



廣州白雲山醫葯集團股份有限公司

GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS CO., LTD.

(Stock code: 0874)

ANNUAL REPORT 2018

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IMPORTANT NOTICE

- I. The Board, the Supervisory Committee and the Directors, supervisors and senior management collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this annual report and confirm that there are no false information, misleading statements or material omissions in this annual report.
- II. The Directors were present at the 20th meeting of the seventh session of the Board, among whom, Mr. Chen Mao and Ms. Liu Juyan, both executive directors, were unable to attend the meeting and had appointed Ms. Cheng Ning and Mr. Wu Changhai to attend the meeting and vote on their behalf, respectively.
- III. The financial report of the Group and the Company for the year ended 31 December 2018 was prepared in accordance with the China Accounting Standards for Business Enterprises, which are audited by Ruihua Certified Public Accountants LLP which had issued an unqualified auditors' report in respect thereof.
- IV. Mr. Li Chuyuan (chairperson of the Board), Mr. Li Hong (general manager) and Ms. Yao Zhizhi (deputy director of Finance and head of the finance department) declared that they warrant the truthfulness and completeness of the financial report contained in this annual report.
- V. Profit distribution plan or plan of carrying over reserved funds to equity shares during the Reporting Period as considered by the Board

As audited and confirmed by Ruihua Certified Public Accountants LLP: the net profit of the Group attributable to the shareholders of the Company of 2018 amounted to RMB3,440,980,103.08. Based on the net profit of the Company of RMB2,139,729,642.17 in 2018, a 10% statutory surplus reserve in the amount of RMB213,972,964.22 is provided, with the addition of the undistributed profit carried over from last year in the amount of RMB3,955,047,509.80, and after deducting the cash dividends of 2017 in the amount of RMB619,426,351.57, the actual distributable profits amounted to RMB5,261,377,836.18.

Based on the actual circumstances of the Company, it is proposed that based on the share capital of 1,625,790,949 shares as at the end of 2018, a cash dividend of RMB4.24 (inclusive of tax) for every 10 shares, an aggregate of RMB689,335,362.38 be distributed. The undistributed portion shall be transferred to the next distribution. There will not be any capitalization of capital reserve for 2018.

The profit distribution plan will be submitted to the 2018 Annual General Meeting for approval.

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- VI. Forward-looking statements such as plans for the future and development strategy contained in this annual report do not constitute any actual commitment of the Company to investors. Investors are advised to pay attention to any investment risk.
- VII. There was no non-operational appropriation of the funds of the Company by its connected parties.
- VIII. The Company had not provided any external guarantee in violation of the decision-making procedures stipulated by the Company or relevant authorities.
- IX. Warning on Significant Risks

During the Reporting Period, there are no significant risks that have substantive significant effect on the production and operation of the Group. Various risks and corresponding measures that the Group might face in the production and operation have been detailed in the Report, please refer to the “Potential challenges and risks” set out in the “Discussion and Analysis of Operation” under Section IV.
- X. This annual report is prepared in both English and Chinese. In the event of discrepancy in interpretation, the Chinese version shall prevail.

Definitions

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

Company/the Company/GYBYS	Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited
PRC or China	the People's Republic of China
Reporting Period/Year/ the current year	the 12 months from 1 January 2018 and ended 31 December 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 HKEx
Listing Rules of SSE	the Listing Rules of 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 contained in the Listing Rules of HKEx
GPHL	Guangzhou Pharmaceutical Holdings Limited (廣州醫藥集團有限公司)
GPC	Guangzhou Pharmaceutical Company Limited (廣州藥業股份有限公司)
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)

Definitions

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

Definitions

Chemical Pharmaceutical Factory	Guangzhou 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)
He Ji Gong	Guangzhou Baiyunshan Pharmaceutical Co., Ltd. Baiyunshan He Ji Gong Pharmaceutical Factory (廣州白雲山醫藥集團股份有限公司白雲山何濟公製藥廠)
Tian Xin	Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. (廣州白雲山天心製藥股份有限公司)
Guang Hua	Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd., (廣州白雲山光華製藥股份有限公司)
Ming Xing	Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. (廣州白雲山明興製藥有限公司)
HWBYS	Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited (廣州白雲山和記黃埔中藥有限公司)
Baxter Qiao Guang	Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. (廣州百特僑光醫療用品有限公司)
Pharmaceutical Technology	Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd. (廣州白雲山醫藥科技發展有限公司)
Weiling	Baiyuanshan Weiling Pharmaceutical Co., Ltd. (白雲山威靈藥業有限公司)
Xing Zhu	Guangzhou Baiyunshan Xing Zhu Pharmaceutical Co., Ltd. (廣州白雲山星珠藥業有限公司)
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)
Guangyao General Institute	Guangzhou Pharmaceutical Research General Institute (廣州醫藥研究總院有限公司)
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)
Medical Instrument Investment Company	Guangzhou Baiyunshan Medical Instrument Investment Company (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)

Definitions

W LJ Catering	Guangzhou W LJ Catering Management Development Co., Ltd. (廣州王老吉餐飲管理發展有限公司)
Yi Gan	Guangzhou Guangyao Yigan Biological Products Co., Ltd. (廣州廣藥益甘生物製品股份有限公司)
Golden Eagle Fund	Golden Eagle Fund Management Co., Ltd. (金鷹基金管理有限公司)
Runkang Confinement Company	Guangzhou Baiyunshan Runkang Confinement Service Center Co., Ltd. (廣州白雲山潤康月子會所有限公司)
Yi Xin Tang	Yunnan Hongxiang Yixintang Phamaceutical (Group) Co., Ltd. (雲南鴻翔一心堂藥業(集團)股份有限公司)
Baiyunshan Yi Xin Tang	Guangzhou Baiyunshan Yi Xin Tang Pharmaceutical Investment & Development Co., Ltd. (廣州白雲山一心堂醫藥投資發展有限公司)
Hua Cheng	Guangzhou Hua Cheng Pharmaceutical Co., Ltd. (廣州花城藥業有限公司)
GMP	the English abbreviation of Good Manufacturing Practice, being a set of mandatory standards applicable to the pharmaceutical industry, which requires the pharmaceutical companies to ensure the quality of medicines in the production process shall conform to the national standards in accordance with the GMP requirements
GAP	the English abbreviation of Good Agricultural Practice for Chinese Crude Drugs (Trial). It refers to the management system for the development of this specification with a view to standardize the Chinese crude drugs production, and to ensure its quality as well as to promote the standardization and modernization of the Chinese crude drugs
GPO	group purchasing organizations
Drug Registration	the drug supervision and administration department conducts the systematic evaluation of the safety, effectiveness, quality and controllability of the drugs proposed for sale in accordance with legal procedures, and determines if it agrees to perform the approval processes of drug clinical studies, production of drugs or importing of drugs, which include the approval of the content in the evidence documents of application for change of drug approval and the appendix
Essential Drugs List	the National Essential Drugs List (the 2018 version) is the basis for medical institutions to prepare and use drugs. The drugs in the Essential Drugs List are those adapted to the basic medical and health needs, and are featured by appropriate dosage and form as well as reasonable pricey and supply and availability are guaranteed to the public
Medical Insurance Catalogue	a Catalogue of the List of Pharmaceutical Products under the National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance of the PRC (國家基本醫療保險、工傷保險和生育保險藥品目錄) (the 2017 version), being the standard payable drugs fees for the basic medical insurance, work-related injury insurance and maternity insurance fund.

Definitions

Provincial Medical Insurance Catalogue	a Catalogue of the List of Pharmaceutical Products under the National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance at the provincial level of the PRC (the 2017 version) (省級基本醫療保險、工傷保險和生育保險藥品目錄) (2017年版)
OEM	Original Equipment Manufacture
GZ SOA Development	Guangzhou State-owned Asset Development Holdings Limited (廣州國資發展控股有限公司)
GZ Chengfa	Guangzhou China Life Urban Development Industry Investment Enterprise (Limited Partnership) (廣州國壽城市發展產業投資企業(有限合夥))
Yunfeng Investment	Shanghai Yunfeng Xinchuang Equity Investment Center (Limited Partnership) (上海雲鋒新創股權投資中心(有限合夥))
Placement Prosperous Age Exclusive Account No.66	Fund of Huitianfu-Citic bank-Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (匯添富基金—中信銀行—廣州白雲山醫藥集團股份有限公司)
Alliance BMP	Alliance BMP Limited (聯合美華有限公司)
The Material Assets Reorganization in 2013	the Group's major asset reorganization involving the merger and acquisition of Baiyunshan and issue of shares to purchase the assets of GPLH that was completed in 2013
Sino-Israel Fund	Guangzhou Sino-Israel Bio-Industry Investment Fund (LLP) (廣州中以生物產業投資基金)(有限合夥)
Elin Company	Guangzhou Elin Biotech Industrial Venture Capital Management Company (廣州以琳生物產業投資管理有限公司)
C.Q. Pharmaceutical Holding	Chongqing Pharmaceutical Holding Company Limited (重慶控股股份有限公司)

Company Profile and Financial Highlights

1. COMPANY PROFILE

- | | | |
|-----|--|---|
| (1) | <p>Legal Chinese Name:
Chinese Name Abbreviation:
English Name:

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

Telephone:
Fax:
E-mail:</p> | <p>Huang Xuezheng
45 Sha Mian North Street, Liwan District,
Guangzhou City, Guangdong Province, the PRC
(8620) 6628 1217/6628 1219
(8620) 6628 1229
huangxz@gybys.com.cn</p> |
| (3) | <p>Registered address and office:

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

Internet website designated by the
CSRC for publishing the annual report:
Internet website of the HKEx for
publishing the annual report:
Place for inspection of the annual report:</p> | <p>Mainland China: Shanghai Securities News
(上海證券報), Securities Times (證券時報),
China Securities Journal (中國證券報),
Securities Daily (證券日報)
http://www.sse.com.cn

http://www.hkex.com.hk

The Secretariat of the Company</p> |
| (5) | <p>Stock exchanges, names and codes
of the Company's shares:</p> | <p>A Shares: SSE

Stock Code: 600332
Stock Abbreviation: BAIYUNSHAN
H Shares: HKEx
Stock Code: 0874
Stock Abbreviation: BAIYUNSHAN PH</p> |
| (6) | <p>Other information:
First registration date:
First place of registration:

Date of registration of change:
Place of registration of change:

Unified social credit code
Auditors and its address:

Names of the accountants of the auditors
firm whose signatures are given:</p> | <p>1 September 1997
45 Sha Mian North Street, Liwan District,
Guangzhou City, Guangdong Province, the PRC
31 July 2017
45 Sha Mian North Street, Liwan District,
Guangzhou City, Guangdong Province, the PRC
914401063320680X7
Ruihua Certified Public Accountants LLP
9/F, West Tower, Zhonghai Real Estate Plaza,
No. 7 Building, No.8 Courtyard, West Binhe
Road, Yongdingmen, Dongcheng District, Beijing
He Xiaojuan, Wen Jing</p> |

