant unobservable input	Influence on fair value
Other non-current financial assets	250,306,137.90	Market discount method	Lack of liquidity discount	The higher the discount, the lower the liquidity

(4) Adjustment information between the beginning and closing book value of the continuing third hierarchy fair value measurement projects is as follows:

Item	Opening balance	Transferred to the third hierarchy	Transferred from the third hierarchy	Recognized in profit or loss	Recognized in other comprehensive income	Purchase, issuance, sale and settlement	Disposal	Closing balance	Gains and losses recognized through profit or loss at the period end of assets held at the period end
Other equity instrument investments	62,686,231.77	—	—	—	(1,091,333.60)	—	—	61,594,898.17	—
Other non-current financial assets	944,029,037.38	—	—	254,926,623.68	—	864,570,227.02	—	334,385,434.04	—

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XI. FINANCIAL ASSETS AND FINANCIAL LIABILITIES DENOMINATED IN FOREIGN CURRENCY

	Opening balance	Gains or losses arising from change in fair value for the current period	Accumulated change in fair value recognized in equity for the current period	Impairment in the current period	Closing balance
Financial assets:					
Cash at bank and on hand:	10,187,248.89	—	—	—	27,202,228.23
Accounts receivable	26,545,890.62	—	—	—	22,745,569.79
Advances to suppliers	936,351.27	—	—	—	1,496,527.03
Other payables	516,764.75	—	—	—	575,857.11
Total	38,186,255.53	—	—	—	52,020,182.16

	Opening balance	Gains or losses arising from change in fair value for the current period	Accumulated change in fair value recognized in equity for the current period	Impairment in the current period	Closing balance
Financial liabilities:					
Short-term borrowings	—	—	—	—	—
Current portion of non-current liabilities	31,307,337.23	—	—	—	—
Notes payable	—	—	—	—	—
Accounts payable	13,890,397.99	—	—	—	13,399,202.12
Advance from customers	156,950.18	—	—	—	1,658,657.29
Other payables	980,294.04	—	—	—	50,643,531.14
Long-term payables	—	—	—	—	—
Total	46,334,979.44	—	—	—	65,701,390.55

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Information of the Parent Company

Parent company	Registration place	Nature of business	Registered capital (RMB in 10 thousand)	Shareholding of the parent company in the Group (%)	Proportion of the voting right held by the parent company (%)
GPHL	No. 45, North Shamian Street, Liwan District, Guangzhou	Manufacturing and trading	125,281.00	45.04	45.04

Note: The ultimate control party of the Group is State-owned Assets Supervision and Administration Commission of Guangzhou Municipal Government.

2. Subsidiaries of the Group

Please refer to Note VIII. 1. Equity in subsidiaries.

3. Associates and joint ventures of the Group

Information of associates or joint ventures which have had transactions with the Group in the current period, or had had transactions with the Group in prior periods and formed a balance in current period is as follows:

Associates or joint ventures	Relationship with the Group
GP Corp.	Joint venture
Wang Lao Ji	Joint venture
Nuo Cheng	Joint venture
HWBYS	Joint venture
Baxter Qiao Guang	Joint venture
Chuangmei Medicines	Joint venture
Guangzhou Baiyunshan Southern Anti-tumor Biological Products Co., Ltd.	Associates
Yi Xin Tang	Associates

Note: On 31 May 2018, by purchasing additional 30.00% of equity of GP Corp. from other shareholders, the Group's shareholding proportion reached 80.00%. GP Corp. was included in the scope of consolidation. Therefore, Pharmaceutical Company was no longer a joint venture since 1 June 2018.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

4. Other Related Parties without Control Relationship

Other related parties	Relationship with the group
Guangzhou Yu Fa Medical Instruments Co., Ltd.	Controlled by the same parent company
Guangzhou South China Medical Instruments 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

(1) Mutual transactions and parent-subsidary transactions of subsidiaries that have a controlling relationship and have been included in the scope of the Company's consolidated financial statements have been offset.

(2) Related party transaction of purchase and sales of goods, rendering and receiving of services

① Purchase of goods/receiving of services

Related party	Type	Content	Pricing policy and decision-making procedure	Current period	% of total (similar category)	Prior period	% of total (similar category)
HWBYS	Purchase of goods	Medicinal material or medicine	Market price	35,784,016.72	0.44	15,763,772.84	0.28
GP Corp.	Purchase of goods	Medicinal material or medicine	Market price	42,994,960.12	0.52	168,234,439.12	2.94
Wang Lao Ji	Purchase of goods	Medicinal material or medicine	Market price	558,751,989.66	6.81	513,845,006.08	8.97
Hua Cheng	Purchase of goods	Medicinal material or medicine	Market price	2,689,334.74	0.03	6,021,510.65	0.11
Baxter Qiao Guang	Purchase of goods	Medicinal material or medicine	Market price	940,735.05	0.01	—	—
Chuangmei Medicines	Purchase of goods	Medicinal material or medicine	Market price	9,663,275.70	0.12	6,019,727.45	0.11
Total				<u>650,824,311.99</u>	<u>7.93</u>	<u>709,884,456.14</u>	<u>12.41</u>

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(Unless otherwise stated, amount shall be expressed in RMB)

XII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

5. Related Party Transactions (Continued)

(2) Related party transaction of purchase and sales of goods, rendering and receiving of services (Continued)

② Sales of goods/rendering of services

Related party	Type	Content	Pricing policy and decision-making procedure	Current period	% of total (similar category)	Prior period	% of total (similar category)
Wang Lao Ji	Sales of good	Medicinal material or medicine	Market price	381,790,903.99	2.61	283,652,068.38	2.59
GP Corp.	Sales of good	Medicinal material or medicine	Market price	152,486,547.82	1.04	351,573,455.78	3.21
Chuangmei Medicine	Sales of good	Medicinal material or medicine	Market price	141,046,086.98	0.96	176,285,051.50	1.61
HWBYS.	Sales of good	Medicinal material or medicine	Market price	92,507,795.58	0.63	117,670,399.13	1.07
Hua Cheng	Sales of good	Medicinal material or medicine	Market price	73,487,016.80	0.50	30,574,414.07	0.28
Yi Xin Tang	Sales of good	Medicinal material or medicine	Market price	3,476,255.68	0.02	—	—
Baxter Qiao Guang	Sales of good	Medicinal material or medicine	Market price	452,841.29	0.00	364,837.61	0.00
Nuo Cheng	Sales of good	Medicinal material or medicine	Market price	10,108.36	0.00	15,405.13	0.00
GPHL	Sales of good	Medicinal material or medicine	Market price	—	—	760,922.91	0.01

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

5. Related Party Transactions (Continued)

(2) Related party transaction of purchase and sales of goods, rendering and receiving of services (Continued)

② Sales of goods/rendering of services (Continued)

Related party	Type	Content	Pricing policy and decision-making procedure	Current period	% of total (similar category)	Prior period	% of total (similar category)
Wang Lao Ji	Rendering of services	Advertising agency service	Market price	40,976,218.30	55.56	22,073,494.39	47.75
HWBYS	Rendering of services	Advertising agency service	Market price	28,002,158.04	37.97	20,154,273.80	43.59
Hua Cheng	Rendering of services	Advertising agency service	Market price	1,283,732.45	1.74	—	—
GPHL	Rendering of services	Advertising agency service	Market price	677,231.13	0.92	—	—
GP Corp.	Rendering of services	Advertising agency service	Market price	82,696.23	0.11	121,847.17	0.26
Baxter Qiao Guang	Rendering of services	Advertising agency service	Market price	28,056.61	0.04	1,132.08	0.00
Wang Lao Ji	Rendering of services	Consigned processing	Market price	11,305,878.83	89.36	13,622,684.53	81.67
HWBYS	Rendering of services	Consigned processing	Market price	709,993.85	5.61	—	—
HWBYS	Rendering of services	Research and development services	Market price	153,301.89	5.69	—	—
Total				928,476,823.83		1,016,869,986.48	

(3) There is no associated trusteeship/Entrusted management in current period.

(4) There is no associated contracting in current period.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

(5) Leases

① The group as the lessor

(a) Office Tenancy Agreement – 5th Floor, Front building, No. 45 North Shamian Street

According to the tenancy agreement entered into by the Company and GPLH on 27 June 2013, the Company leases 5th Floor of the Front building located at No. 45 North Shamian Street to GPLH for office use. The lease is renewed on 1 July 2016, with a term of three years. And GPLH should pay the company RMB188 thousand for the current period (for the six months ended 30 June 2017: RMB181 thousand).

(b) Warehouse and Office Building Tenancy Agreement

According to the tenancy agreement entered into by the Company and GP Corp., the Company leases certain buildings to GP Corp. for the use of warehouse and office. Rent is paid at the price specified in the agreement annually. The lease term is from 1 January 2017 to 31 December 2019, and the rent for current period is RMB 545 thousand due from GP Corp. (for the six months ended 30 June 2017: RMB 1,636 thousand).

According to the tenancy agreement entered into by the Company and Baxter Qiao Guang, the Company leases the building located on No. 14 of Baohua Road to Baxter Qiao Guang as workshop. The lease agreement is under negotiate. The rent is RMB1,486 thousand for the current period (for the six months ended 30 June 2017: RMB1,500 thousand)

According to the tenancy agreement entered into by the Company and GP Corp., the Company leases the first floor of the building located in No.74 of Duobao Road to GP Corp. as a shop. Rent is paid at the price specified in the agreement annually with a lease term from 1 January 2016 to 31 October 2021. The rent is RMB 259 thousand for the current period (for the six months ended 30 June 2017: RMB 271 thousand).

According to the tenancy agreement entered into by the Company's subsidiaries, Guangzhou Bai Di and Nuo Cheng, Guangzhou Bai Di leases the building located in No.1 of North Wanbao Street, Panyu District, Guangzhou to Nuo Cheng for the use as a plant. Rent is paid at the price specified in the agreement annually with a lease term from 15 March 2016 to 14 March 2019. And Nuo Cheng should pay Guangzhou Bai Di the rent of RMB1,129 thousand (for the six months ended 30 June 2017: RMB1,129 thousand).

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

(5) Leases *(Continued)*

① The group as the lessor *(Continued)*

(b) Warehouse and Office Building Tenancy Agreement *(Continued)*

According to the tenancy agreement entered into by the Company's subsidiaries, Guang Hua and HWBYS, Guang Hua leases part of No.355 of North Shatai Road in Guangzhou to HWBYS for the use of parking lot. Rent is paid at the price specified in the agreement monthly with a lease term from 10 September 2017 to 9 March 2018. And HWBYS should pay Guang Hua the rent of RMB 12 thousand (for the six months ended 30 June 2017: RMB 35 thousand).

According to the tenancy agreement entered into by the Company's subsidiaries, Guang Hua and GP Corp., Guang Hua leases part of No.355 of North Shatai Road, Guangzhou to GP Corp. Rent is paid at the price specified in the agreement monthly with a lease term from 17 July 2015 to 14 July 2020. And GP Corp. should pay Guang Hua the rent of RMB 174 thousand (for the six months ended 30 June 2017: RMB 289 thousand).

② The Group as the lessee

(a) Tenancy Agreement

According to the tenancy agreement entered into by the Group and GPLH, GPLH leases certain premises to the Group for the use of warehouse and office. Rent is paid at the price specified in the agreement annually with a lease term from 1 January 2017 to 31 December 2019. The Group should pay GPLH the rent of RMB 1,368 thousand for the current period (for the six months ended 30 June 2017: RMB361 thousand).

(6) Information of guarantee for related party

The Company did not have such kind of matter during current period.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

5. Related Party Transactions (Continued)

(7) Employee benefits of key management personnel

Employee benefits of the Group's key management personnel amounted to RMB1,304 thousand for the six months ended 30 June 2018 (for the six months ended 30 June 2017: RMB1,115 thousand). The Group's key management personnel of current period include 9 persons, such as director, general manager, vice general manager, and secretary to the Board of Director (for the six months ended 30 June 2017: 10 persons). Among them, 4 received their salaries from the Group (for the six months ended 30 June 2017: 4 persons).