Company Profile and Financial Highlights

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

(1) Principal financial data

Principal financial data	2018	2017	Year on year increase/ (decrease) (%)	2016	2015	2014	
						After restatement	Before restatement
Income from operations (RMB'000)	42,233,838	20,954,225	101.55	20,035,681	19,124,658	18,818,232	18,799,881
Net profit attributable to the shareholders of the Company (RMB'000)	3,440,980	2,061,652	66.90	1,508,033	1,300,351	1,194,141	1,192,472
Net profit attributable to the shareholders of the Company after deducting non-recurring items (RMB'000)	2,131,485	1,935,560	10.12	1,071,111	1,128,765	1,092,530	1,112,771
Net cash flow from operating activities (RMB'000)	5,216,888	1,833,691	184.50	2,544,672	1,941,956	1,751,690	1,761,382
Total profit (RMB'000)	4,018,730	2,492,976	61.20	1,945,053	1,628,122	1,468,061	1,467,177
	As at 31 December 2018	As at 31 December 2017	Year on year increase/ (decrease) (%)	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014	
						After restatement	Before restatement
Net assets attributable to the shareholders of the Company (RMB'000)	21,684,909	18,871,521	14.91	17,345,080	8,450,814	7,705,137	7,739,301
Total assets (RMB'000)	51,482,184	28,314,713	81.82	25,897,170	15,870,577	14,266,903	14,210,784
Total liabilities (RMB'000)	28,338,451	9,051,560	213.08	8,243,380	7,186,644	6,344,908	6,251,805
Equity attributable to the shareholders of the Company per share (RMB)	13.34	11.61	14.91	10.67	6.55	5.97	5.99
Total equity (RMB'000)	1,625,791	1,625,791	–	1,625,791	1,291,079	1,291,341	1,291,341

Company Profile and Financial Highlights

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

(2) Principal financial indicators

Principal financial indicators	2018	2017	Year on year increase/ (decrease) (%)	2016	2015	2014	
						After restatement	Before restatement
Basic earnings per share (RMB)	2.116	1.268	66.9	1.075	1.007	0.925	0.923
Diluted earnings per share (RMB)	2.116	1.268	66.9	1.075	1.007	0.925	0.923
Basic earnings per share after deducting non-recurring items (RMB)	1.311	1.191	10.12	0.764	0.874	0.846	0.862
Weighted average return on net assets ratio (%)	16.93	11.34	An increase of 5.59 percentage points	12.75	15.91	16.48	16.38
Ratio of weighted return on net assets after deducting non-operating items (%)	10.48	10.64	A decrease of 0.16 percentage point	9.06	13.81	15.08	15.29
Return on total equity attributable to shareholders of the Company (%)	15.87	10.92	An increase of 4.95 percentage points	8.69	15.39	15.50	15.41
Ratio on total equity attributable to shareholders of the Company to total assets(%)	42.12	66.65	A decrease of 24.53 percentage points	66.98	53.25	54.01	54.46
Gearing ratio (%)	55.05	31.97	An increase of 23.08 percentage points	31.83	45.28	44.47	43.99

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

Company Profile and Financial Highlights

3. PRINCIPAL FINANCIAL DATA OF 2018 ON QUARTERLY BASIS

	The first quarter (January – March) (RMB'000)	The second quarter (April – June) (RMB'000)	The third quarter (July – September) (RMB'000)	The fourth quarter (October – December) (RMB'000)
Income from operations	6,909,195	7,930,819	15,035,811	12,358,013
Net profit attributable to the shareholders of the Company	905,169	1,713,830	820,294	1,687
Net profit attributable to the shareholders of the Company after deducting non-recurring items	872,357	668,639	640,838	(50,349)
Net cash flow from operating activities	802,226	400,551	2,152,939	1,861,172

Note: Compared with the first three quarters, the changes of the revenue and the profit for the fourth quarter were due to: (1) in order to achieve high-quality development, the Company's subsidiaries integrated sales channels, controlled social inventory, which is expected to affect the revenue and profit in the short term; (2) to better carry out the transformation of workshop to prepare for GMP certification, the production and sales volume decreased, which is expected to affect the revenue and profit of the Group; (3) the Company's subsidiaries have accelerated the development and investment of consistency evaluation for generic drugs, resulting in increased R&D costs and reduced profits; (4) Profit arising from the changes in fair value of equity interests of C.Q. Pharmaceutical Holding held by the Company was minus RMB136 million. Provision for impairment on goodwill of GP Corp. was provided amounting to RMB118 million as at the end of the year.

Company Profile and Financial Highlights

4. NON-RECURRING ITEMS AND THEIR AMOUNTS

Items	Amount in 2018 (RMB'000)	Notes	Amount in 2017 (RMB'000)	Amount in 2016 (RMB'000)
Gain/(Loss) on disposal of non-current assets	707		(1,669)	15,244
Government subsidies recognized as gain/(loss)	243,250	This is the amount of government subsidies received by the Company's subsidiaries which was transferred to non-operating income in the Reporting Period.	171,549	496,824
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	125,982		-	-
Gain/(Loss) on changes in fair value arising from trading financial assets and trading financial liabilities held (excluding the valid hedging business related to normal operating activities of the Company) as well as the investment gains received from disposal of trading financial assets, trading financial liabilities and financial assets available for sale	115,575		(1,151)	(1,087)
Write-off of provision for impairment of accounts receivable undergoing independent impairment test	7,200		4,040	3,110
Other non-operating income and expenses excluding the above items	9,656		(26,099)	(33,640)
Investment gains from long-term equity investment measured at fair value	870,677		-	-
Income tax effect	(59,294)		(21,209)	(40,659)
Effect on minority interest (after tax)	(4,258)		631	(2,871)
Total	1,309,495		126,092	436,921

Company Profile and Financial Highlights

5. CHANGES IN SHAREHOLDERS' EQUITY IN 2018 (CONSOLIDATED)

Items	Share capital (RMB'000)	Capital reserve (RMB'000)	Other comprehensive income (RMB'000)	Surplus reserve (RMB'000)	Undistributed profits (RMB'000)	Total shareholders' equity attributable to the parent company (RMB'000)
Opening balance	1,625,791	9,875,178	(6,819)	1,154,762	6,218,195	18,867,107
Additions	–	–	8,983	213,973	3,440,980	3,663,936
Deductions	–	10,094	2,641	–	833,399	846,134
Closing balance	1,625,791	9,865,084	(477)	1,368,735	8,825,776	21,684,909

6. ITEMS RELATED TO FAIR VALUE MEASUREMENT

Items	Balance at the beginning of the Reporting Period (RMB'000)	Balance at the end of the Reporting Period (RMB'000)	Changes during the Reporting Period (RMB'000)	Impact on the profit for the Reporting Period (RMB'000)
Other equity instrument investments	62,686	84,898	22,212	–
Other non-current financial assets	975,857	226,938	(748,919)	(125,278)
Total	<u>1,038,543</u>	<u>311,836</u>	<u>(726,707)</u>	<u>(125,278)</u>

Note: During the Reporting Period, the change in other equity instrument investment is mainly due to the increase in investment in Sino-Israel Fund and Elin Company by the Company, which amounts to RMB 25,098,000.

Company's Business Profile

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

(1) Main Business and Products

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

(i) Great Southern TCM (pharmaceutical manufacturing business)

There are 25 pharmaceutical manufacturing companies and organizations under the Company (including 3 branches, 19 subsidiaries and 3 joint ventures). The above enterprises or institutions engaged in the R&D and manufacturing of Chinese patent medicine and western medicine, chemical raw materials, intermediates chemical raw materials, biomedicine and natural medicine, etc..

- 1) The Group is an epitome of the southern TCM. The Company has more than 10 China time honored brand enterprises such as Zhong Yi, Chen Li Ji, Qi Xing, Jing Xiu Tang, Pan Gao Shou, etc.. The Company have 3 protected Chinese traditional medicine of national grade and the 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, 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, with products covering commonly used antibiotic varieties and male medicine. The Group integrated the antibiotic brands with the famous trademark "Kang Zhi Ba", striving to make a market image with the number one brand of oral antibacterial anti-inflammatory. The Group's chemical medicine includes Cefathiamidine, Cefixime, Amoxicillin and Sildenafil Citrate Tablets ("Jin Ge"), etc..

Company's Business Profile

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

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

(ii) Great Health Industry

The Great Health Industry segment of the Group mainly engaged in the production, R&D and sale of beverage, food, healthcare product and cosmeceuticals, etc., including the subsidiaries, WLJ Great Health and 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 subsidiaries, namely GP Corp., Cai Zhi Lin and Pharmaceutical Import & Export. The retail business is carried out principally through Cai Zhi Lin pharmacy chains, Jian Min pharmacy chains, GPC Prescription Pharmacy chains and Ying Bang pharmacy, etc. GP Corp. is the largest pharmaceutical logistics company in Southern China.

(iv) Great Medical Care

The Group leveraged on Baiyunshan Medical and Healthcare Industry Company and Medical Instrument Investment Company as the main investment vehicles and used various means, including new establishment, joint venture and co-operation to focus on the development of medical instrument industry and three areas, i.e. medical services, 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, Runkang Confinement Company and Guangzhou Zhongcheng Medical Device Industry Development Co., Ltd. etc.

Company's Business Profile

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

(2) Operating Model

(i) Great Southern TCM

1) Procurement Model

After completion of the Material Assets Reorganization in 2013, the Group integrated the procurement system of its subsidiaries, and established a centralized procurement platform with Pharmaceutical Import & Export and Cai Zhi Lin forming the core. The intensively centralized procurement of raw materials and auxiliary materials, Chinese herbal medicine, packaging materials and machinery equipment materials, improved the ability of negotiation on prices and risk resistance and effectively reduced the procurement cost.

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

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

Company's Business Profile

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

(2) Operating Model *(Continued)*

(i) Great Southern TCM *(Continued)*

2) Production Model

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

3) Sales Model

① 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 in hospitals' tenders, the Group carries out tendering process 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.

② 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 four enterprises, namely Baiyunshan General Factory, Guang Hua, Jing Xiu Tang and Ming Xing.

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

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

(2) Operating Model *(Continued)*

(ii) Great Health Industry

1) Purchasing Mode

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

2) Production Mode

Strictly in accordance with the relevant national laws and regulations, the subsidiaries of the Company, through (among other things) production facilities established by the Group and OME, ensured the safety quality in the entire process from plantation, harvesting, manufacturing to use by consumers, and in the entire process of base of the raw materials, auxiliary materials, packing materials, personnel and equipment, final products and consumer safety.

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

Company's Business Profile

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

(2) Operating Model *(Continued)*

(iii) Great Commerce

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

GP Corp., the holding subsidiary of the Company, is the leading medicine circulation enterprise in Southern China, with good business reputation, huge sales network, a wide range of sales channels and stronger pharmaceutical distribution capacity. The Group has "Cai Zhi Lin", "Jian Min" and other well-known pharmaceutical retail chain and 76 medicine retail outlets, with strong terminal strength.

As at 31 December 2018, the Group had 76 retail chain pharmacy outlets, including 32 "Cai Zhi Lin" pharmacy outlets which specialized in traditional Chinese medicines, 30 "Jian Min" pharmacy outlets which specialized in western medicine, medical apparatus and instruments, 13 Professional DTP "GPC Prescription Pharmacy" and one pharmacy named Ying Bang.

The main performance driving factors: During the Reporting Period, the Group's revenue amounted to RMB42,233,838,000, representing an increase of 101.55% compared with the corresponding period last year. For the growth factors, please refer to the "Management Discussion and Analysis" in section 4 "Discussion and Analysis of Operation" in this report.

(3) Current circumstances of the development of the industry

In recent years, under the influence of economic restructuring and the deepening of medical and health reform, the growth rate of the pharmaceutical industry has declined. The income of pharmaceutical manufacturing enterprises above designated size in 2018 was RMB2,426.47 billion, representing an increase of 12.4%, of which the operating revenue was RMB2,398.63 billion, representing an increase of 12.6%; total profit amounted to RMB309.42 billion, representing an increase of 9.5% (source: National bureau of statistics).

Company's Business Profile

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

(4) Periodic Characteristics

Among the businesses of the Group, the Great Commerce business segment has no obvious seasonality. Seasonal diseases such as flu have a higher incidence of morbidity in a specific period of time, and are rapidly prevalent after the outbreak and therefore there is a seasonal surge in demand for drugs that prevent and treat such diseases. As a result, the sales of some drugs in the Great Southern TCM segment shows certain seasonality. The demand for the current main product of the Great Health segment, namely Wang Lao Ji herbal tea, relates to weather and major holidays. The sales will significantly 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.

(5) Position of the Company in the Industry

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

2. SIGNIFICANT CHANGES IN THE MATERIAL ASSETS OF THE GROUP DURING THE REPORTING PERIOD

Applicable Not applicable

During the Reporting Period, the significant changes in material assets of the Group are shown in the following table:

Categories of Assets	31 December 2018 (RMB'000)	Percentages of changes (%)
Total assets	51,482,184	81.85
Include:		
Notes receivable and Accounts receivable	13,653,056	384.77
Advances to suppliers	837,808	226.54
Other receivables	1,056,551	38.61
Inventories	9,231,739	149.49
Fixed assets	3,165,747	52.04
Construction in progress	480,306	68.72
Intangible assets	1,013,353	39.20
Goodwill	825,573	7,079.17

The main reason for the changes in the above main assets is the (1) 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; (2) the Company completed the acquisition of 48.0465% equity interest in Wang Lao Ji, and Wang Lao Ji became a subsidiary controlled as to 96.093% 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

3. ANALYSIS ON CORE COMPETITIVENESS DURING THE REPORTING PERIOD

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

(i) The Group possesses rich product and brand resources:

- 1) Products: The Group has formed complete series in areas such as diabetes, cardiovascular and cerebrovascular diseases, anti-bacteria and anti-infection, cooling and detox, parenteral nutrition, coughing, bone-setting and pain relief, rheumatism and bone pain, gynaecological and paediatric medication, and nurturing and health. The Group has more than 30 forms and nearly 2,000 specifications and over 100 exclusive products.
- 2) Brands: Currently, the Group and its joint venture have trademarks of 9 nationally renowned brands, 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 Material Assets Reorganization in 2013 and non-public offering of A Shares in 2015, 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, four business segments with unique characteristics, namely, Great Southern TCM, Great Health, Grest Commerce and Great Medical Care, gradually constituted and three new modes of businesses, namely capital finance, e-commerce and medical equipment also gradually constituted. The Group has extended its coverage of brand value from traditional medical products to new Great health products.

- #### (ii) Long history in Chinese traditional medicine and cultural soft power.
- The Group has 12 long lasting enterprises in Chinese pharmaceutical industry, among which Chen Li Ji, Zhong Yi, Pan Gao Shou, Jing Xiu Tang, Cai Zhi Lin, Wang Lao Ji, Xing Qun, Qi Xing, Ming Xing and Guang Hua have been established for over a hundred years. Also, the Group has 6 items admitted as the nation's Intangible Cultural Heritage, namely "Xia Sang Ju" (夏桑菊) of Xing Qun, "Da Shen Kou Yan Qing" (大神口焮清) of BYS, Wang Lao Ji Herbal Tea, the traditional Chinese medicine culture of each of Chen Li Ji and Pan Gao Shou as well as the "Production Technology of Bao Zi Tang Bao Ying Dan" (保滋堂保嬰丹製作技藝) of Zhong Yi. The Group had established the Chen Li Ji Museum (陳李濟博物館), "Chen Li Ji Health Preservation Research Institute" (陳李濟健康養生研究院), "Lingnan Experience Centre of Chinese Medicine Culture" (嶺南中醫藥文化體驗館), Shen Nong Cottage (神農草堂), Cai Zhi Lin Museum (采芝林博物館) and Wang Lao Ji Herbal Tea Museum had established a number of platforms for the promotion of the "Grand Southern TCM" culture and demonstration of the long history and splendid culture of Chinese medicine and rebuilding the famous brands of Chinese medicine.

Company's Business Profile

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

- (iii) The Group has a relatively complete production chain system, including the existing major pharmaceutical assets. Through the internal and external forward integration and backward integration, the Group has formed a thorough raw materials, research and development, production, circulation and terminal production chain. In respect of the supply of Chinese herbs, the Group and its joint ventures have more than 70 GAP herbs bases nationwide, which effectively ensure the quality and supply of Chinese herbs and controls the production costs. In respect of research and development of products, the Group continues to build a comprehensive technological innovation system. The Group has built an extensive collaborative network with renowned scientific research institutions, both domestic and abroad to create a synergy effect between both sides for highly effective utilization of favourable resources from various parties, promoting development through the support of technology.
- (iv) The Group has a large-scale pharmaceutical wholesale distribution and delivery network and a broad and stable customer base in China, and the Company is one of the first pharmaceutical trading enterprises in Guangdong Province that obtained the GSP certificate. The Group have 76 retail chain pharmacy outlets. The Group has also established the largest pharmaceutical retail network and medicine logistics center in southern China. With the advantages of its strong market position and marketing network, the Group has established a long-term and reliable business relationship with hundreds of thousands of customers in 31 provinces, cities and autonomous regions across the country, including medium-and-large-sized hospitals, pharmaceutical wholesalers, distributors and retailers. The Group also has the industry leading digital integration and operation informatisation management system. GP Corp., a subsidiary of the Company, was within the first batch of enterprises in the country which passed the digital integration and operation informatisation management system and assessment system.

Company's Business Profile

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

- (v) The Group has an ever-improving technological innovation system. The Group has continuously strengthening the construction of platforms for many years, improving the scientific research innovation system. As at the date of this report, the Group and its joint ventures have 6 state level research and development institutions, 1 national level corporate technical center, 2 postdoctoral workstation, 14 provincial level corporate technical centers, 16 provincial level engineering technical centers, 14 municipal level engineering technical centers, 14 municipal level engineering technical research and development centers, 6 provincial level key laboratories and 5 municipal level key laboratories. The Group has research and development of Chinese medicine and Chinese NHPs, Chinese medicine engineering technology including automatic control and online testing, Chinese preparation medicine, supercritical CO₂ extraction, reversal extraction, separation of macroporous resin adsorption, quality control for finger printing of Chinese medicine, synthesis and technology of cephalosporins antibiotic APIs and core technology in national leading position such as sterile powder production technology and preparation agent technology.

During the Reporting Period, the Group newly added (1) 3 provincial level engineering centers, i.e. Engineering Research Center for Baiyunshan General Factory, Engineering Research Center for Zhong Yi and Engineering Research Center for Nuo Cheng; (2) 2 provincial level corporate technical centers, i.e. Guangdong Province Precision Medical Biotechnology Products Engineering Technology Research Center and Guangdong Province Freeze-dried Human Rabies Vaccine (Vero Cell) Engineering Technology Research Center; (3) 1 provincial key laboratory: Zhong Yi Guangdong Province Southern TCM Development Engineering Laboratory; (4) 2 municipal enterprise technology centers: Baiyunshan General Factory and Guangzhou Bai Di.

- (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, 9 domestic academicians, 7 foreign academicians, 2 State Council Special Allowance experts in-service, 23 chief experts (scientists), 54 doctors and post doctors. The Group also has nearly 6,292 technology personnels, 1,514 of which have intermediate titles or above.

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

Discussion and Analysis of Operation

1. 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 2018, the Group’s revenue amounted to RMB42,233,838,000, increased by 101.55% year-on-year; the total profit was RMB4,018,730,000, increased by 61.20% year-on-year; and the net profit attribute to shareholders of the Company was RMB3,440,980,000, increased by 66.90% year-on-year.

When compared with the corresponding period in 2017, the Group recorded a remarkable growth in operating results during the Reporting Period, which was mainly driven by the following: (1) During the Reporting Period, as the Group took forward the development of various business segments and made increased efforts in market expansion, the principal operation therefore achieved a steady and faster growth. (2) the asset transfer and change in business registration of the significant asset acquisition in relation to the Company’s acquisition of 30% equity interests in GP Corp. in cash were completed on 31 May 2018. Thereafter, GP Corp. became a subsidiary controlled by the Company with 80% equity interests and was consolidated into the Company’s accounts. In view of the above and in accordance with the Accounting Standards for Business Enterprises, income generated from operations of GP Corp. has been included in the Company’s combined financial statements since June 2018, resulting in a higher year-on-year growth in operating income; meanwhile, the Company’s equity interests previously held in the acquiree before the acquisition date were re-measured at fair value on the acquisition date and the difference of RMB825.77 million between the fair value and the carrying value was included in the “investment income” item in the income statement for the Reporting Period, resulting in a substantial year-on-year increase in profit. (3) During the Reporting Period, the Company completed the acquisition of 48.0465% equity interests in Wang Lao Ji, and Wang Lao Ji became a subsidiary controlled by the Company with 96.093% equity interests and was consolidated into the Company’s accounts. Therefore, the income of RMB170.88 million from equity acquisition was included in the income statement for the year. (4) According to the judgment that the Company 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 in May 2018. The fair value of such investment was increased by RMB254.93 million. The additional amount was included in “gain or loss arising from a change 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:

Firstly, we continued to increase efforts in building channels for potential products and brand promotions, and increased efforts in nurturing key products, to improve sales, expand markets and create “fashionable Chinese medicine” with continuous and strong efforts, and to promote transformation in the development of the traditional Chinese medicine segment so as to drive the improvement in development quality of the Great Southern TCM segment. Moreover, the Group continued to implement the resources consolidation strategy by refining consolidation work, fully utilizing the advantages in distribution network and logistics 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. During the Reporting Period, sales revenue achieved good growth in products of Great Southern TCM segment through Great Commerce segment.

Discussion and Analysis of Operation

1. MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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 customers, while the development of the bottled ready-to-drink market and the end-user outlet network was enhanced, 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 26 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. Projects such as Wang Lao Ji Jasmine Flavor Herbal Tea and Bubble Herbal Tea (爆冰涼茶) are also under intense development.

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 was completed in the Reporting Period. 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) Continuous adhering to the terminal strategy and expansion of various classes of hospitals and medical institution business. During the Reporting Period, GP Corp. won the first place in the bid for Guangzhou GPO and entered the list of pilot enterprises for national supply chain innovation and application, laying a foundation for the stabilization and expansion of the commercial pharmaceutical market in South China. (3) Retail business was developed in all directions with diversification and distribution plan. During the Reporting Period, GP Corp. established GPC Prescription Pharmacy Co., Ltd., opened a prescription pharmacy, and established its presence in the retail market of prescription drugs outside the hospital. Cai Zhi Lin developed a featured retail terminal chain service and continued to develop the business model of “drugstore chains + TCM medical centre”; the Company, Yi Xin Tang and Guangdong Guangyao Jinshen Equity Investment Fund Management Co., Ltd. (廣東廣藥金申股權投資基金管理有限公司) jointly invested to establish Baiyunshan Yi Xin Tang 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.

Fourthly, the layout formation of the Great Medical Care segment was enlarged: (1) By integrating peripheral properties to expand in scale, while soft power of Guangzhou Baiyunshan Hospital was 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. During the Reporting Period, Baiyunshan Medical and Healthcare Industry Company and Guangzhou South Runkang Service Co., Ltd. (廣州南方潤康服務有限公司), a subsidiary of Nanfang Hospital, established a joint venture, Runkang Confinement Company. (3) The medical device new business was actively nurtured, and Zhongcheng Medical Device Industry Development Co., Ltd., 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.