(8) Other related party transactions

① License Agreement

- (a) Pursuant to the Trademark License Agreements entered into by Wang Lao Ji Great Health and GPLH on 25 May 2012 and 26 April 2013 respectively, and the Confirm Letter signed in accordance with Trademark License Agreement in year 2016, 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 net sales. The payment is made to GPLH and the Company at 53% and 47% respectively. The Trademark License Agreement has expired on 24 May 2018. According to the Trademark License entered into by Wang Lao Ji Great Health and GPLH on 28 May 2018, the trademark license fee is agreed to be paid to GPLH by Wang Lao Ji Great Health at $2.5\% \times (1 + \text{VAT rate})$ of net sales of the audited annual financial statements prepared in accordance with *China Accounting Standards*. According to the Trademark License Agreement signed by the Company and GPLH in 2012 and the Supplemental Agreement to the Trademark License Agreement signed on 28 May 2018, the Company should pay 80% of the trademark license fee it collects during the trademark custody period to GPLH. The term of the license use right is three years, which is from 25 May 2018 to 24 May 2021 (after the expiration of the contract, the two parties may give priority to renewal if there is no objection).

Pursuant to the Supplemental Agreement of the Trademark License 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 net sales on and before 24 May 2018 since Wang Lao Ji became a foreign-invested company limited. GPLH and the Company are entitled to get 53% and 47% of the license fee respectively.

The Company should receive license fee amounted to RMB 50,764 thousand for the current period (for the six months ended 30 June 2017: RMB 51,659 thousand) and GPLH should receive RMB 71,807 thousand (for the six months ended 30 June 2017: RMB 58,254 thousand).

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

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

① License Agreement *(Continued)*

- (b) 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), include: (1) during the period of validity of Trusteeship Agreement, consignor shall authorize all the use rights of “Wang Lao Ji” trademark to consignee; (2) during the period of validity of Trusteeship Agreement, consignee shall pay the expenses arising from trusteeship (but consignor shall pay the expenses arising from dispute to the authority and the expenses arising from the dispute to the previous Trademark Trusteeship Agreement and Trademark Trusteeship Supplementary Agreement); (3) consignee shall directly receive the trademark license fee which is arranged in the Trademark License Agreement signed during the trusteeship (including the supplementary agreement or new agreement which is signed by consignor or consignee); (4) during the period of validity of Trusteeship Agreement, consignor should pay the company RMB 100 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 these expenses by consignee). As the confirmed trademark “Wang Lao Ji”, the portion to be shared of consignor and consignee shall be confirmed in accordance with the previous arrangement before this agreement was signed, and shall not be limited to the trademark trusteeship agreement. This agreement became effective on 5 July 2013, and will expire on the date of trademark transfer or the date of termination from both parties’ negotiation.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

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

① License Agreement *(Continued)*

(b) *(Continued)*

Pursuant to Notice of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. on Unfulfilled Commitment in respect of Shareholders, Related Parties and the Company issued on 25 June 2014, the term of contract expire on 20 January 2015. On 13 March 2015, the 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.

- (c) 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 RMB 612 thousand at current period. (For the six months ended 30 June 2017: RMB 438 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 RMB 612 thousand for the six months ended 30 June 2018 (for the six months ended 30 June 2017: RMB 438 thousand), and should totally pay GPLH RMB 490 thousand (for the six months ended 30 June 2017: RMB350 thousand).

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

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

① License Agreement *(Continued)*

- (d) Pursuant to Trademark License Agreement entered into by Guangzhou Baiyunshan Hehuang Great Health Products Co., Ltd. and the Company on 7 March 2016, Guangzhou Baiyunshan Hehuang Great Health Products Co., Ltd. is able to use 32 kinds of trademark owned by GPLH for 32 kinds of plant beverages and non-alcoholic beverages from 7 March 2016 to 31 December 2019 (both parties otherwise agreed to extend the term if need to), 2.1% of net sale volume for the products which use these 32 kinds of trademark shall be paid to the Company as a license fee by Guangzhou Baiyunshan Hehuang Great Health Products Co., Ltd. Trademark License Agreement will expire on 31 December 2019. Guangzhou Baiyunshan Hehuang Great Health Products Co., Ltd. should pay the Company license fee amounted to RMB 874 thousand at current period (for the six months ended 30 June 2017: RMB 231 thousand).

Based on The Arrangement of the Trademark Trusteeship Agreement and Trademark Trusteeship Supplementary Agreement entered into by GPLH and the Company, Guangzhou Baiyunshan Hehuang Great Health Products Co., Ltd. should pay the Company the above license fee amounted to RMB 874 thousand for the six months ended 30 June 2018 (For the six months ended 30 June 2017: RMB 231 thousand), and should totally pay GPLH RMB 699 thousand (For the six months ended 30 June 2017: RMB185 thousand).

- (e) Pursuant to Trademark License Agreement entered into by Guangzhou Wang Lao Ji Dazhai Beverages Co., Ltd. and the Company on 6 September 2017, Guangzhou 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 Guangzhou Wang Lao Ji Dazhai Beverages Co., Ltd. Trademark License Agreement will expire on 5 September 2020. Guangzhou Wang Lao Ji Dazhai Beverages Co., Ltd. should pay the Company license fee amounted to RMB 265 thousand at current period. (for the six months ended 30 June 2017: RMB 0 thousand).

Based on the Arrangement of the Trademark Trusteeship Agreement and Trademark Trusteeship Supplementary Agreement entered into by GPLH and the Company, Guangzhou Wang Lao Ji Dazhai Beverages Co., Ltd. should pay the Company the above license fee amounted to RMB 265 thousand for the six months ended 30 June 2018 (for the six months ended 30 June 2017: RMB 0 thousand), and should totally pay GPLH RMB 212 thousand (for the six months ended 30 June 2017: RMB 0 thousand).

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

6. Receivables and Payables of Related Parties

(1) Receivables

Item	Closing Balance		Opening Balance	
	Book value	Provision for bad debts	Book value	Provision for bad debts
Receivables:				
Wang Lao Ji	197,407,141.63	1,974,071.42	127,536,422.67	1,744,923.79
HWBYS	43,341,008.75	291,730.88	36,112,366.62	388,503.17
Hua Cheng	30,465,390.45	304,653.90	8,306,091.67	83,060.92
Chuangmei Medicines	102,351,038.16	1,023,510.38	30,876,904.42	308,886.62
Yi Xin Tang	5,152,415.46	51,524.15	—	—
GPHL	246,709.60	2,467.10	8,400.00	84.00
GP Corp.	—	—	108,315,583.96	1,774,228.39
Total	378,963,704.05	3,647,957.83	311,155,769.34	4,299,686.89
Notes receivable:				
Chuangmei Medicines	77,083,496.57	—	64,423,774.86	—
Wang Lao Ji	29,128,000.00	—	8,175,000.00	—
Hua Cheng	1,490,315.00	—	—	—
Yi Xin Tang	1,115,930.38	—	—	—
GP Corp.	—	—	150,931,623.28	—
Total	108,817,741.95	—	223,530,398.14	—
Advances to suppliers:				
HWBYS	42,980,172.06	—	1,073,298.64	—
Wang Lao Ji	18,219,342.49	—	918,115.80	—
Hua Cheng	3,282,396.43	—	71,663.26	—
Guangzhou Yu Fa Medical Instruments Co., Ltd.	—	—	210,278.62	—
GP Corp.	—	—	929.44	—
Total	64,481,910.98	—	2,274,285.76	—

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

6. Receivables and Payables of Related Parties (Continued)

(1) Receivables (Continued)

Item	Closing Balance		Opening Balance	
	Book value	Provision for bad debts	Book value	Provision for bad debts
Other receivables:				
Wang Lao Ji	5,288,477.05	—	1,374,386.91	—
HWBYS	3,531,266.10	—	20,542,631.61	—
Baxter Qiao Guang	1,730,389.00	—	3,094,266.79	—
GPHL	1,461,933.49	—	3,228,120.78	—
Guangzhou South China Medical Instruments Co., Ltd.	100,000.00	100,000.00	100,000.00	100,000.00
Guangzhou Baiyunshan Southern Anti-tumor Biological Products Co., Ltd.	—	—	77,452.83	—
GP Corp.	—	—	53,039.67	—
Total	12,112,065.64	100,000.00	28,469,898.59	100,000.00

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

6. Receivables and Payables of Related Parties *(Continued)*

(2) Payables

Item	Closing Balance	Opening Balance
Accounts payables:		
Wang Lao Ji	6,808,807.94	—
HWBYS	3,406,060.36	4,181,609.48
Chuangmei Medicines	11,524,063.07	9,283,262.12
Baxter Qiao Guang	375,129.25	—
GP Corp.	—	52,049,347.91
Hua Cheng	629,733.08	473,175.67
Total	<u>22,743,793.70</u>	<u>65,987,395.18</u>
Notes payable:		
HWBYS	108,705,060.00	1,517,296.64
Wang Lao Ji	72,357,800.00	—
Total	<u>181,062,860.00</u>	<u>1,517,296.64</u>
Advances from customers:		
Wang Lao Ji	10,177,669.89	—
HWBYS	1,672,627.37	1,991,966.08
Chuangmei Medicines	42,934,853.73	16,204,394.49
Hua Cheng	909,996.16	—
Yi Xin Tang	26,703.62	—
Nuo Cheng	1,453.90	—
GP Corp.	—	27,046,074.94
Total	<u>55,723,304.67</u>	<u>45,242,435.51</u>
Other payables:		
GPHL	61,192,277.51	47,902,394.11
HWBYS	579,062.38	668,878.04
Baxter Qiao Guang	43,351.13	—
GP Corp.	—	217,599.54
Wang Lao Ji	—	77,715.58
Total	<u>61,814,691.02</u>	<u>48,866,587.27</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XIII. SHARE-BASED PAYMENTS

Nil.

XIV. COMMITMENTS OR CONTINGENCY

1. Significant Commitments

(1) Capital commitments

Item	Closing balance	Opening balance
Signed but not recognized in the financial statement		
—Commitment on purchasing long-term assets	1,085,443,258.11	246,645,887.83
—Large amount contract	—	—
—Commitments on external investment	—	100,300,000.00
Total	<u>1,085,443,258.11</u>	<u>346,945,887.83</u>

(2) Commitments of operating lease

As of the balance sheet date, the irrevocable operating leases that the Group has signed are as follows:

Item	Closing balance	Opening balance
Minimum lease payment of irrevocable operating lease:		
Within 1 year	119,411,192.88	74,880,300.79
1 to 2 years	84,576,456.35	48,999,389.49
2 to 3 years	60,230,189.71	59,417,772.17
Over 3 years	235,344,199.32	206,131,969.07
Total	<u>499,562,038.26</u>	<u>389,429,431.52</u>

Note: Operating lease rent recognized into profit or loss for the period from January to June of year 2018 was RMB 55,239 thousand (January to June of year 2017: RMB 53,405 thousand)

(3) As of 30 June 2018, the Group has no unrecognized commitment related to investment in joint ventures.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XIV. COMMITMENTS OR CONTINGENCY (Continued)

1. Significant Commitments (Continued)

(4) Other commitments (Continued)

- ① The Group's share of the capital expenditures commitments of the joint ventures is as follows:

Item	Closing balance	Opening balance
Buildings, machineries and equipments	15,317,042.83	737,286,295.70
Total	15,317,042.83	737,286,295.70

- ② Capital expenditures commitments authorized by the management but are not yet contracted for:

Item	Closing balance	Opening balance
Buildings, machineries and equipments	805,264,806.45	1,025,443,400.94
Commitments on external investments	320,000,000.00	320,000,000.00
Total	1,125,264,806.45	1,345,443,400.94

- ③ Fulfillment of commitments for the prior period

The Group has fulfilled the capital expenditures and operating lease commitments as at 30 June 2018.

2. Contingencies

Please refer to Note XVI (1) for contingencies related to litigation.

XV. EVENTS AFTER THE BALANCE SHEET DATE

As of the reporting date, the Company does not have any non-adjustment item of the significant event after the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XVI. OTHER SIGNIFICANT MATTERS

(1) Litigations

① *Litigation of the Group's subsidiary A*

- (a) Guangdong Guangsheng Non-Ferrous Metal Group Co., Ltd. filed a claim with the Court on the unreceived payment of RMB 36,880 thousand against the Group's subsidiary A on 5 February 2015, and claimed compensation for maturity payment and overdue interest.

Pursuant to the Written Civil Ruling captioned (2015) SuiYueFaMinErChuZi No.328-3 issued by the People's Court of Guangzhou Yuexiu District 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. lodged an appeal.

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

On 5 February, 2018, the People's Court of Guangzhou Liwan District rendered a judgment of the first instance that: lacking sufficient fact and without merit, the claims of Guangdong Guangsheng Non-Ferrous Metal Group Co., Ltd., which seeks for compensation from subsidiary A, were dismissed by the Court because Guangdong Guangsheng Non-Ferrous Metal Group Co., Ltd. failed to present evidence to prove that the goods involved had been delivered to subsidiary A. Hence, subsidiary A has no need to pay the maturity payment and overdue interest mentioned in the above case.

On 12 March 2018, Guangdong Guangsheng Non-Ferrous Metal Group Co., Ltd. lodged an appeal against the case. So far subsidiary A has received the notice from the court, but the trial has not been determined.

Guangdong Guangsheng Non-Ferrous Metal Group Co., Ltd. filed a claim against subsidiary A for the unreceived payment of RMB 18,440 thousand on 4 February 2015, and required subsidiary A to pay maturity payment and overdue interest.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XVI. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

① Litigation of the Group's subsidiary A *(Continued)*

(a) *(Continued)*

Pursuant to Written Civil Ruling captioned (2015) SuiLiFaMinErChuZi No.774-3 issued by the People's Court of Guangzhou Liwan District on 21 December 2015, the prosecution by Guangdong Guangsheng Non-Ferrous Metal Group Co., Ltd. was rejected, and transferred to public security organization to handle as criminal case. Guangdong Guangsheng Non-Ferrous Metal Group Co., Ltd. has lodged an appeal.

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

On 27 December 2017, People's Court of Guangzhou City Liwan District made a civil judgment that all the claims of Guangdong Guangsheng Non-Ferrous Metal Group Co., Ltd. were dismissed.

On 10 January 2018, Guangdong Guangsheng Non-Ferrous Metal Group Co., Ltd. appealed to the Intermediate People's Court of Guangzhou. The trial was tried at the Intermediate People's Court of Guangzhou on 9 May 2018 and a court order is to be made.

Guangdong Guangsheng Investment Group Energy Co., Ltd. started a suit to the unreceived payment of RMB 47,400 thousand against the Group's subsidiary A on 25 December 2014, and seek for blocking the account of subsidiary A, and required subsidiary A to pay maturity payment and overdue interest.

Pursuant to Written Civil Ruling captioned (2015) SuiLiFaMinErChuZi No.454-1 to No.468-1 issued by the People's Court of Guangzhou Liwan District on 21 December 2015, the prosecution by Guangdong Guangsheng Investment Group Energy Co., Ltd. was rejected, and the case was transferred to public security organization to handle as criminal case. Guangdong Guangsheng Investment Group Energy Co., Ltd. lodged an appeal to Guangzhou Intermediate People's Court.

Pursuant to a total of 15 pieces of Written Civil Ruling captioned (2016) Yue01MinZhong No.3437 to No. 3445, No.5158 to No. 5163 issued by the Intermediate Court of Guangzhou on 16 December 2016, a total of 15 pieces of Written Civil Ruling captioned (2015) SuiLiFaMinErChuZi No.454-1 to No. 468-1 issued by the People's Court of Guangzhou Liwan District was judged to quash, and the case was referred to the People's Court of Guangzhou Liwan District.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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上界山

XVI. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

① Litigation of the Group's subsidiary A *(Continued)*

(a) *(Continued)*

On 27 December 2017, the People's Court of Guangzhou Liwan District made a civil judgment that all the claims of Guangdong Guangsheng Investment Group Energy Co., Ltd. were dismissed.

On 4 January 2018, Guangdong Guangsheng Investment Group Energy Co., Ltd. appealed to the Intermediate People's Court of Guangzhou. The second instance review of the case was tried at the Intermediate People's Court of Guangzhou on 9 May 2018 and a court order is to be made.

According to the opinion of external lawyer, upstream customers of subsidiary A could not provide logistics certificates of delivery to Guangzhou Defenghang Petrochemical Co., Ltd. and Guangzhou Tongtai Fuel Chemical Co., Ltd., thus the relationship of liabilities may not be established. Subsidiary A has no need to pay to the upstream customers, and there are no overdue accounts receivable that are not recovered.

All the above litigations involved the same party of the case. Subsidiary A has sued the party related to the case in court, and all of the prosecution by the Company was rejected.

With the assessment of the case and the consideration of the opinion of external lawyer, the management of subsidiary A made separate provision for bad debts for both the accounts receivable for Guangzhou Defenghang Petrochemical Co., Ltd. and Guangzhou Tongtai Fuel Chemical Co., Ltd., and the accounts receivable for Dongguan Ye Lian Road Modified Asphalt Co., Ltd. with a provision rate of 10%. The amounts that have been paid, which includes other receivables of RMB 10,315.7 thousand of Guangzhou Defenghang Petrochemical Co., Ltd., and accounts receivable amounted to RMB 10,541.8 thousand of Sinogas (Zhuhai) Petrochemical Co. Ltd., are individually subject to separate provision for bad debts, with a provision rate of 100%.

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XVI. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

① *Litigation of the Group's subsidiary A (Continued)*

- (b) On 29 October 2014, the Group's subsidiary A received a response to prosecution concerning about the contract dispute of financial borrowings of subsidiary A, Jiangmen Yuehui Fuel Co., Ltd. and another 7 companies accused by Guangdong Nanyue Bank and its Jiangmen Branch from the People's court of Guangdong Zhanjiang Xiashan District. According to the indictment, Jiangmen Yuehui Fuel Co., Ltd. applied to Guangdong Nanyue Bank for factoring financing of RMB 30 million by the receivable due from subsidiary A which amounted to RMB 37,500 thousand as a pledge, and Yuehui charged subsidiary A to take the responsibility of settlement or compensation. Subsidiary A alleged that the Company seal and signature on the documents presented as evidence were fake, and thus they should not bear any legal responsibility.

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 of RMB 70,240. In accordance with the summons, the Company was required to appear in court for appraisal and to provide an original sample of signature of "Feng Yaowen".

Pursuant to Written Civil Ruling captioned (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 the case was transferred to Jiangmen public security organization. Guangdong Nanyue Bank Jiangmen Branch shall bear the appraisal fee.

On 5 January 2018, Guangdong Nanyue Bank filed a claim with the Higher People's Court of Guangdong province for retrial.

On 30 March 2018, subsidiary A received a notice of case conclusion captioned (2018) Yue0703Zhi No.26 issued by the People's Court of Jiangmen Pengjiang District, in regard of the case that subsidiary A applies for court enforcement of the contract dispute with Jiangmen Branch of Guangdong Nanyue Bank Co., Ltd. As the person subjected to execution had undertaken all the obligations in this case, the enforcement implementation is concluded, and a decision is made to close the case.

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(Unless otherwise stated, amount shall be expressed in RMB)

XVI. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

① Litigation of the Group's subsidiary A *(Continued)*

- (c) Guangzhou Linhai Trade Industry Co., Ltd. filed a claim for the unreceived payment of RMB 8,364.9 thousand against subsidiary A, a subsidiary of the Group, on 11 November 2014, and required subsidiary A to pay maturity payment and overdue interest.

In accordance with the Written Civil Ruling captioned (2014) SuiYueFaMinErChuZi No. 2424 and No.2425-4 issued by the People's Court of Guangzhou Liwan District on 30 December 2015, subsidiary A is ordered to pay maturity payment and overdue interest to Guangzhou Linhai Trade Industry Co., Ltd.

In accordance with the Written Civil Ruling captioned (2016) Yue01Minzhong No. 7733 and No.7734 issued by the Intermediate People's Court of Guangzhou on 21 December 2016, the Written Civil Ruling captioned (2014) SuiYueFaMinErChuZi No. 2424 and No.2425-4 issued by the People's Court of Guangzhou Liwan District was judged to quash, and claims of the appellant, Guangzhou Linhai Trade Industry Co., Ltd., was dismissed.

In accordance with the Written Civil Ruling captioned (2017) YueMinShen No. 6100 issued by the Higher People's Court of Guangdong on 7 November 2017, the retrial application of Guangzhou Linhai Trade Industry Co., Ltd., was dismissed.

On 15 March 2018, subsidiary A received the Notification of Acceptance of civil case with reference of SuiJianKongShenKongMinShou (2018) No. 357 from Guangzhou People's Procuratorate. The content of the notification is that Guangzhou Linhai Trade Industry Co., Ltd. applied to Guangzhou People's Procuratorate for supervision because Guangzhou Linhai Trade Industry Co., Ltd. refused to accept the results of the court judgement of Written Civil Ruling captioned (2016) Yue01Minzhong No. 7733 and No.7734 issued by the Intermediate People's Court of Guangzhou, on the case of the sales contract dispute with Guangzhou Pharmaceuticals Import and Export Co., Ltd. At present, the Procuratorate has accepted the case. On July 13, 2018, subsidiary A received the written decision of not support the supervisory from Guangzhou People's Procuratorate's SuiJian Min (Hang) Jian (2018) No.44010000573, and Sui Chongmin (Bank) Supervisor (2018) No.44010000574. According to the Article 90 of Rules for the Supervision over Civil Proceedings by the People's Procuratorates (for Trial Implementation), the Procuratorate decided not to approve the supervisory application from Guangzhou Linhai Trade Industry Co., Ltd.



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FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XVI. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

② *Other litigation of the Group's A subsidiary*

A company, a subsidiary of the Company, started a suit for the unreceived payment of to RMB 5,191.2 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, the People's Court of Hunan Province Hengshan County 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 that 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., and A company is not creditor. A company has reported to Guangzhou Public Security on 29 February 2016.

At the end of year 2015, management of A company assessed the case with consideration of external legal advice. The above accounts receivable with amount of RMB 5,191.2 thousand are individual subject to separate provision for bad debts, with a provision rate of 100%.

NOTES TO FINANCIAL STATEMENTS

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(Unless otherwise stated, amount shall be expressed in RMB)

XVI. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

③ Litigation of the Group's subsidiary G

- (a) On 27 December 2016, Guangzhou Keyun branch of Ping'an Bank Co., Ltd. started a suit for the unreceived repayment from Guangdong Huaqiang Pharmaceutical Co., Ltd. (hereinafter referred to as "Huaqiang") of the loan obtained from a transfer of accounts receivable to the Group's G subsidiary, against Huaqiang, multiple guarantor, and subsidiary G which is the debtor of the accounts receivable.

For the period from April to June of year 2014, Huaqiang obtained the loan through transferring the accounts receivable due from subsidiary G to Ping'an Bank without notifying subsidiary G. Subsidiary G is the debtor of the accounts receivable but is not aware of the transfer and has paid the involved payments for goods of RMB 66,340 thousand to Huaqiang. Ping'an Bank alleged that subsidiary G should repay payments for goods because Huaqiang did not repay the loan in time. On 10 August 2018, the case is tried at the Intermediate People's Court of Guangzhou. The case is currently at the review stage.

- (b) On 10 November 2017, Guangdong Zirui Pharmaceutical Co., Ltd. (hereinafter referred to as "Zirui Pharmaceutical") started a suit for the unreceived payments for goods of RMB 10,853.7 thousand in total against G company, a subsidiary of the Group. It has been confirmed by the procurement department of subsidiary G that the payment for goods is overdue for sure. The reason for subsidiary G not paying the payment for goods for the present is because of the unpaid price difference due from Zirui Pharmaceutical during that period. The case has been tried and the Court ordered that subsidiary G pay the payment for goods of RMB 10,505.5 thousand to Zirui Pharmaceutical. Subsidiary G was dissatisfied with the judgement and lodged an appeal to the Intermediate People's Court of Guangzhou on 4 June 2018. The Court has accepted the case and the second instance is to be tried.
- (c) On 31 May 2018, Zirui Pharmaceutical started a suit for the unreceived price difference of RMB 387.1 thousand in total and interest (calculated at overdue bank loan interest rate at the same period). On 6 July 2018, the case was tried, and the Court dismissed all the claims of Zirui Pharmaceutical. Zirui Pharmaceutical was dissatisfied with the judgement and lodged an appeal on 30 July 2018. Subsidiary G received relevant material on 8 August 2018. The second instance is to be tried.

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(Unless otherwise stated, amount shall be expressed in RMB)

XVI. OTHER SIGNIFICANT MATTERS (Continued)

(1) Litigations (Continued)

④ Prosecution of the Group's subsidiary G

- (a) On 24 July 2015, the G subsidiary of the Group started a suit with Wuhan Intermediate People's Court and sued Hubei Hongqiao Pharmaceutical Co., Ltd. (hereinafter referred to as "Hubei Hongqiao") for maturity payment amounted to RMB 27,725.1 thousand. The G subsidiary required Hubei Hongqiao to pay the maturity payment, overdue interest and liquidated damages with a total of RMB 37,124.8 thousand, and implemented property preservation before the lawsuit.