Discussion and Analysis of Operation

1. MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Fifthly, innovations were driven to optimize and improve the quality of scientific research and products to promote high quality development in technology: (1) Quality management work was stringently monitored to create a high pressure environment for quality management by conducting self-evaluation 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 Pharmaceutical General Factory obtained clinical test approval for Class 1.1 new chemical drugs Ceftriaxime Sodium for injection. The Group and joint ventures obtained 2 approvals for manufacturing and filed 2 approvals for clinical research approval. The Group applied for 125 patents and had 52 licensed patents. 13 enterprises passed the standard implementation for intellectual property. 12 enterprises passed the recertification for high-tech enterprise. It obtained three China Patent Excellence Award, one First Prize, one Second Prize and one Third Prize of Guangdong Province Science and Technology Award. (3) The Group promoted the integration of production resources in accordance with the principle of gradual and orderly progress with the easier tasks started before the more difficult ones. After Qi Xing became an enterprise that holds marketing licenses successfully in 2017, in March 2018, Xing Qun successfully obtained the Approval for Supplementary Application Regarding Drugs and became the holder of 25 varieties of vitamin AD drops of the former Zhujiang Pharmaceutical Factory (珠江藥廠). The successful completion of the holder application of the two pilot enterprises has accumulated rich experience for the subsequent follow up work of production resources integration. (4) Major projects in scientific research and innovation were further implemented continuously, and consistency evaluation for generic drugs was 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 integration and integrated management, and enhanced the quality of macro-management development.

Discussion and Analysis of Operation

2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD

(1) Analysis of principal operations

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

Items	The Reporting Period (RMB'000)	The corresponding period of 2017 (RMB'000)	Increase/ (Decrease) over the same period of 2017 (%)
Revenue	42,233,838	20,954,225	101.55
Include: income from principal operations	41,980,378	20,789,416	101.93
Cost of sales	32,164,392	13,063,229	146.22
Include: cost from principal operations	32,106,055	13,023,398	146.53
Selling and distribution expenses	5,056,821	4,285,949	17.99
General and administrative expenses	1,699,062	1,206,295	40.85
Research and development expenses	585,498	373,288	56.85
Financial expenses	(6,655)	(210,571)	96.84
Profit before tax	4,018,730	2,492,976	61.20
Net profit attributable to shareholders of the Company	3,440,980	2,061,652	66.90
Net cash flow from operating activities	5,216,888	1,833,691	184.50
Net cash flow from investing activities	1,109,718	(2,440,644)	145.47
Net cash flow from financing activities	(2,751,337)	(484,274)	(468.14)

Notes:

- Revenue for the Reporting Period increased as compared with the same period of last year, was due to: (1) consolidation of GP Corp. and Wang Lao Ji's accounts into the Company's accounts during the Year, which led to a year-on-year increase of RMB20.322 billion in this statement item for the Reporting Period; (2) an increase in principal operations income of the Company's subsidiaries.
- Cost of sales increased in the Reporting Period as compared with the same period of last year, was due to: (1) consolidation of GP Corp. and Wang Lao Ji's accounts into the Company's accounts during the Year, which led to an increase of RMB19.042 billion in this statement item; (2) a slight increase in cost from principal operations of the Company's subsidiaries.
- General and administrative expenses increased in the Reporting Period as compared with the same period of last year, was due to: (1) consolidation of GP Corp. and Wang Lao Ji's accounts into the Company's accounts during the Year, which led to an increase of RMB257 million in this statement item; (2) an increase in corresponding expenses as a result of constant business expansion of the Company's subsidiaries.
- Research and development expenses for the Reporting Period increased as compared with the same period of last year, which was due to: increase in drug consistency evaluation expenses and expenses on other research projects of the Company's subsidiaries.
- Financial expenses increased in the Reporting Period as compared with the same period of last year, which was due to: (1) consolidation of GP Corp. and Wang Lao Ji's accounts into the Company's accounts during the Year, which led to an increase of RMB223 million in this statement item; (2) improvement in the fund management of the Company's other subsidiaries, increase in interest income and reduction in financial costs as a result of the reasonable fund allocation, increase in capital efficiency as well as optimization in types of deposits.

Discussion and Analysis of Operation

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

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

6. Profit before tax increased in the Reporting Period as compared with the same period of last year, which was due to: (1) the income of RMB985 million generated from acquisition of equity interests in GP Corp. and Wang Lao Ji by the Company; (2) an increase in the profits of the Company's subsidiaries; (3) an increase of RMB119 million in net profit arising from the changes in fair value of equity interests of Yi Xin Tang and C.Q. Pharmaceutical Holding held by the Company.
7. Net cash flow from operating activities for the Reporting Period increased as compared with the same period of last year, which was due to: (1) consolidation of GP Corp. and Wang Lao Ji's accounts into the Company's accounts during the Year; (2) increased cash flow from daily operational activities as a result of growth in advance payment from customers and collection of receivables of products.
8. Net cash flow from investing activities for the Reporting Period increased as compared with same period of last year, which was 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. and Wang Lao Ji's accounts into the Company's accounts during the Year, respectively, which recognized the difference between consideration payment and cash and cash equivalents of such enterprise.
9. Net cash flow from financing activities for the Reporting Period decreased as compared with the same period of last year, was due to: consolidation of GP Corp.'s accounts into the Company's accounts during the Year, which led to consolidation of such corporation's bank borrowings.

(i) Analysis of revenue and cost

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

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	9,635,377	23.59	5,479,359	28.74	43.13	A decrease of 2.27 percentage points
Great Health	9,487,460	10.66	5,367,039	14.34	43.43	A decrease of 1.82 percentage points
Great Commerce	22,743,867	425.40	21,171,258	428.96	6.91	A decrease of 0.63 percentage point
Other	113,674	24.96	88,399	25.31	22.23	A decrease of 0.22 percentage point
Total	41,980,378	101.93	32,106,055	146.53	23.52	A decrease of 13.84 percentage points

Discussion and Analysis of Operation

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

(1) Analysis of principal operations (Continued)

(i) Analysis of revenue and cost (Continued)

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

Types of products	Results of principal operations by products					Profit margin of principal operations Increase/ (Decrease) over the same period of 2017 (percentage point)
	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 (%)		
Chinese patent medicine	3,847,332	(1.69)	2,185,414	(4.80)	43.20	An increase of 1.85 percentage points
Chemical medicine	5,788,045	49.08	3,293,945	68.00	43.09	A decrease of 6.41 percentage points
Total of Great Southern TCM	9,635,377	23.59	5,479,359	28.74	43.13	A decrease of 2.27 percentage points

Regions	Results of principal operations by regions					Profit margin of principal operations Increase/ (Decrease) over the same period of 2017 (percentage point)
	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 (%)		
Southern China	28,849,804	151.13	23,915,085	214.68	17.10	A decrease of 16.74 percentage points
Eastern China	4,555,824	25.09	2,450,090	17.59	46.22	An increase of 3.43 percentage points
Northern China	2,368,824	12.91	1,346,551	18.87	43.16	A decrease of 2.84 percentage points
North-Eastern China	1,043,076	169.40	896,881	310.73	14.02	A decrease of 29.58 percentage points
South-Western China	3,603,000	45.93	2,331,393	45.82	35.29	An increase of 0.05 percentage point
North-Western China	1,515,841	131.69	1,123,178	230.20	25.90	A decrease of 22.11 percentage points
Exports	44,009	(13.85)	42,877	(14.06)	2.57	An increase of 0.24 percentage point

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

Discussion and Analysis of Operation

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

(1) Analysis of principal operations (Continued)

(i) Analysis of revenue and cost (Continued)

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

Notes:

- (1) The large increase in income from principal operations and cost of principal operations of the Great Commerce as compared with last year was mainly due to consolidation of GP Corp.'s accounts into the Company's accounts during the Reporting Period.
- (2) As set out in the above table, the large increase in income from principal operations of chemical medicine as compared with last year was mainly due to: intensification of product promotion and enhancement in marketing efforts; a great increase in the market demand for the products related to prevention and control of influenza resulting from the influence of influenza outbreak in the beginning of 2018; the increase in prices of part of products in order to deal with the impact of rising costs and changes in industry policies. The large increase in cost of principal operations as compared with last year was mainly due to: the decrease in output of part of the products resulting from the transformation of the work center for GMP certification by the subsidiaries of the Company and the increase in operating cost and decrease in gross margin caused by execution of environmental protection policy and increase in prices of raw materials.

2) Analysis on quantities of production and sales

Main products	Production	Sales	Inventory	Production increase/ (decrease) over the same period of 2017 (%)	Sales increase/ (decrease) over the same period of 2017 (%)	Inventory increase/ (decrease) over the same period of 2017 (%)
Cefixime series (thousand tablets)	320,069.82	313,588.73	24,435.81	(9.53)	(5.32)	(37.31)
Cephathiamidine for Injection (thousand ampoules)	35,787.76	32,958.28	1,148.17	(1.78)	(16.44)	(8.98)
Sildenafil Citrate Tablet (thousand boxes)	49,030.82	47,739.87	8,529.95	13.78	20.45	16.42
Xiao Ke Pill (thousand bottles)	43,747.73	35,672.59	11,312.73	6.47	(10.00)	125.29
Xiao Chai Hu Granule (ten thousand packs)	33,870.71	32,219.90	6,815.63	7.83	1.00	30.90
Cephalopropylene series (thousand boxes)	75,053.34	77,543.48	5,422.81	(17.53)	(7.51)	(50.11)
Amoxicillin series (thousand boxes)	1,224,775.88	1,149,631.29	178,046.84	32.09	1.37	67.80
Acafen powder series (thousand boxes)	24,006.00	21,682.00	6,584.00	1.40	(2.90)	49.30
Hua Tuo Zai Zao Pill (thousand bottles)	9,719.90	6,044.01	2,347.03	(29.52)	(26.17)	37.59
Cefixime (thousand kg)	91.06	109.27	7.68	(20.96)	8.05	(71.39)

Discussion and Analysis of Operation

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

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

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

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

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

- ① Inventory of Cefixime series as at the end of period decreased by 37.31% year on year, mainly due to: digesting the inventory in the society and improve operating quality in the fourth quarter of 2018; In addition, to better carry out the reform of workshop to prepare for GMP certification, the production and sales volume decreased, which resulted in resulting in a decrease in inventory year on year.
- ② The inventory of Xiao Ke Pill at the end of period increased by 125.29% year on year, mainly due to: the slowdown in sales and the increase in inventory as a result of integrated adjustment of sales channel in the fourth quarter of 2018.
- ③ The inventory of Xiao Chai Hu Granules at the end of period increased by 30.90% year on year, mainly due to: the early arrival of the Spring Festival in 2019 as compared to that of 2018, and to responded to the delivery peak during the Spring Festival in 2019, thus the inventory prepared in advance resulted in an increase in inventory.
- ④ The inventory of Caphalopropylene series as at the end of period decreased by 50.11% year on year, mainly due to: to focus on digesting the inventory in the society and improve operating quality in the fourth quarter of 2018; In addition, to better carry out the reform of workshop to prepare for GMP certification, the production and sales volume decreased, resulting in a decrease in inventory year on year.
- ⑤ Production volume and inventory of Amoxicillin series at the end of period increased by 32.09% and 67.80% year on year, respectively, mainly due to: the expansion of mass production as a result of the increase in future sales demand.
- ⑥ The inventory of Acafen Powder series at the end of period increased by 49.30% year on year, mainly due to: the significant increase in the inventory in the factory year on year as a result of high level of inventory in the society and the delivery was controlled in the fourth quarter of 2018.
- ⑦ Production volume of Hua Tuo Zai Zao Pill decreased by 29.52% year on year, mainly due to: a drop in sales demand in 2018 as a result of the production has been reduced. Sales volume decreased by 26.17% year on year, mainly due to: affected by the restriction of prescription and volume, the promotion of GPO bargaining procurement in various localities and the restriction and control of the entire Chinese patent medicine market by the government, sales in key medical markets such as Beijing and Shanghai and the retail terminal market have declined dramatically. Inventory as at the end of period increased by 37.59% year on year, mainly due to: the decline in market demand and production volume, which resulted in an increase in inventory.
- ⑧ Inventory of Cefixime as at the end of period decreased by 71.39% year on year, mainly due to: the excessive inventory in 2017, and destocking operations were adopted in 2018, which resulted in a decrease in inventory year on year.