On 24 January 2017, the Wuhan Intermediate People's Court made a first-instance judgment on the case, and ordered Hubei Hongqiao to pay G subsidiary a total amount of RMB 27,725.1 thousand and pay part of the liquidated damages and interest loss (calculated to the date of actual settlement of the arrears) from the date of the effective date of the judgment. The judgment has entered into force and the defendant failed to perform the court judgment. The G subsidiary has commissioned local lawyers to submit information to the court for enforcement. In this case, the pre-litigation property preservation measures were taken before the prosecution, and the land use rights and bank accounts of Hubei Hongqiao were sealed up and frozen. Up to now, the preserved property in the previous period is still in a valid state of sealing up and freezing. The court has commissioned the assessment agency to evaluate the relevant preservation property. In March 2018, the court notified that the evaluation report had been sent to Hubei Hongqiao and was subsequently auctioned by the court. The implementation of the case is being carried out in accordance with legal procedures.

- (b) On 5 April 2017, the G subsidiary of the Group sued against Guangxi Liuzhou Baicao Tang Pharmaceutical Co., Ltd. (hereinafter referred to as "Liuzhou Baicao Tang") for arrears of goods payment with an amount of RMB 14,443.5 thousand in the People's Court of Liwan District, Guangzhou, requesting Liuzhou Baicao Tang to pay the maturity payment and overdue interest.

On 24 July 2018, the People's Court of Liwan District, Guangzhou made a first-instance judgment and ordered Liuzhou Baicao Tang to pay the G subsidiary a payment of RMB 14,443,500 and overdue interest which is charged on the payment at a rate of five ten thousandth per day since 1 January 2018 (calculated to the date of actual settlement of the arrears), and compensate G subsidiary's lawyer fee of RMB 416 thousand and return the appraisal fee of RMB 44.8 thousand which G subsidiary has paid within 10 days from the effective date of the judgment. As of now, the judgment is still in the appeal period and has not yet entered into force.

In this case, the pre-litigation property preservation measures were taken before the prosecution, and the property rights and bank accounts of Liuzhou Baicao Tang were sealed up and frozen. Up to now, the preserved property in the previous period is still in a valid state of sealing up and freezing.

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(Unless otherwise stated, amount shall be expressed in RMB)

XVI. OTHER SIGNIFICANT MATTERS (Continued)

(1) Litigations (Continued)

④ Prosecution of the Group's subsidiary G (Continued)

- (c) On 7 February 2018, the G subsidiary of the Group filed a claim with the court against Guangdong Zirui pharmacy Co., Ltd. for the arrears from its 2015-2017 replenishment of a total of RMB 2,341.9 thousand (a total of 39 cases). At present, the case has been accepted and filed. After a trial, as of August 13, 2018, a total of 14 cases have been settled to judgements. Among them, 3 cases captioned (2018) Yue 0103 Minchu 1902, 1913, 1926 respectively, have a total amount of RMB 2,659.20. As the evidence presented by Zirui proved that the amount was actually paid, the court rejected the claim of G subsidiary (the judgment has taken effect). Among them, 11 cases captioned (2018) Yue 0103 Minchu 1928, 1932, 1933, 1936, 1939, 1941, 1943, 1944, 1947, 1893, 1894 respectively, have a total amount of RMB 421,410.29. The court ruled that the G subsidiary requested the company to pay for the replenishment of the claim, but rejected the G subsidiary's request of the interest of the overdue payment. The case is still in the appeal period and the judgment has not taken effect. The remaining cases have still not been settled.
- (d) On 18 August 2016, the G subsidiary of the Group started a suit against Guilin Pharmaceutical Group Co., Ltd. (hereinafter referred to as "Guilin Medicine"), for a total overdue payment of RMB 4,130.8 thousand and applied for property preservation. The People's Court of Guangzhou made the final the judgment that Guilin Medicine is required to pay G subsidiary the maturity payment of RMB 4,130.8 thousand, the liquidated damages (from 22 August 2014 to the date of the actual payment is made, at the rate of five ten thousandth per day), the legal fees, and the litigation fees and litigation preservation fees for this case within 10 days from the effective date of the judgment. The defendant has not fulfilled the court judgment. The G subsidiary applied to the court for enforcement, and is awaiting for the court to auction the seized property.
- (e) On 29 March 2018, the G subsidiary of the Group started a suit against Weihai Qinuo Medical Instruments Co., Ltd. (hereinafter referred to as "Qinuo Medical") to refund the G subsidiary's prepayments totaling to RMB 1,521.39 thousand. The case was judged on the first instance on 6 July 2018. According to the judgment of the first trial, Qinuo Medical is required to pay RMB 951.39 thousand and interest to G subsidiary, and the insurance premium of RMB 5 thousand and the case acceptance fee of RMB 5.555 thousand were borne by Qinuo Medical. The G subsidiary is dissatisfied with the judgment and has filed an appeal. The court is about to order the second trial.

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(Unless otherwise stated, amount shall be expressed in RMB)

XVI. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

⑤ *Litigation against the Group's sub-subsidiary H*

On 7 September 2016, Huarun Guokang (Beijing) Pharmaceutical Co., Ltd. initiated a lawsuit for the unreceived medicine goods from sub-subsidiary H to Huaqiang, the third party in the transaction against sub-subsidiary H and required sub-subsidiary H to repay the payment for medicine goods of RMB 15,297.1 thousand.

Huarun Guokang purchased medicine from sub-subsidiary H in 2014 and paid off payment for goods of RMB 15,297.1 thousand. The plaintiff sold the above-mentioned medicine to Huaqiang, the third party, on 30 May 2014. As sub-subsidiary H and the third party are located in the same city of the same province and the two companies are close to each other, Huarun Guokang and H sub-subsidiary agreed to transport medicine directly to the third party to save transportation expenses. Huarun Guokang initiated a lawsuit for the unreceived payment for goods against the third party to the People's Court of Beijing Fengtai District. The first instance was tried on 21 July 2016. As the third party claimed that it has no obligation for paying the payment for goods because no medicine has been received, Huarun Guokang required sub-subsidiary H to return the payment for medicine of RMB 15,297.1 thousand. Sub-subsidiary H raised an objection to jurisdiction during the period of submitting statement of defense. On 19 December 2016, the Court overruled the objection to jurisdiction lodged by sub-subsidiary H and Huaqiang.

On 29 December 2016, sub-subsidiary H lodged the objection to jurisdiction to the Second Intermediate People's Court of Beijing, and applied to set aside the judgement issued by the People's Court of Beijing Fengtai District and to transfer the case to the People's Court of Guangdong Foshan Nanhai District.

On 12 September 2017, the Second People's Court of Beijing made the final judgement and Written Civil Ruling captioned (2017) Jing02MinXiaZhong No. 827. The Court overruled the objection to jurisdiction lodged by sub-subsidiary H and affirmed the original judgment. On 12 June 2018, the first session was tried by the People's Court of Beijing Fengtai District and the case is currently under trial.

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XVI. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

⑥ *Respond to prosecution of other subsidiaries of the Group*

- (a) In 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, the two cases, 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 captioned [(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 captioned [(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.

- (b) For the dispute between Wang Lao Ji 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 10 cans herbal tea sold are JDB", which constitute false propaganda, under both the 1st trial ((2013) ChangZhongMinWuChuZi No.00308) and the 2nd trial((2016) XiangMinZhong No.94), the slogan of Wuhan Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. constitute false propaganda, and the infringement is ordered to stop. And according to the judgment of the 1st trial, Wuhan Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. were required to pay Wang Lao Ji Great Health pecuniary loss of RMB 9,022,978.20 and reasonable rights protection fee of RMB 239,779.00. The court of 2nd trial upheld the judgement of lower court except for the compensation of to RMB 6 million, which is paid to Wang Lao Ji Great Health. Wuhan Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. was dissatisfied with the first-instance judgment and applied for a retrial to the high court. The highest court decided to arraign this case on 23 December 2016 as there are some applicable issues of this case, with reference of (2017) ZuiGaoFaMinZai No. 155. The Supreme People's Court started the trial on 30 November 2017, and the case is at a retrial stage.

As at the reporting date, the case is currently at the review stage. The management of the Group considers that it is not probable that it will lose the case which results in direct economic loss after the assessment which takes the external legal advice under consideration.

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XVI. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

⑥ *Respond to prosecution of other subsidiaries of the Group (Continued)*

- (c) 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 captioned (2015) SuiYueFaMinSanChuZi No.186, issued by the People's Court of Guangzhou Yuexiu District on 30 June 2017, Lease Contract and Lease Supplementary Contract entered into by Guangzhou Hao Cheng Estate Management Development Co., Ltd. and B company on 28 February 2014 was terminated on 9 September 2016. B company shall fully pay Guangzhou Hao Cheng Estate Management Development Co., Ltd. the compensation of RMB 1,955,325.00 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 captioned (2015) SuiYueFaMinSanChuZi No.639, issued by the People's Court of Guangzhou Yuexiu District on 30 June 2017, Guangzhou Hao Cheng Estate Management Development Co., Ltd. shall pay B company penalty and rental of to RMB9,800 thousand which during the period from 1 October 2014 to 31 January 2015, its guarantor shall undertake joint liability for the debts, and other claims of B company were rejected.

Pursuant to Written Civil Ruling captioned (2016) Yue0104MinChu No.100 issued by the People's Court of Guangzhou Yuexiu District on 30 June 2017, Guangzhou Hao Cheng Estate Management Development Co., Ltd. shall pay B company penalty and rental of RMB 33,205 thousand which its guarantor shall undertake joint liability for the debts during the period from 1 February 2015 to 31 December 2015, and other claims of B company were rejected. Guangzhou Hao Cheng Estate Management Development Co., Ltd. refused to accept the above-mentioned civil judgement and lodged an appeal. B company started a suit against Guangzhou Hao Cheng Estate Management Development Co., Ltd. and its guarantor on delays in paying rental and breach of contract damages for the period from 1 January 2016 to 9 September 2016 captioned (2018) Yue0104Minchu No. 813.

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XVI. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

⑥ *Respond to prosecution of other subsidiaries of the Group (Continued)*

(c) *(Continued)*

The final judgment on 28 May 2018 included three cases in which B subsidiary recovered the rent arrears from October 2014 to December 2015. The final judgment announced that rent was halved according to the contract, and the interest on the payable rent was calculated based by the bank benchmark interest rate of similar loans. The estimated residual value of the renovation investment was 50% of the other leases except for the RMB 1,955,325.00 which is agreed by the B subsidiary.

On 28 June 2018, B company and Guangzhou Hao Cheng Estate Management Development Co., Ltd. signed the Settlement Agreement after Guangzhou Hao Cheng Estate Management Development Co., Ltd. paid the principal and interest of RMB 27,966,723.12 to B company and provided invoice of valuation fee of RMB 128,000, assets of RMB 230,000, invoice of RMB 1,725,325, and cash voucher of RMB 2,278,382.50 to B company, and received receipt from B company for receiving refund of margin RMB 5,800,000. On June 29, B company handed in the written application of deblocking the assets of Haocheng and Cai Song, and the written application of withdrawal of the appealed but not judged case which is captioned as (2018) Yue0104Minchu No. 813.

- (d) Guangdong Guangsheng Investment Group Energy Co., Ltd. (hereinafter referred to as "Guangsheng Energy") started a suit for the unreceived payment of RMB 58,900 thousand against a subsidiary of the Company, and applied for a sequestered account to it in year 2014. The subsidiary has filed a claim against the party related to the case, Guangdong Hua Zi Investment Co., Ltd. (hereinafter referred to as "Hua Zi"), and applied for sealing up related assets. The subsidiary has reported this case to Guangzhou Public Security seeking for investigation of criminal responsibility of Hua Zi.

Pursuant to Written Civil Ruling captioned (2014) SuiTianHeFaMinErChuZi No.4583-2 issued by People's Court of Guangzhou Tian He District on 5 February 2016, the prosecution by Guangsheng Energy was rejected, and the case was transferred to public security organization to handle as criminal case. Guangsheng Energy lodged an appeal.

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

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XVI. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

⑥ *Respond to prosecution of other subsidiaries of the Group (Continued)*

(d) *(Continued)*

Pursuant to Written Civil Ruling captioned (2014) SuiTianHeFaMinErChuZi No.4583 issued by People's Court of Tian He District on 6 April 2017, the prosecution by Guangsheng Energy was rejected. Guangsheng Energy lodged an appeal to the Intermediate People's Court of Guangzhou with second instance captioned (2017) Yue01MinZhong No.10908. On 4 September 2017, the Intermediate People's Court of Guangzhou issued the second-instance judgment, and dismissed the claim of Guangsheng Energy Co., Ltd as well as affirmed the original judgment.

On 25 September 2017, pursuant to the Written Civil Ruling captioned (2014) SuiTianFaMinErChuZi No. 4583 to No. 4584-4, the Court has ordered to revoke the frozen.

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

On 1 June 2017, Guangsheng Energy lodged an appeal to People's Court of Tian He District for the dispute with a case captioned (2017) Yue0106MinChu No.13720. Pursuant to Written Civil Ruling captioned (2017) Yue0106Minchu No.13720 issued by the People's Court of Guangzhou Tian He District on 23 August 2017, claims of Guangsheng Energy was rejected. Guangsheng Energy lodged an appeal to the Intermediate People's Court of Guangzhou for the second trial captioned (2017) Yue01Minzhong No. 23351. The Intermediate People's Court of Guangzhou has rendered a ruling of second instance to reject the appeal from Guangsheng Energy and affirmed the original judgment.

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

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茶始祖
玉皇山

XVI. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

⑥ *Respond to prosecution of other subsidiaries of the Group (Continued)*

(d) *(Continued)*

Pursuant to Written Civil Ruling captioned (2014) SuiTianFaMinErChuZi No.4619 issued by People's Court of Tian He District on 6 April 2017, Hua Zi shall pay the payment of goods with an amount of RMB 29,697 thousand, the penalty, the interests and the lawyer fee to a subsidiary of the Company. And at present this judgement has become effective. On 17 August 2017, the subsidiary applied to the People's Court of Tian He District for enforcement of (2017) Yue0106Zhi No. 9947. Currently, the subsidiary is notified by the People's Court of Tian He District that the current enforcement is terminated because no asset of the person subject to enforcement was found.

Pursuant to Written Civil Ruling captioned (2014) SuiTianHeFaMinErChuZi No.4620 issued by the People's Court of Tian He District on 6 April 2017, the prosecution by a subsidiary of the Group was rejected. The subsidiary lodged an appeal to the Intermediate People's Court of Guangzhou with second instance captioned (2017) Yue01MinZhong No.10910. On 25 August 2017, Intermediate People's Court of Guangzhou has rendered a ruling of second instance to reject the appeal from the subsidiary and affirmed the original judgment.

In case Huazi Company evade the responsibility of payment, and ensuring the execution of the judgement captioned (2014) SuiTianFaMinErChuZi NO.4619 and 4620, the subsidiary of the Company has applied to People's Court of Tian He District for property preservation before litigation. And by providing Hua Zi's bank account and the matured claim [Execution Number: (2013) SuiHaiFaZhiZi No.1978] on Southern Company and Suinan Company as property clues, the subsidiary applied to People's Court of Tian He District to freeze the bank account and to rule that Southern Company and Suinan Company, the 2 debtors of Hua Zi, shall not repay the debts, and requested the People's Court of Guangzhou Hai Zhu District (hereinafter referred to as "Hai Zhu Court") to assist in execution. As Guangzhou Yue Cai Investment Holdings Co., Ltd., the execution applicant of case captioned as (2013) SuHaiFaZhiZi No.1978, had not been changed to Hua Zi, People's Court of Tian He District has merely sent the civil ruling paper of property preservation to Hai Zhu Court in October 2014.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XVI. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

⑥ *Respond to prosecution of other subsidiaries of the Group (Continued)*

(d) *(Continued)*

In order to avoid the payment to a subsidiary of the Company and transfer property, Hua Zi made up a fictional fact for assignment of debt by signing a contract with Caili, who accepted creditor's right without receiving the payment of consideration. The contract stipulates that the aforementioned due debts will be transferred to Cai Li in attempt to transfer the property maliciously. Then Cai Li started a suit to the People's Court of Yuexiu District (hereinafter referred to as "Yuexiu District Court") by maliciously confirmed the validity of the credit transfer contract by way of court judgment, so as to achieve the purpose of transferring property. In accordance with Written Civil Ruling captioned (2015) SuiYueFaMinErChuZi No. 1367 and No.1368 subsequently issued by Yuexiu Court relating to the case of the claim transfer contract between Hua Zi Company and Cai Li, the contract entered into by Hua Zi and Caili is valid.

The subsidiary started a suit to Yuexiu Court for the above transfer between Hua Zi and Caili, and requested for cancellation of Written Civil Ruling captioned (2015) SuiYueFaMinErChuZi No. 1367 and No.1368 and confirming that the transfer is invalid [Written Civil Ruling captioned (2017) Yue0104MinChu No. 5562 and No.5561]. The trial was held on 14 August 2017.

On 25 August 2017, the People's Court of Yuexiu District has rendered a civil judgment to reject the appeal from the subsidiary. The subsidiary lodged an appeal to the Intermediate People's Court of Guangzhou. The Court accepted the case on 6 December 2017 with reference of (2017) Yue01Minzhong No. 22319 and No. 22321. On 23 December 2017, the Intermediate People's Court of Guangzhou rejected the retrial application from the subsidiary.

Pursuant to Written Civil Ruling captioned (2018) YueMinShen No. 2229 issued on 25 May 2018, the Higher People's Court of Guangdong made a civil judgment to reject the retrial application from Guangsheng Group Energy Co., Ltd.

The above-mentioned cases are now all closed. The subsidiary did not suffer direct economic loss in cases with Guangsheng Energy and Hua Zi.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

茶始祖
上界山

XVI. OTHER SIGNIFICANT MATTERS (Continued)

(1) Litigations (Continued)

⑥ Respond to prosecution of other subsidiaries of the Group (Continued)

- (e) 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 of RMB13,160,051.26, and the penalty of RMB13,216,059.26 calculated till 23 June 2015, which were RMB26,376,110.52 in total.

E company and Guangdong Construction Engineering Corporation Real Estate Development Company applied for administrative reconsideration to People's Government of Guangzhou. In accordance with Administrative Resolution (SuiFuXingFu [2015] No.872 and No.879) issued by People's Government of Guangzhou on 5 January 2017, the Administrative Resolution (SuiGuoFangZi [2015] No.56) issued by Guangzhou Land Resources and Planning Commission on 23 June 2015 is maintained effect.

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

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

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

Pursuant to Administrative Judgment captioned (2017) Yue71xingzhong No. 1288 issued on 17 October 2017, Intermediate Railroad Transportation Court of Guangzhou issued the final judgement and rejected the appeal from E subsidiary. According to the principle of prudence, E subsidiary accrued land-transferring fees and penalty of RMB 26,376,110.52 in non-operating expenses for the current period. E company applied for a retrial for this case and the Higher People's Court of Guangdong has accepted the appeal on 22 March 2018. As at the reporting date, there is no latest issues to be notified.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XVI. OTHER SIGNIFICANT MATTERS (Continued)

(1) Litigations (Continued)

⑥ Respond to prosecution of other subsidiaries of the Group (Continued)

- (f) On 1 June 2015, Guangzhou Ruigu Enterprise Management Consulting Co., Ltd. started a suit for the dispute of the contract for legal service against F Company, a subsidiary of the Group, and required F company to pay legal service fee and overdue interest of RMB 22,421,800.00.

Pursuant to Written Civil Ruling (SuiNanFangMinErChuZi [2015] No.254) issued by Guangzhou Nansha District People's Court on 8 January 2016, F company shall pay service fee of RMB13,192,825.00 to Guangzhou Ruigu Enterprise Management Consulting Co., Ltd. within 10 days from the date of judgement become effective.

F company and Guangzhou Ruigu Enterprise Management Consulting Co., Ltd. were dissatisfied with the judgement of 1st trial, and they lodged an appeal to the Intermediate People's Court of Guangzhou. Pursuant to Written Civil Ruling ((2016) Yue01MinZhong No.5137) issued by the Intermediate People's Court of Guangzhou on 17 May 2016, F company shall pay Guangzhou Ruigu Enterprise Management Consulting Co., Ltd. service fee of RMB4,352,350.00 within 10 days from the date of judgement become effective.

Guangzhou Ruigu Enterprise Management Consulting Co., Ltd. was dissatisfied with the judgement of the second trial, and lodged an appeal to the Higher People's Court of Guangdong on 1 September 2016. In accordance with Notice of Responding to Prosecution on Civil Retrial Cases [Case (2016) YueMinShen No.6609] issued by the Higher People's Court of Guangdong on 24 October 2016, F company was informed about it. On 13 December 2017, the Higher People's Court of Guangdong held hearings on determining whether to accept the retrial application from Guangzhou Ruigu Enterprise Management Consulting Co., Ltd.

On 12 March 2018, the Higher People's Court of Guangdong issued a judgement and rejected the retrial application from Guangzhou Ruigu Enterprise Management Consulting Co., Ltd.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

茶始祖
王老吉

XVI. OTHER SIGNIFICANT MATTERS (Continued)

(1) Litigations (Continued)

⑥ Respond to prosecution of other subsidiaries of the Group (Continued)

- (g) On 17 November 2014, the Company conducted prosecution to South China International Economic and Trade Arbitration Commission (SHEN T2014811), with the application of: Tongxing Pharmaceutical transfers 48.0465% shares of Wang Lao Ji (98,378,439 shares) with a consideration of to RMB 468,126,196.35. Tongxing shall pay 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 South China International Economic and Trade Arbitration Commission, and the change of prosecution is: Tongxing Pharmaceutical transfers 48.0465% shares of Wang Lao Ji (98,378,439 shares) with a consideration of RMB 358,245,085.62 (with tax), and meanwhile handles the procedures for transferring stock right of Wang Lao Ji. Tongxing shall pay 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, South China International Economic and Trade Arbitration Commission conducted the first court hearing for the above-mentioned cases. After seeking the consent of both parties, the commission decided to entrust professional agency to audit and appraise "net asset value per share of common-law corporation" of Guangzhou Wang Lao Ji Pharmaceutical Holdings Shareholders Contract. Deloitte Consulting (Beijing) Co., Ltd. and Deloitte Hua Yong Certified Public Accountants LLP Beijing Branch were selected as the appraisal agency and audit agency respectively. The above auditing and appraisal work have been completed on 10 April 2017.

Pursuant to the award of arbitration captioned HuaNanGuoZhongShenCai (2017) No. 578 issued on 22 December 2017, South China International Economic and Trade Arbitration Commission ruled that all of the shares of Wang Lao Ji Pharmaceutical Co., Ltd. (98,378,439 shares) held by Tongxing Pharmaceutical shall be transferred to the Group at the price of RMB 3.75 per share, which is RMB 368,919,146.25 (with tax) in total.

On 8 February 2018, the Company applied to the Intermediate People's Court of Guangzhou for enforcement, and the Intermediate People's Court of Guangzhou has filed a case which is captioned as (2018) Guangdong 01 No. 985. After Tongxing Pharmaceutical filed a claim with the Intermediate People's Court of Guangzhou to revoke the arbitral award, the case was suspended. Currently, the case has been resumed.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XVI. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

⑥ *Respond to prosecution of other subsidiaries of the Group (Continued)*

(g) *(Continued)*

The Company received the notice of lawsuit with signature date on 19 March 2018 from the Intermediate People's Court of Shenzhen, which is captioned as (2018) Yue03minte No. 49. The Company is informed by the notice that Tongxing Pharmaceutical Co., Ltd. lodged an application to Intermediate People's Court of Shenzhen for cancellation of award (the arbitral award with reference of HuaNanGuoZhongShenCai (2017) No. 578). On 1 June 2018, Intermediate People's Court of Shenzhen rejected the cancellation application of Tongxing Pharmaceutical.

On 13 June 2018, the Company applied to the Intermediate People's Court of Guangzhou for resuming the enforcement captioned (2018) Yue01zhi 985. The Company received a notice of resumption of execution with signature date of 14 June 2018. After the cancellation application was rejected, Tongxing Pharmaceutical also applied to the Intermediate People's Court of Guangzhou for enforcement of the same judgement captioned (2018) Yue01zhi No. 3133. Currently, related works are under processing.