Discussion and Analysis of Operation

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

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

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

3) Analysis of cost

Principal Operation	Components	Results by industry 2018		2017		Percentage of Changes in the proportion (%)
		Amount (RMB'000)	Percentage of the proportion of operation cost (%)	Amount (RMB'000)	Percentage of the proportion of operation cost (%)	
Manufacturing business	Raw materials	8,162,354	75.25	6,580,674	73.52	24.04
	Fuel	122,022	1.12	118,643	1.33	2.85
	Labor costs	317,398	2.93	294,089	3.29	7.93
	Others	2,244,624	20.70	1,957,002	21.86	14.70
Pharmaceutical distribution business	The Cost of purchase	21,171,258	100.00	4,002,443	100.00	428.96
Others	Other costs	88,399	100.00	70,547	100.00	25.31

4) Major suppliers and sale

During the Year, sales by the Group to the five largest customers amounted to RMB2,578,963,000 (2017: RMB2,402,240,000), representing approximately 6.14% of the total sales (2017: 11.56%) of the Group. The sales to the largest customer amounted to RMB756,278,000 (2017: RMB1,019,758,000), representing 1.80% (2017: 4.91%) of the total sales of the Group. The sales to the 5 largest customers included RMB534,800,000 being sales to related parties, representing 1.27% of the total sales of the Group for the Year.

During the Year, purchases by the Group from the five largest suppliers amounted to RMB3,025,139,000 (2017: RMB1,912,706,000), representing approximately 7.27% of the total purchases (2017: 18.75%) of the Group for the year. The purchases from the largest suppliers amounted to RMB898,962,000 (2017: RMB872,215,000), representing 2.16% (2017: 8.55%) of the total purchases of the Group for the Year. The purchases from the 5 largest suppliers included RMB898,962,000 being purchases from related parties, representing 2.16% of the total purchases of the Group for the Year.

For the relationship between the Group and the customers and suppliers, please refer to the 2018 Social Responsibility Report of the Company (the full text of which had been disclosed on the websites of the SSE and the HKEx). To the knowledge of the Directors, none of the Directors, their associates or shareholders who held more than 5% of the Company's total issued share capital had any interest in any of the 5 largest customers and suppliers as were mentioned above.

Discussion and Analysis of Operation

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

(1) Analysis of principal operations (Continued)

(ii) Expenses

During the Reporting Period, the Group's selling and distribution expenses was approximately RMB5,056,821,000 (2017: RMB4,285,949,000), representing an increase of 17.99% as compared with last year, was mainly due to: (1) consolidation of GP Corp. and Wang Lao Ji's accounts into the Company's accounts during the Year, which led to an increase of RMB702 million in this statement item; (2) a slight increase in selling and distribution expenses of the Company's other subsidiaries.

During the Reporting Period, the Group's general and administrative expenses was approximately RMB1,699,062,000 (2017: RMB1,206,295,000), representing a growth of 40.85% as compared with last year, was mainly due to: (1) consolidation of GP Corp. and Wang Lao Ji's accounts into the Company's accounts during the Year, which led to an increase of RMB257 million in this statement item; (2) an increase in corresponding expenses as a result of constant business expansion of the Company's subsidiaries.

During the Reporting Period, the Group's research and development expenses was approximately RMB585,498,000 (2017: RMB373,288,000), representing a growth of 56.85% as compared with last year, was mainly due to: increase in drug consistency evaluation expenses and expenses on other research projects of the Company's subsidiaries.

During the Reporting Period, the Group's financial expense was approximately RMB-6,650,000 (2017: RMB-210,571,000), representing a growth of 96.84% as compared with last year, was mainly due to: (1) consolidation of GP Corp. and Wang Lao Ji's accounts into the Company's accounts during the Year, which led to an increase of RMB223 million in this statement item; (2) improvement in the fund management of the Company's other subsidiaries, increase in interest income and reduction in financial costs as a result of the reasonable fund allocation, increase in capital efficiency as well as optimization in types of deposits.

During the Reporting Period, the Group's income tax expenses was approximately RMB485,014,000 (2017: RMB374,221,000), representing a growth of 29.61% as compared with last year, was mainly due to an increase in the profits of the subsidiaries during the Year.

(iii) Research and development expenses

Cost of research and development expenses in the current year (RMB'000)	585,498
Capitalization of research and development expenses in the current year (RMB'000)	-
Total research and development expenses (RMB'000)	585,498
Ratio of research and development expenses to income from operations	1.39
Ratio of research and development expenses to income from principal operations of the Great Southern TCM (%)	6.08
Total research and development expenses accounted for the proportion of net assets (%)	2.53
Number of the research and development personnel of the Company	709
Percentage of total number of the research and development personnel in the total number of personnel of the Company (%)	3.07
Percentage of the research and development of capitalization (%)	-

Detailed description

Applicable Not Applicable

Discussion and Analysis of Operation

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

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

(iv) Cash flow

Items	The Reporting Period (RMB'000)	The corresponding period of 2017 (RMB'000)	Increase/ (Decrease) as compared with the same period of 2017 (%)	Reasons
Net cash flow from operating activities	5,216,888	1,833,691	184.50	The year-on-year increase in cash flow from operating activities was mainly due to: (1) consolidation of GP Corp. and Wang Lao Ji's accounts into the Company's accounts during the Year; (2) increased cash flow from daily operating activities as a result of growth in advance payment from customers and collection of receivables of products during the Reporting Period.
Net cash flow from investing activities	1,109,718	(2,440,644)	145.47	The year-on-year increase in cash flow from investing activities was 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. and Wang Lao Ji's accounts into the Company's accounts during
Net cash flow from financing activities	(2,751,337)	(484,274)	(468.14)	The year-on-year decrease in cash flow from financing activities was mainly due to: consolidation of GP Corp.'s accounts into the Company's accounts during the Year, which led to consolidation of such corporation's bank borrowings.

Discussion and Analysis of Operation

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

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

Applicable Not applicable

- (1) The asset transfer and change in business registration of the significant asset acquisition in relation to the Company's acquisition of 30% equity interests in GP Corp. in cash were completed on 31 May 2018. Thereafter, GP Corp. became a subsidiary controlled by the Company with 80% equity interests and was consolidated into the Company's accounts. In view of the above and in accordance with Accounting Standards for Business Enterprises, income generated from operations of GP Corp. has included in the Company's combined financial statements since June 2018, resulting in a higher year-on-year growth in operating income; meanwhile, the Company's equity interests previously held in the acquiree before the acquisition date were re-measured at fair value on the acquisition date and the difference of RMB825.77 million between the fair value and the carrying value was included in the "investment incom" item in the income statement for the Reporting Period, resulting in a substantial year-on-year increase in profit.
- (2) During the Reporting Period, the Company completed the acquisition of 48.0465% equity interests in Wang Lao Ji, and Wang Lao Ji became a subsidiary controlled by the Company with 96.093% equity interests and was consolidated into the Company's accounts. Therefore, the income of RMB170.88 million from equity acquisition was included in the income statement for the year.
- (3) According to the judgment that the Company 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 in May 2018. The fair value of such investment was increased by RMB254.93 million. The additional amount was included in "gain or loss arising from a change in fair value" item in the income statement for the Reporting Period, leading to a higher total profit for the Reporting Period.

(3) Analysis on Financial Conditions

(i) Liquidity

As at 31 December 2018, the current ratio of the Group was 1.60 (31 December 2017: 2.60), and its quick ratio was 1.25 (31 December 2017: 2.15). Accounts receivable turnover rate was 7.95 times (31 December 2017: 20.46 times), representing a decrease of 61.14% as compared with the corresponding period of 2017. Inventory turnover rate was 4.91 times (31 December 2017: 3.98 times), representing an increase of 23.28% as compared with the corresponding period of 2017. Changes in the above indicators are due to consolidation of GP Corp.'s accounts into the Company's accounts during the Year.

(ii) Financial resources

As at 31 December 2018, cash and cash equivalents of the Group amounted to RMB15,071,612,000 (31 December 2017: 11,495,535,000), of which approximately 99.66% and 0.34% were denominated in Renminbi and foreign currencies, such as Hong Kong dollar, respectively.

As at 31 December 2018, the Group had bank borrowings of RMB6,523,281,000 (31 December 2017: RMB42,807,000), including short-term borrowings of RMB5,905,703,000 (31 December 2017: RMB11,500,000), current portion of noncurrent liabilities of RMB204,024,000 (31 December 2017: RMB31,307,000) and long-term borrowings of RMB413,554,000 (31 December 2017: RMB0). Changes in the above indicators are due to consolidation of GP Corp.'s accounts into the Company's accounts during the Year.

Discussion and Analysis of Operation

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

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

(iii) Capital structure

As at 31 December 2018, the Group's current liabilities amounted to RMB26,948,764,000 (31 December 2017: RMB8,268,854,000), representing an increase of 225.91% as compared with the corresponding period of 2017, and its long-term liabilities was RMB1,389,687,000 (31 December 2017: RMB782,705,000), with an increase of 77.55% as compared with the corresponding period of 2017. The shareholders' equity attributable to the shareholders of the Company amounted to RMB21,684,909,000 (31 December 2017: RMB18,871,521,000), with an increase of 14.91% as compared with the corresponding period of 2017. Changes in the above indicators are due to consolidation of GP Corp.'s accounts into the Company's accounts during the Year.

(iv) Capital expenditure

The Group expects that the capital expenditure for 2019 to be approximately RMB3.153 billion (2018: RMB0.524 billion), which would be mainly applied in the construction of production sites, information system and purchase of new equipment. The Group will raise funds to meet the capital requirements of capital expenditure by resorting to its internal funds, bank loans, etc.

(v) Assets and liabilities

Item	As at 31 December 2018 (RMB'000)	% of the total assets (%)	As at 31 December 2017 (RMB'000) (Restated)	% of the total assets (%)	Increase/ (Decrease) over 2017 (%)	Reasons for changes
Cash at bank and on hand	16,114,884	31.3	11,697,219	41.32	37.77	The change in balance of such item was mainly due to: (1) consolidation of GP Corp. and Wang Lao Ji's accounts into the Company's accounts during the Year, which led to an increase of RMB2.821 billion in balance of this statement item; (2) an increase in payment received by the Company's subsidiaries.
Notes receivable and accounts receivable	13,653,056	26.52	2,816,424	9.95	384.77	The change in balance of such item was mainly due to: consolidation of GP Corp. and Wang Lao Ji's accounts into the Company's accounts during the Year, which led to an increase of RMB11.295 billion in balance of accounts receivable and notes receivable.