(h) Yinghui Food Store filed a claim for the advance payment of expenses on behalf of F subsidiary with a total of RMB 2,130,444.00 in 2017. On 4 August 2017, the People's Court of Guangzhou Nan Sha District rendered a judgment of first instance and rejected the appeal lodged by Yinghui Food Store. Yinghui Food Store was dissatisfied with the judgment of the first instance, and lodged an appeal to the Intermediate People's Court of Guangzhou on 21 August 2017, which is captioned as (2017) Yue01minzhong No. 19018. The Intermediate People's Court of Guangzhou has held three inquiries on 7 November 2017, 21 November 2017 and 19 December 2017 respectively.

On 9 April 2018, the Intermediate People's Court of Guangzhou rendered a judgment of the second instance which rejected the appeal lodged by Yinghui Food Store of Pan Long District of Kunming and affirmed the original judgment.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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XVII. INFORMATION OF SEGMENTS

(1) Recognition Basis and Accounting Policies for Reporting Segments

With the strategic management and business development, the Group basically completed the industrial chain layout and internal structure of 4 sectors in 2015, including "Great Southern TCM", "Great Commerce", "Great Health", "Great Medical Care". According to the requirements of regulatory laws, regulations and company management, four major sectors are identified as operating segments. As the business scale of "Great Medical Care" is lower than 10%, this segment is temporarily listed in "Others" column. Segment information is as follows:

- Great Southern TCM segment: research, development, manufacturing and sales for Chinese and Western medicine, chemical raw medicine, natural drug, biological medicine and intermediates of chemical raw medicine;
- Great Health segment: research, development, manufacturing and sales for the products of Great Health;
- Great Commerce segment: wholesale, retail, import and export for Western medicine, Chinese medicine and Medical Instruments.

Price transfer between segments is carried out in accordance with the price policy 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 FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XVII. INFORMATION OF SEGMENTS (Continued)

(2) Reporting financial Information of Segments

① The segment information for the six months ended 30 June 2018 and as of 30 June 2018 is as follows:

Item	Great Southern TCM	Great Health	Great Commerce	Other	Offset between segments	Total
External revenue	5,272,401,349.70	5,277,589,213.31	4,229,646,595.56	60,376,521.46	—	14,840,013,680.03
Inter-segment revenue	176,823,919.84	12,518,551.64	3,119,907,083.31	104,649,895.95	(3,413,899,450.74)	—
Interest income	(22,419,540.20)	(52,823,420.36)	(4,772,926.50)	(24,714,344.39)	—	(104,730,231.45)
Interest expenses	9,539,945.85	2,158.14	51,191,229.65	3,345,300.75	(33,211,206.33)	30,867,428.06
Share of profit or loss of associates and joint ventures	24,143,931.28	—	3,170,793.29	164,916,606.55	130,751.62	192,362,082.74
Impairment losses in respect of assets	12,637,639.89	—	(8,558,851.92)	—	—	4,078,787.97
Impairment losses in respect of credit	2,664,937.46	(112,553.40)	26,015,446.29	1,534,838.42	(878,615.62)	29,224,053.15
Depreciation and amortization expenses	102,743,830.70	9,241,550.26	17,883,823.19	11,760,020.03	(72,052.50)	141,557,171.68
Total profit	886,916,277.57	687,360,730.18	64,986,707.63	513,225,532.78	858,673,432.19	3,011,162,680.35
Income tax expenses	68,180,505.21	128,869,039.79	15,067,176.99	129,470,028.03	10,212,641.65	351,799,391.67
Net profit (Including minority shareholders' gains and losses)	818,735,772.36	558,491,690.39	49,919,530.64	383,755,504.75	848,460,790.54	2,659,363,288.68
Total assets	10,988,171,389.29	5,757,727,320.44	24,145,533,143.50	19,118,405,868.02	(11,818,392,956.43)	48,191,444,764.82
Total liabilities	6,371,911,700.13	2,984,933,206.89	20,934,113,251.98	2,889,226,881.44	(7,087,514,431.96)	26,092,670,608.48
Long-term equity investment in associates and joint ventures	214,852,995.24	—	61,392,337.53	1,833,546,552.39	—	2,109,791,885.16
Increase in other non-current assets except for long-term equity investment	107,055,088.71	21,421,248.98	1,586,375,081.69	24,864,486.14	—	1,739,715,905.52

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XVII. INFORMATION OF SEGMENTS (Continued)

(2) Reporting financial Information of Segments

② The segment information for the six months ended 30 June 2018 and as of 31 December 2017 is as follows:

	Great Southern TCM	Great Health	Great Commerce	Other	Offset between segments	Total
External revenue	4,043,965,877.28	4,999,437,141.51	2,024,842,509.84	47,092,931.28	—	11,115,338,459.91
Inter-segment revenue	85,704,253.52	11,466,366.87	2,809,689,627.78	79,703,824.57	(2,986,564,072.74)	—
Interest income	(12,351,414.04)	(22,803,191.94)	(724,849.57)	(52,401,628.58)	—	(88,281,084.13)
Interest expenses	9,458,489.36	—	22,280,135.33	2,992,082.82	(32,501,724.55)	2,228,982.96
Share of profit or loss of associates and joint ventures	22,858,258.10	—	1,629,715.87	122,861,924.93	(511,691.94)	146,838,206.96
Impairment losses in respect of assets	(4,123,361.93)	(169,887.43)	(2,223,644.68)	(301,949.78)	4,902,987.22	(1,915,856.60)
Depreciation and amortization expenses	102,504,555.15	9,013,844.43	3,596,052.13	10,325,948.56	(72,223.50)	125,368,176.77
Total profit	675,980,777.33	425,327,297.53	35,469,403.84	209,317,314.59	54,333,298.08	1,400,428,091.37
Income tax expenses	51,572,973.44	69,966,487.98	6,826,717.93	68,105,420.00	12,986,823.50	209,458,422.85
Net profit (including minority shareholders' gains and losses)	624,407,803.89	355,360,809.55	28,642,685.91	141,211,894.59	41,346,474.58	1,190,969,668.52
Total assets	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 investment in associated and joint ventures	190,702,755.14	—	58,238,389.70	1,759,540,112.21	—	2,008,481,257.05
Increase in other non-current assets except for long-term equity investment	337,184,429.82	52,757,149.44	27,021,750.62	90,631,857.68	—	507,595,187.56

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XVII. INFORMATION OF SEGMENTS *(Continued)*

(2) Reporting financial Information of Segments

- ③ *The Group's total 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:*

	January to June 2018	January to June 2017
External transaction revenue PRC	14,824,579,884.09	11,108,403,731.00
Other countries/regions	<u>15,433,795.94</u>	<u>6,934,728.91</u>
Total	<u>14,840,013,680.03</u>	<u>11,115,338,459.91</u>
Total non-current assets	30 June 2018	31 December 2017
PRC	7,582,276,991.86	5,515,922,789.70
Other countries/regions	<u>19,803,727.52</u>	<u>18,483,577.02</u>
Total	<u>7,602,080,719.38</u>	<u>5,534,406,366.72</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

茶始祖
上海

XVIII. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS

1. Notes receivable and accounts receivable

Item	Closing balance	Opening balance
Notes receivable	1,021,898,456.27	679,046,805.63
Accounts receivable	242,204,833.66	265,693,684.36
Total	1,264,103,289.93	944,740,489.99

(1) Notes receivable

① Category of notes receivable

Item	Closing balance		Book value
	Closing balance	Provision for bad debts	
Bank acceptance notes	1,021,898,456.27	—	1,021,898,456.27
Commercial acceptance notes	—	—	—
Total	1,021,898,456.27	—	1,021,898,456.27

(Cont.)

Item	Opening balance		Book value
	Book balance Carrying amount	Provision for bad debts	
Bank acceptance notes	679,046,805.63	—	679,046,805.63
Commercial acceptance notes	—	—	—
Total	679,046,805.63	—	679,046,805.63

② There is no pledged notes receivable at the end of current period.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XVIII. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

1. Notes receivable and accounts receivable (Continued)

(1) Notes receivable (Continued)

- ③ Notes receivable that are not matured at the balance sheet date but have been discounted or endorsed are summarized as follows

Item	Amount derecognized at the end of the period	Amount not derecognized at the end of the period
Bank acceptance notes	176,984,967.33	—
Commercial acceptance notes	—	—
Total	<u>176,984,967.33</u>	<u>—</u>

Notes:

- (1) Pursuant to provisions of the Negotiable Instruments Law of the People's Republic of China, if the bank of acceptance refuses to pay the payables, the holding party is entitled to recover the payables (continuous involvement) from the Company. Hence, the Company is in continuous involvement of the notes receivable which are not matured at balance sheet date but have been discounted or endorsed.
- (b) The Company believes that the fair value of the continuous involvement is not significant, as the Company has transferred substantially all the risks and awards of the above-mentioned notes receivable which have been discounted or endorsed. The Company does not recognize any assets or liabilities arising from the continuous involvement on book value.
- (c) The maximum loss from the continuous involvement of the above-mentioned notes receivable which have been discounted or endorsed is equal to its book value of RMB 176,985 thousand.
- (d) Undiscounted cash flows payable arising from the possibility that the Company may buy back the above-mentioned notes receivable which have been discounted or endorsed is equal to its book value. And the balance of notes receivable on 30 June 2018 shall mature on 30 June 2019.
- (e) From January to June of year 2018, no profit or loss are recognized at the date of transfer. The Company has no current or accumulated income or expenses arising from the continuous involvement of derecognized financial assets.
- (f) The occurrence of the above-mentioned notes receivable which have been discounted or endorsed is roughly balanced in the current year and the distribution is roughly balanced either.
- ④ As of 30 June 2018, the Company has no accounts receivable transferred from notes receivable due to drawer's failure to perform the obligation.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XVIII. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

1. Notes receivable and accounts receivable (Continued)

(2) Accounts receivable

① The aging analysis of accounts receivable based on booking date is as follows:

Aging	Closing balance	Opening balance
Within 1 year	245,099,074.51	267,228,797.84
1 to 2 years	—	—
2 to 3 years	1,507,557.00	1,624,535.00
3 to 4 years	—	—
4 to 5 years	—	—
Over 5 years	1,788,606.52	3,288,606.52
Total closing balance of accounts receivable	248,395,238.03	272,141,939.36
Less: Provision for bad debts	6,190,404.37	6,448,255.00
Total net amount of accounts receivable	242,204,833.66	265,693,684.36

② Accounts receivable disclosed by category

Category	Closing balance				
	Carrying amount		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss ratio (%)	
Accounts receivable that are individually significant and for which provision for bad debts is provided individually	1,500,000.00	0.60	1,500,000.00	100.00	—
Accounts receivable for which provision for bad debts is provided by portfolio of credit risk features	246,040,611.79	99.05	3,835,778.13	1.56	242,204,833.66
Accounts receivable that are individually insignificant but for which provision for bad debts is provided individually	854,626.24	0.35	854,626.24	100.00	—
Total	248,395,238.03	100.00	6,190,404.37	2.49	242,204,833.66

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XVIII. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

1. Notes receivable and accounts receivable (Continued)

(2) Accounts receivable (Continued)

② Accounts receivable disclosed by category (Continued)

(Cont.)

Category	Carrying amount		Opening balance		Book value
			Amount	Proportion (%)	
	Amount	Proportion (%)			
Accounts receivable that are individually significant and for which provision for bad debts is provided individually	1,500,000.00	0.55	1,500,000.00	100.00	—
Accounts receivable for which provision for bad debts is provided by portfolio of credit risk features	269,787,313.12	99.14	4,093,628.76	1.52	265,693,684.36
Accounts receivable that are individually insignificant but for which provision for bad debts is provided individually	854,626.24	0.31	854,626.24	100.00	—
Total	272,141,939.36	100.00	6,448,255.00	2.36	265,693,684.36

Please refer to Note IV. 10 for explanation on category of accounts receivable.

③ Accounts receivable with closing balance that are individually significant and for which provision for bad debts is provided individually

Accounts receivable (by company)	Accounts receivable	Closing balance		Reason
		Provision for bad debts	Expected credit loss ratio (%)	
Customer 1	1,500,000.00	1,500,000.00	100.00%	Litigation is being executed. The amount is not expected to be recovered.
Total	1,500,000.00	1,500,000.00	—	—

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XVIII. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

1. Notes receivable and accounts receivable (Continued)

(2) Accounts receivable (Continued)

④ Accounts receivables for which credit risk is assessed and provision for bad debts is assessed by aging analysis method in portfolio

Aging	Closing balance			Opening balance		
	Carrying amount	Proportion (%)	Provision for bad debts	Carrying amount	Proportion (%)	Provision for bad debts
Within 1 year	243,599,074.51	99.01	2,449,530.75	267,228,797.84	99.05	2,672,287.98
1 to 2 years	—	—	—	—	—	—
2 to 3 years	1,507,557.00	0.61	452,267.10	1,624,535.00	0.60	487,360.50
3 to 4 years	—	—	—	—	—	—
4 to 5 years	—	—	—	—	—	—
Over 5 years	933,980.28	0.38	933,980.28	933,980.28	0.35	933,980.28
Total	<u>246,040,611.79</u>	<u>100.00</u>	<u>3,835,778.13</u>	<u>269,787,313.12</u>	<u>100.00</u>	<u>4,093,628.76</u>

⑤ Accounts receivable which is individually insignificant in closing balance and for which provision for bad debts is individually provided

Accounts receivable (by debtors)	Closing balance		Expected credit loss ratio (%)	Reason
	Accounts receivable	Provision for bad debts		
Customer 1	470,000.00	470,000.00	100.00	The amount is not expected to be recovered as the aging is over 5 years.
Customer 2	315,508.74	315,508.74	100.00	The amount is not expected to be recovered as the aging is over 5 years.
Customer 3	69,117.50	69,117.50	100.00	The amount is not expected to be recovered as the aging is over 5 years.
Total	<u>854,626.24</u>	<u>854,626.24</u>	—	—

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XVIII. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

1. Notes receivable and accounts receivable (Continued)

(2) Accounts receivable (Continued)

⑥ Information for Bad debts provided, recovered or reversed in the current period

Provision for bad debts provided in the current period is RMB (258) thousand. There is no provision for bad debts recovered or reserved in the current period.

⑦ There is no accounts receivables written off in the current period.

⑧ The top five amount of the closing balance of Accounts Receivable by customers:

Company	Nature	Closing balance	Aging	Proportion of total closing balance of accounts receivable (%)	Closing balance of provision for bad debts
Customer 1	Payment for goods	200,122,360.32	Within 1 year	80.57	2,001,223.60
Customer 2	Payment for goods	7,743,792.50	Within 1 year	3.12	77,437.93
Customer 3	Payment for goods	5,558,282.00	Within 1 year	2.24	55,582.82
Customer 4	Payment for goods	3,199,831.00	Within 1 year	1.29	31,998.31
Customer 5	Payment for goods	3,143,869.01	Within 1 year	1.27	31,438.69
Total	—	<u>219,768,134.83</u>	—	88.49	<u>2,197,681.35</u>

⑨ There is no accounts receivables derecognized due to transfer of financial assets for the current period.

⑩ There is no assets or liabilities arising from the transfer of and continuing involvement of accounts receivable for the current period.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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XVIII. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables

Item	Closing balance	Opening balance
Other receivables	1,499,687,338.92	1,527,015,254.36
Dividends receivable	656,897,700.00	656,897,700.00
Total	<u>2,156,585,038.92</u>	<u>2,183,912,954.36</u>

(1) Other receivables

① Other receivables disclosed by aging analysis are as follows:

Aging	Closing balance	Opening balance
Within 1 year	1,494,163,261.78	1,520,293,135.28
1 to 2 years	3,195,820.92	4,288,858.19
2 to 3 years	—	1,158,143.04
3 to 4 years	447,194.73	48,885.81
4 to 5 years	247,398.33	65,210.21
Over 5 years	7,225,567.94	6,715,060.94
Total carrying amount of other receivables	<u>1,505,279,243.70</u>	<u>1,532,569,293.47</u>
Less: Provision for bad debts	5,591,904.78	5,554,039.11
Total net value of other receivables	<u>1,499,687,338.92</u>	<u>1,527,015,254.36</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XVIII. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables (Continued)

(1) Other receivables (Continued)

② Other receivables disclosed by category

Category	Closing balance				
	Carrying amount		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss ratio (%)	
Other receivables that are individually significant and for which provision for bad debts is provided individually	1,040,121.11	0.07	1,040,121.11	100.00	—
Other receivables for which provision for bad debts is provided by portfolio of credit risk features					
Portfolio 1	8,470,490.56	0.56	1,414,214.23	16.70	7,056,276.33
Portfolio 2	10,558,434.49	0.70	—	—	10,558,434.49
Portfolio 3	1,451,969,398.06	96.47	—	—	1,451,969,398.06
Portfolio 4	30,103,230.04	1.99	—	—	30,103,230.04
Other receivables that are individually insignificant but for which provision for bad debts is provided individually	3,137,569.44	0.21	3,137,569.44	100.00	—
Total	1,505,279,243.70	100.00	5,591,904.78	0.37	1,499,687,338.92

(Cont.)

Category	Opening balance				
	Carrying amount		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss ratio (%)	
Other receivables that are individually significant and for which provision for bad debts is provided individually	1,040,121.11	0.07	1,040,121.11	100.00	—
Other receivables for which provision for bad debts is provided by portfolio of credit risk features					
Portfolio 1	6,052,128.71	0.39	1,376,348.56	22.74	4,675,780.15
Portfolio 2	17,575,091.63	1.15	—	—	17,575,091.63
Portfolio 3	1,485,727,079.23	96.95	—	—	1,485,727,079.23
Portfolio 4	19,037,303.35	1.24	—	—	19,037,303.35
Other receivables that are individually insignificant but for which provision for bad debts is provided individually	3,137,569.44	0.20	3,137,569.44	100.00	—
Total	1,532,569,293.47	100.00	5,554,039.11	0.36	1,527,015,254.36

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XVIII. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables (Continued)

(1) Other receivables (Continued)

- ④ Other receivables that are individually significant and for which provision for bad debts is provided individually

Other receivables (By debtors)	Carrying amount	Closing balance		Reason for provision
		Provision for bad debts	Expected credit loss ratio (%)	
Other receivable 1	502,043.54	502,043.54	100.00	It is expected that the amount cannot be recovered.
Other receivable 2	430,077.57	430,077.57	100.00	It is expected that the amount cannot be recovered.
Other receivable 3	108,000.00	108,000.00	100.00	It is expected that the amount cannot be recovered.
Total	1,040,121.11	1,040,121.11	—	—

- ⑤ Other receivables for which credit risk is assessed and provision for bad debts is provided by aging analysis method in portfolio

Aging	Closing balance			Opening balance		
	Carrying amount	Proportion (%)	Provision for bad debts	Carrying amount	Proportion (%)	Provision for bad debts
Within 1 year	6,957,973.33	82.14	69,579.73	4,691,634.34	77.52	46,916.34
1 to 2 years	153,422.86	1.81	15,342.29	1,400.00	0.02	140.00
2 to 3 years	—	—	—	—	—	—
3 to 4 years	43,604.31	0.51	21,802.16	43,604.31	0.72	21,802.16
4 to 5 years	40,000.00	0.47	32,000.00	40,000.00	0.66	32,000.00
Over 5 years	1,275,490.06	15.06	1,275,490.06	1,275,490.06	21.08	1,275,490.06
Total	8,470,490.56	100.00	1,414,214.24	6,052,128.71	100.00	1,376,348.56

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XVIII. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables (Continued)

(1) Other receivables (Continued)

- ⑥ Other receivables which are individually insignificant and for which provision for bad debts is individually provided in portfolio

Other receivables (by debtors)	Closing balance			Reason for provision
	Carrying amount	Provision for bad debts	Expected credit loss ratio (%)	
Other receivables 1	1,251,982.00	1,251,982.00	100.00	It is estimated that the amount cannot be recovered.
Other receivables 2	1,114,797.46	1,114,797.46	100.00	It is estimated that the amount cannot be recovered.
Other receivables 3	392,823.33	392,823.33	100.00	It is estimated that the amount cannot be recovered.
Other receivables 4	160,894.73	160,894.73	100.00	It is estimated that the amount cannot be recovered.
Other receivables 5	147,891.50	147,891.50	100.00	It is estimated that the amount cannot be recovered.
Others	69,180.42	69,180.42	100.00	It is estimated that the amount cannot be recovered.
Total	<u>3,137,569.44</u>	<u>3,137,569.44</u>	<u>—</u>	<u>—</u>

- ⑦ Information of Bad debts provided, recovered or reversed for the current period

Provision for bad debts provided in the current period is RMB 38 thousand. There is no provision for bad debts recovered or reserved in the current period.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XVIII. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables (Continued)

(1) Other receivables (Continued)

⑧ There is no other receivables written off in the current period

⑨ Category of other receivables by the nature

Nature	Closing balance	Opening balance
Receivables due from related parties	1,451,969,398.06	1,485,727,079.23
Including: Entrusted loans	—	1,170,033,486.36
Other receivables due from related parties	1,451,969,398.06	315,693,592.87
Rentals, deposits and temporary advances to staff	30,103,230.04	19,037,303.35
Others	23,206,615.60	27,804,910.89
Total	1,505,279,243.70	1,532,569,293.47

⑩ The top five amount of the closing balance of other receivables by customers

Company	Closing balance	Aging	Proportion of total closing balance of other receivables (%)	Provision for bad debts Closing balance
Other receivables 1	561,837,962.79	Within 1 year	37.32	—
Other receivables 2	382,979,938.89	Within 1 year	25.44	—
Other receivables 3	174,318,073.26	Within 1 year	11.58	—
Other receivables 4	111,143,689.21	Within 1 year	7.38	—
Other receivables 5	80,057,643.60	Within 1 year	5.32	—
Total	1,310,337,307.75	—	87.04	—

⑪ There is no receivables related to government grants for the current period.

⑫ There is no other receivables that had been derecognized due to transfer of financial assets.

⑬ There is no assets or liabilities arising from the transfer of and continuing involvement of other receivables.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XVIII. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables (Continued)

(2) Dividends receivables

Item (or investee)	Closing balance	Opening balance
Tian Xin	71,940,605.32	71,940,605.32
Guang Hua	43,882,205.44	43,882,205.44
Ming Xing	36,074,889.24	36,074,889.24
HWBYS	50,000,000.00	50,000,000.00
GP Corp.	455,000,000.00	455,000,000.00
Total	<u>656,897,700.00</u>	<u>656,897,700.00</u>

There are no significant dividends receivables with aging over one year for the current period.

3. Long-term Equity Investment

(1) Category of long-term equity investment

Item	Closing balance			Opening balance		
	Carrying amount	Provision for impairment	Book value	Carrying amount	Provision for impairment	Book value
Investment in subsidiaries	5,368,407,773.66	171,000,000.00	5,197,407,773.66	3,181,465,863.78	171,000,000.00	3,010,465,863.78
Investment in joint ventures and associates	1,822,678,626.45	—	1,822,678,626.45	1,754,208,415.45	—	1,754,208,415.45
Total	<u>7,191,086,400.11</u>	<u>171,000,000.00</u>	<u>7,020,086,400.11</u>	<u>4,935,674,279.23</u>	<u>171,000,000.00</u>	<u>4,764,674,279.23</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XVIII. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

3. Long-term Equity Investment (Continued)

(2) Investment in subsidiaries

Investee	Opening balance	Increase	Decrease	Closing balance	Provision for impairment provided in the current period	Closing balance of provision for impairment
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	105,978,900.00	—	—	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	—	—
WLJ Great Health	900,000,000.00	—	—	900,000,000.00	—	—
Guangzhou Guangyao Yi Gan Biological Product Co., Ltd.	18,600,000.00	4,200,000.00	—	22,800,000.00	—	—
Xing Zhu	92,070,000.00	2,790,000.00	—	94,860,000.00	—	—
Guangyao Baiyunshan Hong Kong Co., Ltd.	93,874,006.87	46,626,750.00	—	140,500,756.87	—	—
Tian Xin	96,192,658.47	—	—	96,192,658.47	—	—
Guang Hua	53,659,963.75	—	—	53,659,963.75	—	—
Ming Xing	95,381,794.18	—	—	95,381,794.18	—	—
Weiling Pharmaceutical	10,444,783.48	—	—	10,444,783.48	—	—
Guangyao Hai Ma	7,000,000.00	—	—	7,000,000.00	—	—
Pharmaceutical Technological	1,020,000.00	—	—	1,020,000.00	—	—
Guangzhou GPHL Guangyao Baiyunshan Great Health Hotel Co., Ltd.	500,000.00	—	500,000.00	—	—	—
Guangzhou Baiyunshan Chemical Pharmaceutical Technology Co., Ltd.	63,470,000.00	42,000,000.00	—	105,470,000.00	—	—
Guangzhou Baiyunshan Medical and Healthcare Industry Investment Co., Ltd.	106,500,000.00	—	—	106,500,000.00	—	—
Guangyao General Institute	80,000,000.00	—	—	80,000,000.00	—	—
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.	40,000,000.00	—	—	40,000,000.00	—	—
Wang Lao Ji Investment Co., Ltd.	24,000,000.00	—	—	24,000,000.00	—	—
Guangzhou Baiyunshan Medical Instruments investment Co., Ltd.	10,000,000.00	—	—	10,000,000.00	—	—
GP Corp.	—	2,091,825,159.88	—	2,091,825,159.88	—	—
Total	3,181,465,863.78	2,187,441,909.88	500,000.00	5,368,407,773.66	—	171,000,000.00