Discussion and Analysis of Operation

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

(3) Analysis on Financial Conditions (Continued)

(v) Assets and liabilities (Continued)

Item	As at	% of the total assets	As at	% of the total assets	Increase/ (Decrease) over 2017	Reasons for changes
	31 December 2018		31 December 2017			
	(RMB'000)	(%)	(RMB'000) (Restated)	(%)	(%)	
Advances to suppliers	837,808	1.63	256,572	0.91	226.54	The change in balance of such item was mainly due to: consolidation of GP Corp.'s accounts into the Company's accounts during the Year, which led to an increase of RMB611 million in balance of advances to suppliers.
Other receivables	1,056,551	2.05	762,257	2.69	38.61	The change in balance of such item was mainly due to: consolidation of GP Corp. and Wang Lao Ji's accounts into the Company's accounts during the Year, which led to an increase of RMB828 million in other receivables, and a decrease of RMB455million in balance of dividends receivable.
Inventories	9,231,739	17.93	3,700,223	13.07	149.49	The change in balance of such item was mainly due to: (1) consolidation of GP Corp. and Wang Lao Ji's accounts into the Company's accounts during the Year, which led to an increase of RMB4.276 billion in balance of this statement item; (2) accumulation of stock by the subsidiary of the Company at the end of 2018 in preparation of peak sales season in the coming Spring Festival; (3) increase in cost of inventories as a result of the increase in costs of purchase for raw materials of some products.

Discussion and Analysis of Operation

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

(3) Analysis on Financial Conditions (Continued)

(v) Assets and liabilities (Continued)

Item	As at 31 December 2018 (RMB'000)	% of the total assets (%)	As at 31 December 2017 (RMB'000) (Restated)	% of the total assets (%)	Increase/ (Decrease) over 2017 (%)	Reasons for changes
Other equity instrument investments	84,898	0.16	62,686	0.22	35.43	The change in balance of such item was mainly due to: (1) the reclassification of financial assets from "available-for-sale financial assets" to this item with the implementation of the new recognition and measurement standard of financial instruments by the Company; (2) increase investment in Sino-Israel Fund by the Company.
Other non-current financial assets	226,938	0.44	975,857	3.45	(76.74)	The change in balance of such item was mainly due to: (1) the reclassification of financial assets from "available-for-sale financial assets" to this item with the implementation of the new recognition and measurement standard of financial instruments by the Company; (2) the transfer of the Company's shareholding in Yi Xin Tang to "long-term equity investments" item accounted for using the equity method according to the Company's judgment of significant influence over such company.
Fixed assets	3,165,747	6.15	2,082,245	7.36	52.04	The change in balance of such item was mainly due to: consolidation of GP Corp. and Wang Lao Ji's accounts into the Company's accounts during the Year, which led to an increase of RMB1.080 billion in balance of this statement item.

Discussion and Analysis of Operation

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

(3) Analysis on Financial Conditions (Continued)

(v) Assets and liabilities (Continued)

Item	As at	% of the total assets	As at	% of the total assets	Increase/ (Decrease) over 2017	Reasons for changes
	31 December 2018		31 December 2017			
	(RMB'000)	(%)	(RMB'000) (Restated)	(%)	(%)	
Construction in progress	480,306	0.93	284,672	1.01	68.72	The change in balance of such item was mainly due to: (1) consolidation of GP Corp. and Wang Lao Ji's accounts into the Company's accounts during the Year, which led to an increase in balance of this statement item; (2) increase investment in projects by the subsidiary of the Company.
Intangible assets	1,013,353	1.97	728,009	2.57	39.20	The change in balance of such item was mainly due to: consolidation of GP Corp. and Wang Lao Ji's accounts into the Company's accounts during the Year, which led to an increase in balance of this statement item.
Development expenditures	0	0.00	800	0.00	(100.00)	The change in balance of such item was mainly due to: provision for impairment on development expenditures provided by the subsidiary of the Company.
Goodwill	825,573	1.60	11,500	0.04	7,079.17	The change in balance of such item was mainly due to: an increase of RMB932 million in goodwill as a result of acquisition of 30% equity interest in GP Corp. by the Company, provision for impairment on such goodwill provided of RMB118 million at the end of the Year, which led to an increase of RMB814 million in balance of such item.
Long-term prepaid expenses	94,315	0.18	49,067	0.17	92.22	The change in balance of such item was mainly due to: consolidation of GP Corp.'s accounts into the Company's accounts during the Year, which led to an increase in balance of this statement item.

Discussion and Analysis of Operation

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

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

(v) Assets and liabilities *(Continued)*

Item	As at 31 December 2018 (RMB'000)	% of the total assets (%)	As at 31 December 2017 (RMB'000) (Restated)	% of the total assets (%)	Increase/ (Decrease) over 2017 (%)	Reasons for changes
Deferred tax assets	569,145	1.11	389,629	1.38	46.07	The change in balance of such item was mainly due to: (1) consolidation of GP Corp.'s accounts into the Company's accounts during the Year, which led to an increase of RMB98 million in balance of this statement item; (2) an increase in temporary differences of income tax deductible arising from compensation for relocation and provisions projects by the subsidiary of the Company.
Other non-current assets	2,580	0.01	0	0.00	/	The change in balance of such item was mainly due to: an increase in land-transferring fees prepaid by the subsidiary of the Company.
Short-term borrowings	5,905,703	11.47	11,500	0.04	51,253.94	The change in balance of such item was mainly due to: consolidation of GP Corp's accounts into the Company's accounts during the Year, which led to an increase in balance of this statement item
Notes payable and accounts payable	11,969,454	23.25	3,054,427	10.79	291.87	The change in balance of such item was mainly due to: consolidation of GP Corp. and Wang Lao Ji's accounts into the Company's accounts during the Year, which led to an increase of RMB8.402 billion in balance of notes payable and accounts payable.

Discussion and Analysis of Operation

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

(3) Analysis on Financial Conditions (Continued)

(v) Assets and liabilities (Continued)

Item	As at	% of the total assets	As at	% of the total assets	Increase/ (Decrease) over 2017	Reasons for changes
	31 December 2018		31 December 2017			
	(RMB'000)	(%)	(RMB'000) (Restated)	(%)	(%)	
Taxes payable	963,543	1.87	480,917	1.70	100.36	The change in balance of such item was mainly due to: (1) the amount of tax to be resold has increase with the implementation of the new revenue standard by the Company; (2) consolidation of GP Corp. and Wang Lao Ji's accounts into the Company's accounts during the Year, which led to an increase in balance of this statement item; (3) an increase in unpaid enterprise income tax payable and value-added tax payable of the subsidiary of the Company.
Other payables	3,466,357	6.73	2,445,094	8.64	41.77	The change in balance of such item was mainly due to: consolidation of GP Corp. and Wang Lao Ji's accounts into the Company's accounts during the Year, which led to an increase of RMB1.164 billion in balance of this statement item.
Contract liabilities	3,686,647	7.16	1,614,438	5.70	128.35	The change in balance of such item was mainly due to: (1) the reclassification of "advances from customers" to this item with the implementation of the new revenue standard by the Company; (2) an increase in advance payments from customers by WLJ Great Health, a wholly-owned subsidiary of the Company, as the early arrival of Spring Festival; (3) an increase in advance payments from customers by other subsidiaries of the Company.

Discussion and Analysis of Operation

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

(3) Analysis on Financial Conditions (Continued)

(v) Assets and liabilities (Continued)

Item	As at 31 December 2018 (RMB'000)	% of the total assets (%)	As at 31 December 2017 (RMB'000) (Restated)	% of the total assets (%)	Increase/ (Decrease) over 2017 (%)	Reasons for changes
Current portion of non-current liabilities	204,024	0.40	31,307	0.11	551.68	The change in balance of such item was mainly due to: (1) consolidation of GP Corp.'s accounts into the Company's accounts during the Year, which led to an increase in balance of this statement item; (2) the repayment of long term borrowings with maturity within a year by the subsidiaries of the Company, leading to a decrease in balance of this item.
Long-term borrowings	413,554	0.80	0	0.00	/	The change in balance of such item was mainly due to: consolidation of GP Corp.'s accounts into the Company's accounts during the Year, which led to an increase in balance of this statement item.
Long-term payables	135,796	0.26	35,127	0.12	286.59	The change in balance of such item was mainly due to: consolidation of GP Corp.'s accounts into the Company's accounts during the Year, which led to an increase in balance of this statement item.
Deferred tax liabilities	249,762	0.49	114,788	0.41	117.59	The change in balance of such item was mainly due to: (1) consolidation of GP Corp. and Wang Lao Ji's accounts into the Company's accounts during the Year, 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.

Discussion and Analysis of Operation

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

(3) Analysis on Financial Conditions (Continued)

(v) Assets and liabilities (Continued)

Item	As at	% of the total assets	As at	% of the total assets	Increase/ (Decrease) over 2017	Reasons for changes
	31 December 2018		31 December 2017			
	(RMB'000)	(%)	(RMB'000) (Restated)	(%)	(%)	
Other comprehensive income	(477)	(0.00)	(6,819)	(0.02)	93.00	The change in balance of such item was mainly due to: the change in exchange rate differences on conversion of foreign currencies by subsidiaries of the Company.
Undistributed profits	8,825,776	17.14	6,218,195	21.96	41.93	The change in balance of such item was mainly due to: (1) consolidation of GP Corp. and Wang Lao Ji's accounts into the Company's accounts during the Year, which led to an increase of RMB 613 million upon consolidation of the undistributed profit; (2) the increase in net profit realized for the Year by the Company and its subsidiaries.
Minority interest	1,458,824	2.83	391,633	1.38	272.50	The change in balance of such item was mainly due to: consolidation of GP Corp. and Wang Lao Ji's accounts into the Company's accounts during the Year, which led to an increase in balance of this statement item.

Discussion and Analysis of Operation

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

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

(vi) Exposure to fluctuations in exchange rates

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

(vii) Main cash resources and applications

As at 31 December 2018, cash and cash equivalents of the Group was amounted to RMB15,071,612,000 with an increase of RMB3,576,077,000 as compared with the beginning of 2018. The net cash inflow derived from operating activities amounted to RMB5,216,888,000 with an increase of RMB3,383,197,000 as compared with 2017, mainly due to (1) consolidation of GP Corp. and Wang Lao Ji's accounts into the Company's accounts during the Year; (2) Increased cash flow from daily operational activities as a result of growth in advance payment from customers and collection of receivables of products.

(viii) Contingent liabilities

As at 31 December 2018, the Group had no material contingent liabilities.

(ix) Charge on the Group's assets

As at 31 December 2018, Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, has obtained the overdraft amounted to HK\$300,000, letter of credit and 90-day credit in the total amount of HK\$100,000,000 from Bank of China (Hong Kong) Co., Ltd., secured by buildings of fixed assets with the original value amounted to HK\$8,893,000, and net value of HK\$6,293,000 and investment properties with the original value amounted to HK\$6,843,000 and net value of HK\$3,647,000 of investment properties and an issued but unexpired letter of credit of EUR48 thousand, USD412 thousand from the Bank of China (Hong Kong) Co.,Ltd.

Discussion and Analysis of Operation

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

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

(x) Bank loans, overdraft and other borrowings

As at 31 December 2018, the bank loans of the Group amounted to RMB6,523,281,000 (31 December 2017: RMB42,807,000), with an increase of RMB6,480,474,000 as compared with the beginning of 2018. The above bank loans included short-term loans of RMB5,903,703,000, current portion of noncurrent liabilities of RMB204,024,000 and long-term loans of RMB413,554,000. Changes in the above indicators due to consolidation of GP Corp.'s accounts into the Company's accounts during the Year.

(xi) Gearing ratio

As at 31 December 2018, the Group's gearing ratio (total liabilities/total assets×100%) was 55.05% (31 December 2017: 31.97%). Changes in the above indicators due to consolidation of GP Corp.'s accounts into the Company's accounts during the Year.

(xii) Material investment

As at 31 December 2018, except for those disclosed in (2) in the section III "Company's Business Profile" of the annual report, the Group did not have any other material additional investment.

(xiii) Major assets subject to restrictions at the end of the Reporting Period

Applicable Not applicable

Discussion and Analysis of Operation

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

(4) Analysis on the pharmaceutical manufacturing industry operation information

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

(1) *Basic information of the industry*

Applicable Not applicable

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

① Chinese patent medicine

In recent years, China has attached great importance to the development of the traditional Chinese medicine industry. The promulgation of a series of strategic policies such as the Outline of the Strategic Plan for the Development of Traditional Chinese Medicine (2016-2030), the 13th Five-year Plan for the Development of Traditional Chinese Medicine, the Development Plan for Traditional Chinese Medicine Regarding the Belt and Road (2016-2020), the Outline of the Healthy China Plan (2016-2030), and the Traditional Chinese Medicine Law of the People's Republic of China has laid a good foundation for the sustainable development of the pharmaceutical industry. In 2018, China's traditional Chinese medicine industry policies focused on facilitating the development of traditional Chinese medicine and promoting the modernization and standardization of traditional Chinese medicine. According to the Guidance on Strengthening Scientific and Technological Innovation in Health Services of Traditional Chinese Medicine, a scientific and technological innovation system for health services of traditional Chinese medicine with the whole life cycle health service chain of preventive health care, medical care and rehabilitation as the core shall be established to further enhance the service capacity and level of traditional Chinese medicine, and promote the construction of healthy China by 2030. In general, the traditional Chinese medicine industry will embrace new opportunities and challenges for development.

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

Discussion and Analysis of Operation

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

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

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

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

② Chemical medicine

In 2018, the institutional adjustment of NMPA, NHC and NHSA was finished, and the reform of the medical system further deepened. The “supply-side reform” of the pharmaceutical industry continued to advance and the policies regarding the registration, review and approval of drug further encouraged drug innovation. The consistency evaluation was carried out steadily, and the generic drug-related policies accelerated the substitution of the original drug. Drug regulation has become stricter and the information traceability system has gradually improved. The reform of the system in respect of basic drug, medical insurance payment, and centralized drug procurement has accelerated the concentration of the industry. The above policies and regulations will affect the income and profit of the chemical medicine industry. Many manufacturers with serious homogenization will face industry reshuffle, and innovative drugs and high-quality generic drugs will usher in support from national policies and become the main source of income and profit for pharmaceutical companies.

The Group has a complete antibiotic production chain 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.

Discussion and Analysis of Operation

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

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

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

2) Policies related to the industry

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

① Deepening the reform of review and approval system

In 2018, National Medical Products Administration promulgated the Measures for the Implementation of Drug Test Data Protection (Provisional) (Draft for Comment), proposed a period of data protection for innovative drugs and drugs specific to rare diseases and children and expanded data protection time and scope for innovative and specific drugs in a breakthrough. In order to encourage innovation and speed up the creation of new drugs, National Medical Products Administration issued the Notice on Adjusting the Review and Approval Process for Drug Clinical Trials to adjust the matters related to the review and approval of drug clinical trials. If the applicant does not receive a negative or questionable opinion from the drug review center within 60 days of the application for drug clinical trial, the applicant may conduct a clinical trial in accordance with the submitted program. The above policies have further spurred pharmaceutical companies' enthusiasm for research and development of innovative drugs and drugs specific to rare diseases and children.

In 2018, the Ancient Classic Famous Prescription Catalogue (First Batch) and the Announcement on Simplified Registration and Approval Management Regulations for Ancient Classic Famous Prescription Traditional Chinese Medicine Compound Preparations were issued, which implemented simplified approval for ancient classic famous prescriptions from catalogue published by the State that have no varieties of traditional Chinese medicine compound preparations on the market. This policy will stimulate the development of classic famous prescriptions by traditional Chinese medicine companies and speed up the marketing of new varieties of traditional Chinese medicine.

Countermeasures: The Group will continue to pay close attention to the relevant policies of review and approval system reform, play the main role of innovation, increase investment in research and development and strengthen research and development of new products. In addition, the Group has speeded up the research and development on ancient famous prescriptions. Currently, some businesses under the Company have commenced relevant activities, with a view to accelerating the launch of new TCM products to the market.

Discussion and Analysis of Operation

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

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

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

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

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

② Upgrading in the systemic management of quality control

In 2018, the Drug Administration Law of the People's Republic of China (Revised Draft) (the "Draft") was submitted to the Standing Committee of the National People's Congress for consideration, and comments were solicited from the public. The Draft revised around the implementation of the drug marketing license holder system and the advancement of reform for the review and approval system, adhered to imposition of severe punishment for problems, and strengthened the supervision in the whole process. At the same time, it reformed and improved the drug review and approval system, encouraged drug innovation, and strengthened the supervision during and after the event in order to promote the research and development and innovation of drugs, and stimulate the enthusiasm of pharmaceutical enterprises in the research and development of new drugs.

Countermeasures: The Group will continue to pay attention to the issuance of relevant implementation measures and steps and make early strategic deployment and related work. It will strictly comply with the requirements of relevant policy on drug quality management, and continue to promote the integration of production resources with the experiences in being the marketing license holders of Qi Xing and Xing Qun. It also strengthened the research and development of new products, and continuously promoted the implementation of scientific research innovation projects, and the integration of industry-college-institute.

Discussion and Analysis of Operation

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

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

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

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

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

③ Guarantee of supply and reform of use for generic drugs

In 2018, the General Office of the State Council issued the Opinions on Reforming and improving the Supply Guarantee and Use Policy of Generic Drugs, proposing to focus on the prominent problems faced by the generic drug industry, promote the research and development of generic drugs, improve the quality and efficacy, improve support policies, and improve the ability to guarantee the supply of drugs in order to reduce the burden of drugs in the society as a whole and protect the demand for drugs of the broad masses of the people. For the shortage of high-quality generic drugs, the State promotes the research and development of generic drugs by publishing catalogues of drugs whose copies are encouraged to be made, strengthening technical research, and improving the protection system of intellectual property protection of drugs. To improve the quality and efficacy of generic drugs, we must accelerate the consistency evaluation, improve the quality of raw materials and packaging materials required, improve the level process manufacturing, deepen the reform for drug review and approval system, strengthen drug quality supervision, etc.. To promote the use of generic drugs, we must improve support policies, timely incorporate generic drugs into procurement catalogues, and accelerate the replacement of original drug and speed up the formulation of payment standard for medical insurance drugs.

In addition, the centralized drug procurement pilot (“4 + 7” city drug centralized procurement) organized by the State was steadily promoted. The program implements “quantity-price linked, volume-for-price” method and procurement results showed that the price reduction for generic drug was large, and the substitution effect for original drug was obvious. This indicates that China’s generic drug industry has entered the period of “small profits but high turnover”, and industry concentration will be further enhanced.

Countermeasures: The Group will continue to pay attention to the national development policies for generic drug, make strategic deployment of the generic drug business in advance, and speed up the promotion of the consistency evaluation of related products; continue to enhance management efficiency and reduce costs; keep a close eye on the centralized pharmaceutical procurement by national, provincial and municipal authorities, and actively participate in the competition on the market.

Discussion and Analysis of Operation

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

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

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

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

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

① Further improvement of the essential drug system

In 2018, the State Council issued the Opinions on Improving the National Essential Drug System. Compared with the current essential drug system, the following five aspects were adjusted: First, in the selection for catalogue, more emphasis is placed on highlighting the clinical value of drugs and equal attention is paid to dynamic adjustment and admission and expulsion; second, more attention is paid to the roles of the government and the market, and protect the supply is guaranteed with multiple channels and in multiple ways; third, more attention is paid to the connection between medical institutions, helping the construction of graded diagnosis and treatment system, and emphasizing the comprehensive equipment and preferred use of essential drug in medical institutions at all levels; fourth, more attention is paid to the linkage with consistency evaluation for generic drug, the drug that has passed consistency evaluation has the priority to be included in the catalogue, and the drug that has not passed will be removed from the catalogue gradually to ensure the quality of drugs; fifth, more attention is paid to the connection with medical insurance payment reimbursement policy. While the medical insurance department adjusts the medical insurance catalogue, the eligible drug will have the priority to be included in the catalogue or adjusted under the categories of A and B. Since then, the National Health Commission and the State Administration of Traditional Chinese Medicine have issued the Catalogue for National Essential Drugs. Compared with the 2012 edition, the new edition has more varieties, more reasonable structure, and more standardized dosage forms and specifications. The coverage of clinical symptom for traditional Chinese medicine is more complete, and clinical necessities and efficacy are more definite.

Countermeasures: The Group will optimize the structure of products and study the tendering policies on procurement in each province with the aim of focusing on exclusive or less competitive essential drugs; ensure the quality and efficacy of the competitive essential drugs so as to enter into the low-price medicine list for the expansion into low-end market; grasp the opportunity of the increase in medical insurance ratio, increase investment in low-end market and put emphasis on strategic cooperation of distribution platform so as to maximize the coverage; and act in conjunction with the Group's advantages and in accordance with the tendering policies on procurement in each province to reduce its adverse impact to the Group.

Discussion and Analysis of Operation

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

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

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

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

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

② Continual improvement of drug regulatory system

In 2018, the Food and Drug Administration organized the drafting of the Measures on Drug Inspection (Draft for Comment) and publicly solicited opinions. The Measures showed that the scope of drug inspection was expanded, the division of responsibility of regulatory agencies at all levels was clearer, the inspection methods were more novel and the frequency was higher.

In 2018, the National Medical Products Administration issued the Guidance on the Construction of Digital Drug Tracing System, which stipulates that drug marketing license holders, production enterprises, operating enterprises, and users must comply with relevant regulations and technical standards and establish sound digital tracing and management system to earnestly fulfill the main responsibilities. If any such entity fails to establish a tracing system as required, and the tracing system cannot operate effectively, it must be dealt with seriously in accordance with relevant laws and regulations. The digital drug tracing system will be first established in the fields of vaccines, narcotic drugs, psychotropic drugs, blood products and other key products, and will be gradually extended to essential drugs, medical insurance reimbursement drugs and other drugs. The comprehensive establishment of the digital drug tracing system means that China's drug supervision is changing to digital and intelligent supervision in the whole process.

Countermeasures: In 2018, the problematic vaccine incident caused heated discussion among the people of the country, and the supervision of drugs by relevant state departments became increasingly strict. In view of this, the Group will endeavour in the management of drug's quality, and actively establish a digital drug tracing system in accordance with regulatory requirements to further improve the quality and safety of drugs.

Discussion and Analysis of Operation

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

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

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

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

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

③ Enhanced supervision of adjuvant drugs

In 2018, the National Health Commission issued the Notice on Doing a Good Job in the Clinical Application Management of Adjuvant Drugs. The Notice requires that medical institutions above the second level should report the adjuvant drugs in the order of annual consumption amount, and finally constituted a catalogue of adjuvant drugs for the nation, province and medical institution. All the drugs in the catalogue for the management of adjuvant drugs will be monitored specially. The National Health Commission will adjust the catalogue for adjuvant drugs regularly, and the adjustment interval is not shorter than one year in principle. At present, there is no clear official definition of adjuvant drugs, but from the current public information, this policy will good for rigid drug companies.