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XVIII. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

3. Long-term Equity Investment (Continued)

(3) Investments in joint ventures and associates

Investee	Current period							Closing balance of provision for impairment		
	Investment costs	Opening balance	Increase	Decrease under equity method	Investment gains or losses recognized	Adjustment of OCI	Declaration of the payment of cash dividends or profits		Provision for impairment provided	Others
I. Joint ventures										
GP Corp.	396,589,139.78	934,828,267.57	—	—	62,905,714.27	(8,821.96)	—	—	(997,725,159.88)	—
Wang Lao Ji	102,035,124.44	390,518,555.35	—	—	58,849,564.76	—	—	—	—	449,368,120.11
HMB'S	100,000,000.00	332,734,264.65	—	—	33,657,888.76	—	—	—	—	366,392,073.41
Baxter Qiao Guang	37,000,000.00	39,447,376.09	—	—	1,248,638.48	—	—	—	—	40,696,014.57
Subtotal	635,624,264.22	1,697,528,463.66	—	—	156,661,736.27	(8,821.96)	—	—	(997,725,159.88)	856,456,208.09
II. Associates										
Guangzhou Jinshen Pharmaceutical Technology Co., Ltd.	765,000.00	—	—	—	—	—	—	—	—	—
Golden Eagle Asset Management Co., Ltd.	50,000,000.00	54,665,915.85	—	—	2,944,418.69	—	—	—	—	57,610,334.54
Guangzhou Bajunshan Weiye Medical Investment Management Co., Ltd.	2,020,000.00	2,014,035.94	—	—	8,582.53	—	—	—	—	2,022,618.47
Guangzhou Bajunshan Yi Xin Tang Pharmaceutical Investment Development Co., Ltd.	45,000,000.00	—	45,000,000.00	—	—	—	—	—	—	45,000,000.00
Guangdong Guangqiao Jinshen Equity Investment Fund Management Co., Ltd.	4,000,000.00	—	4,000,000.00	—	—	—	—	—	—	4,000,000.00
Yi Xin Tang	864,570,027.02	—	864,570,227.02	—	—	—	—	—	(6,980,761.67)	857,589,465.35
Subtotal	966,355,027.02	56,679,957.79	913,570,227.02	—	2,953,001.22	—	—	—	(6,980,761.67)	966,222,418.36
Total	1,601,979,291.24	1,754,208,415.45	913,570,227.02	—	159,614,727.49	(8,821.96)	—	—	(1,004,705,921.55)	1,822,678,626.45

There is no restriction on the Company's ability for transferring funds to investing entities.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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XVIII. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

4. Operating Income and Operating Costs

(1) Operating Income and Operating Costs

Category	Current period		
	Income	Cost	Gross profit
Main businesses	2,100,829,274.30	1,017,129,519.98	1,083,699,754.32
Other businesses	235,255,444.26	106,072,454.11	129,182,990.15
Total	<u>2,336,084,718.56</u>	<u>1,123,201,974.09</u>	<u>1,212,882,744.47</u>

(Cont.)

Category	Prior period		
	Income	Cost	Gross profit
Main businesses	1,404,128,847.39	598,252,958.84	805,875,888.55
Other businesses	197,551,911.29	89,342,485.96	108,209,425.33
Total	<u>1,601,680,758.68</u>	<u>687,595,444.80</u>	<u>914,085,313.88</u>

(2) Breakdown of operating income from main business

① Category by major operating region

Reporting segments	Current period		Prior period	
	Income	Cost	Income	Cost
Southern China Area	1,131,523,506.22	591,921,520.43	1,208,963,563.12	501,822,295.50
Eastern China Area	399,265,620.37	157,456,565.15	68,723,941.80	35,704,631.67
Northern China Area	123,932,952.77	39,542,405.57	48,110,268.95	23,920,458.99
Northeast Area	41,596,303.73	22,526,842.42	7,642,142.01	4,789,322.07
Southwest Area	353,858,715.05	182,551,971.92	59,519,540.53	28,334,824.09
Northwest Area	50,652,176.16	23,130,214.49	11,169,390.98	3,681,426.52
Export	—	—	—	—
Total	<u>2,100,829,274.30</u>	<u>1,017,129,519.98</u>	<u>1,404,128,847.39</u>	<u>598,252,958.84</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XVIII. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

4. Operating Income and Operating Costs (Continued)

(2) Breakdown of operating income from main business (Continued)

② Category by business

Reporting segments	Current period		Prior period	
	Income	Cost	Income	Cost
Great Southern TCM	2,100,815,194.42	1,017,120,670.53	1,404,113,194.91	598,242,860.72
Great Commerce	14,079.88	8,849.45	15,652.48	10,098.12
Total	<u>2,100,829,274.30</u>	<u>1,017,129,519.98</u>	<u>1,404,128,847.39</u>	<u>598,252,958.84</u>

③ Information of the top five customers as per sales: the total sales to the top five customers are RMB 1,111,184 thousand, which account for 52.90% of the Company's main business income for the period from January to June of year 2018.

Customer	Sales	Proportion of total revenue (%)
Customer 1	889,062,815.93	42.32
Customer 2	97,198,825.88	4.63
Customer 3	62,369,627.79	2.97
Customer 4	33,103,444.60	1.58
Customer 5	29,449,335.48	1.40
Total	<u>1,111,184,049.68</u>	<u>52.90</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

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XVIII. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

5. Investment income

Item	Current period	Prior period
Investment Income from long-term equity investments under cost method	—	—
Investment Income from long-term equity investments under equity method	165,222,710.92	122,861,924.93
Gains from the disposal of long-term equity investment	(291,895.42)	—
Investment income from the period in which the financial assets which is measured at FVTPL during their holding period	188,051.50	201,347.70
Gains from the disposal of financial assets measured at FVTPL	—	—
Interest income from the period in which the debt investments are held	—	—
Interest income from the period in which other debt investments are held	—	—
Gains from disposal of debt investments	—	—
Gains from disposal of other debt investments	—	—
Gains from the remaining shares remeasured at fair value after loss of control	—	—
Interest income from finance products and structured deposits	31,207,224.09	—
Total	<u>196,326,091.09</u>	<u>123,063,272.63</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XVIII. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

6 Supplementary information on cash flow statement

Supplementary information	Current period	Prior period
a. Operating cash flows adjusted from net profit	—	—
Net profit	936,363,776.78	551,533,110.37
Plus: Impairment losses in respect of assets	7,785,401.49	(1,551,076.14)
Depreciation of fixed assets, depreciation and amortization of investment properties	25,473,932.78	28,729,824.64
Amortization of intangible assets	5,839,791.10	4,535,804.11
Amortization of long-term deferred expenses	455,710.86	328,465.81
Loss from disposals of fixed assets, intangible assets and other long-term assets	288,455.47	753,245.53
Fixed asset retirement losses	—	—
Losses from changes in fair value	(251,497,016.76)	1,195,001.81
Finance expenses	3,045,634.08	2,992,082.82
Investment losses	(196,326,091.09)	(148,954,430.52)
Decrease in deferred tax assets	24,158,005.24	—
Increase in deferred tax liabilities	9,685,534.55	—
Decrease in inventories	(126,524,888.12)	(41,163,946.91)
Decrease in operational receivables	(217,453,548.47)	(172,332,629.96)
Increase in operational payables	171,825,995.81	76,082,372.70
Others	—	—
Net operating cash flows	393,120,693.72	302,147,824.26
b. Investing and financing activities which do not involve cash receipts and payments	—	—
Capital transferred from debentures	—	—
Current portion of convertible corporate bonds	—	—
Fixed assets from financial lease	—	—
c. Net changes in cash and cash equivalents	—	—
Closing balance of cash	6,366,179,216.14	6,360,383,937.19
Less: Opening balance of cash	6,147,937,501.16	8,326,923,391.07
Plus: Closing balance of cash equivalents	—	—
Less: Opening balance of cash equivalents	—	—
Net increase in cash and cash equivalents	218,241,714.98	(1,966,539,453.88)

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XIX. SUPPLEMENTARY INFORMATION

1. Breakdown of Non-Recurring Profit and Loss for the Current Period

Item	Current period	Prior period
Profit or loss from disposal of non-current assets	(749,296.42)	(1,159,521.15)
Tax return or exemption with unauthorized approval, or without formal approval, or occurred occasional	—	—
Government grants included in the profit or loss for the current period except for the government grants that are closely related to enterprise's normal business and is enjoyed by the Company continuously in quota or by the quantity of unified national standards in accordance with the national policy	141,803,751.31	67,077,203.90
Fund possession costs included in the profit or loss for the current period and collected from non-financial enterprises	—	—
Gains generated from the amount of the enterprise's investment costs for acquisition of subsidiaries, joint ventures and associates lower than the earnings from the fair value of the net identifiable assets of the invested entity that the enterprise should enjoy upon acquisition	—	—
Profit or loss from non-monetary assets exchange	—	—
Profit or loss from the assets which are invested or managed by others entrusted	—	—
Provision for asset impairments provided due to force majeure, such as natural disaster	—	—
Profit or loss from debt restructuring	—	—
Enterprise restructuring expenses, such as expenditures for employee allocation and integration expenses	—	—
Profit or loss generated from the amount of the transaction with the unfair transaction price exceeding the fair value	—	—
Current profit or loss of the subsidiary from business combination under common control from the beginning of the period to the date of combination	—	—
Profit or loss from contingencies irrelevant to normal businesses of the Company	—	—

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XIX. SUPPLEMENTARY INFORMATION (Continued)

1. Breakdown of Non-Recurring Profit and Loss for the Current Period (Continued)

Item	Current period	Prior period
Except for effective hedging business related to normal business of the Company, profit or loss from change of fair value from financial assets and liabilities held for trading, and investment income from disposal of financial assets and liabilities held for trading and available-for-sale financial assets	254,926,623.68	(1,195,001.81)
Reverse of provision for impairment of receivables under individual impairment test	2,331,224.77	917,629.30
Profit or loss from entrusted loans	—	—
Profit or loss from change of fair value of investment properties measured subsequently at fair value	—	—
Effects on the profit or loss for the current period by one-off adjustment of profit or loss for the current period according to the requirements of laws and regulations for tax, accounting, etc.	—	—
income from custody fee of entrusted operation	—	—
Other non-operating incomes and expenses except for the above-mentioned items	(112,978,234.15)	(27,986,059.30)
Investment gains from long-term equity investment measured at fair value	825,774,840.12	—
Other profit and loss items that meet the definition of non-recurring gains and losses	—	—
Subtotal	<u>1,111,108,909.31</u>	<u>37,654,250.94</u>
Amount of income tax influence	(33,149,134.06)	(6,664,617.83)
Amount of minority equity impact (net of tax)	43,889.80	41,107.08
Total	<u>1,078,003,665.05</u>	<u>31,030,740.19</u>

Note: For non-recurring profit or loss, "+" expressed for gains and incomes and "-" expressed for losses or expenses.

The Group recognition of non-recurring profit or loss is in accordance with the requirements of *Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public - Non-recurring profit or loss* (Announcement of China Securities Regulatory Commission [2008] No. 43).

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unless otherwise stated, amount shall be expressed in RMB)

XIX. SUPPLEMENTARY INFORMATION *(Continued)*

2. Return on Equity and Earnings per Share

Profits for the current period	Weighted Average Return on Equity(%)	Earnings per share	
		Basic EPS	Diluted EPS
Net profits attributable to the ordinary shareholders of the Company	12.98	1.611	1.611
Net profits attributable to the ordinary shareholders after subtracting the non-recurring profit or loss	7.64	0.948	0.948



Documents Available for Inspection

- I. The financial statements signed and stamped by the legal representative, responsible persons in charge of the accounting work of the Company and the responsible person of the accounting firm;
- II. The original company documents disclosed and announcements published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) during the Reporting Period;
- III. The documents listed above are available at the Secretariat of the Company.