Countermeasures: The Group will continue to pay attention to changes in the national policies regarding the regulation of adjuvant drugs, and strengthen the management of relevant product lines and the selection of products in accordance with the requirements of relevant policies. At the same time, the Group will also make greater efforts in the distribution and sale of pharmaceuticals through various channels and terminals.

Discussion and Analysis of Operation

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

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

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

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

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

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

Countermeasures: The Group will continue to implement the environmental protection tax policy, further improve production process, step up efforts in energy conservation and emission reduction promote the green production management concept, continue to push forward with green emission and green production.

3) Basic information of principal medicine (products)

Applicable Not applicable

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

Applicable Not applicable

Discussion and Analysis of Operation

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

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

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

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

Product name	Subdivided sub-industry	therapeutic area	Indications/ Functions	Term of invention patent	Classification of drug registration	Whether protected traditional medicine	Whether prescription drugs	Whether new product during the Reporting Period	Unit	Production quantity during the Reporting Period	Sales during the Reporting Period
Cefixime series	Chemical medicinal preparations	Antimicrobial drugs	The product is indicated for bacterial infectious diseases caused by streptococcus (except enterococcus) sensitive to cefixime.	From 16 July 2009 to 15 July 2029	chemical medicine	No	Yes	No	Thousand tablets	320,069.82	321,948.13
Cephalthiamidine for Injection	Chemical medicinal preparations	Antimicrobial drugs	The product is indicated for infections of respiratory system, hepatobiliary system, the five sense organs and urinary tract, endocarditis and septicemia caused by sensitive bacteria.	From 19 May 2003 to 18 May 2023	chemical medicine	No	Yes	No	Thousand ampoules	35,787.76	32,958.28
Sildenafil Citrate Tablet	Chemical medicinal preparations	Drugs for men	he product is indicated for treatment of erectile dysfunction (ED).	From 29 April 2002 to 28 April 2020	chemical medicine	No	Yes	No	Thousand boxes	49,030.82	47,739.87
Xiao Ke Pill	Chinese patent medicine	Drugs used in internal	Diabetes caused by deficiency of both qi and yin; type-II diabetes	From 31 March 2006 to 31 March 2026	Traditional Chinese medicine,	No	Yes	No	Thousand bottles	43,747.73	35,672.59
Xiao Chai Hu Granule	Chinese patent medicine	Drugs used in internal medicine department	Relieving exterior syndrome, dispelling heat and soothing the liver and regulating stomach	From 18 October 2011 to 17 October 2031	Traditional Chinese medicine	No	No	No	Thousand packs	33,870.71	32,219.90
Cefprozil series	Chemical medicinal preparations	Antimicrobial drugs	Upper respiratory tract infection, lower respiratory tract infection, infection of skin and its soft tissues	From 20 December 2010 to 19 December 2030	chemical medicine	No	Yes	No	Thousand bottles	75,053.34	78,381.68
Amoxicill series	Chemical medicinal preparations	Antimicrobial drugs	The product is indicated for infection caused by sensitive bacteria (none- β -lactamase-producing strains).	No	chemical medicine	No	Yes	No	Thousand boxes	1,224,775.88	1,149,631.29
Paracetamol Caffeine and Aspirin Powder	Chemical medicinal preparations	Drugs for easing pain, clearing heat, and resisting inflammation, wind-damp and gosseset	The product is indicated for treatment of fever caused by common cold or influenza, and alleviation of mild to moderate pain.	No	chemical medicine	No	No	No	Thousand boxes	24,006.00	21,682.00

Discussion and Analysis of Operation

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

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

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

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

Product name	Subdivided sub-industry	therapeutic area	Indications/ Functions	Term of invention patent	Classification of drug registration	Whether protected traditional medicine	Whether prescription drugs	Whether new product during the Reporting Period	Unit	Production quantity during the Reporting Period	Sales during the Reporting Period
Hua Tuo Zai Zao Pill	Chinese patent medicine	Drugs used in internal medicine department	Promoting blood circulation, removing blood stasis and phlegm, dredging collaterals, facilitating qi circulation, and relieving pain.	No	Traditional Chinese medicine	No	Yes	No	Thousand boxes	9,719.90	6,044.01
Cefixoxime	respiratory infections, urinary tract infections, biliary tract infections, ect	Antimicrobial medicine	Respiratory infections, urinary tract infections, biliary tract infections, ect	From February 2014 to February 2034	Chemical medicine	No	Yes	No	Thousand kilo	91.06	109.27

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

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

Applicable Not applicable

On 1 November 2018, the Essential Drugs List was officially implemented. A total of 143 varieties of the Group and joint ventures were included in the Essential Drugs List, of which, there were 9 varieties newly included in Essential Drugs List, and 2 varieties were excluded the Essential Drugs List.

In addition, the Catalogue of the List of Pharmaceutical Products under the Medical Insurance Catalogue has not been updated, so there is no new entrance or expulsion of product from the Medical Insurance Catalogue. As at the end of the Reporting Period, a total of 375 varieties of the Group and joint ventures were included in the Medical Insurance Catalogue, and 331 varieties were included in the Provincial Medical Insurance Catalogue.

Discussion and Analysis of Operation

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

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

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

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

Products that were entered or excluded from the National Essential Drugs List are as follows:

Product name	Type of product	Indications/Functions	New entrance/logout
Du Yi Wei tablet	Traditional Chinese medicine	Used for a variety of postoperative incisional pain, bleeding, traumatic fractures, muscles and bones sprains, rheumatic arthralgia and uterine bleeding, dysmenorrhea, swollen gums and bleeding.	New entrance
Carbocisteine	Chemical medicine	Used for the treatment the patients with sputum viscous, dys-expectoration caused by chronic bronchitis, bronchial asthma and other diseases	New entrance
Huo Xin Pill	Traditional Chinese medicine	Tonifying qi to activate blood and warming meridians to smooth collaterals. Major for chest discomfort and heartache. For coronary heart disease and angina pectoris.	New entrance
Compound tropicamide	Chemical medicine	Used for mydriasis for examination and regulating paralyzer.	New entrance
Piperacillin Sodium and Tazobactam Sodium	Chemical medicine	A moderate to severe infection caused by a beta-lactamase-producing bacteria that is resistant to piperacillin but is responsive to piperacillin tazobactam.	New entrance
Pemetrexed	Chemical medicine	This medicine is used for the treatment of inoperable malignant pleural mesothelioma with cisplatin.	New entrance
Shi Hu Ye Guang Pill	Traditional Chinese medicine	Nourishing Yin and invigorating kidney, clearing liver, improving vision.	New entrance
Xi Huang Pill	Traditional Chinese medicine	Clearing heat, removing toxicity, reducing swelling and resolving mass, used for ulcer furunculosis, scrofula, disemboquement, cancer by heat toxin block.	New entrance
Zi Shen Yu Tai Pill	Traditional Chinese medicine	Kidney-nourishing, spleen-invigorating, primordial Qi-reinforcing, blood-nourishing, miscarriage-preventing and body-strengthening. It is fit for those who suffer spleen and kidney deficiency and miscarriage due to dysfunction of thoroughfare and conception vessels (to prevent habitual miscarriage and threatened miscarriage)	New entrance
Fluocinolone Acetonide	Chemical medicine	Topical corticosteroids, it was applied to the affected part of skin to treat inflammation caused by skin allergies	Excluded
Procaine	Chemical medicine	Local anesthetic	Excluded

Discussion and Analysis of Operation

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

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







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

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

Applicable Not applicable

The Group and its joint venture currently has 9 famous trademarks of China, 20 famous brands of Guangdong Province, and 25 famous brands of Guangzhou City. Among them, the brand awareness and reputation of "BYS" has greater influence and appeal among the consumers throughout the country, which makes it one of most valuable medicine brands in China.

The main trademark usage of the Group is as follows:

Well-known/ Famous trademark	Trademark graph	Trademark registration class	Product general name	Classification of drug registration	Indications/Functions	Protected traditional medicine	Prescription drugs
Baiyunshan – Well-known		Category V Medicine for human purposes	Sildenafil Citrate Tablet	Chemical medicine	The product is indicated for treatment of erectile dysfunction (ED).	No	Yes
BYS – Well-known							
Zhong Yi-Well-known		Category V Medicine for human purposes	Xiao Ke Pill	Traditional Chinese Medicine	Diabetes caused by deficiency of both qi and yin; type-II diabetes.	No	Yes
Baiyunshan – Well-known		Category V Medicine for human purposes	Cephathiamidine for Injection	Western medicine	Antibacterial and anti- inflammatory.	No	Yes
BYS – Well-know		Category V Medicine for human purposes	Cephathiamidine for Injection	Western medicine	Antibacterial and anti- inflammatory.	No	Yes
Kang Zhi Ba – Well-known		Category V Medicine for human purposes	Cefixime series	Western medicine	Antibacterial and anti- inflammatory.	No	Yes
He Ji Gong – Well-known		Category V Medicine for human purposes	Cephalopropylene series Paracetamol Caffeine and Aspirin Powder	Chemical medicine	Analgesia, antipyretic, antiinflammatory, antirheumatic, anti gout.	No	No
Zhong Yi – Well-known		Category V Medicine for human purposes	Zi Shen Yu Tai Pill	Traditional Chinese medicine, natural medicine	Tonifying kidney and spleen,benefiting qi, strengthening primordial qi,nourishing the blood, preventing abortion and building strong body.	No	Yes
Qi Xing-Well-known		Category V Medicine for human purposes	Hua Tuo Zai Zao Pill	Traditional Chinese Medicine	Promoting blood circulation, removing blood stasis and phlegm, dredging collaterals, facilitating qi circulation, and relieving pain.	No	Yes




Discussion and Analysis of Operation

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

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

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

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

Well-known/ Famous trademark	Trademark graph	Trademark registration class	Product general name	Classification of drug registration	Indications/Functions	Protected traditional medicine	Prescription drugs
Shape of Green Leaves – Famous		Category V Medicine for human purposes	Xia Sang Ju Granule	Category-I Chinese patent medicine (Drugs used in internal medicine department)	Clearing liver, improving vision, dispelling wind and heat, alleviating Bi- syndrome induced by dampness, and removing sore-toxin.	No	No
Tian Xin-Well-known		Category V Medicine for human purposes	Cefuroxime sodium for injection	Chemical medicine	For respiratory tract infections, otolaryngology infections, urinary tract infections, skin and soft tissue infections, bone and joint infections, obstetrical and gynecological infections, gonorrhea, septicaemia and meningitis caused by sensitive bacteria, prevention of surgery infections.	No	Yes
Tian Xin-Well-known		Category V Medicine for human purposes	Ceftiamidine for injection	Chemical medicine	For respiratory system, hepatobiliary system, facial features and urinary tract infection caused by sensitive bacteria, and endocarditis and septicemia.	No	Yes

Discussion and Analysis of Operation

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

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

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

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

Well-known/ Famous Trademark	Product General name	Sales of 2018	Income of 2018 (RMB'000)	Gross profit margin in 2018 (%)
Kang Zhi Ba – Well-known	Cefixime series (thousand pills)	321,948.13	856,990.85	75.30
Baiyunshan diamond	Cephathiamidine for Injection	32,958.28	704,911.64	19.97
– +BYS – Well-known	thousand ampoules)			
Baiyunshan diamond	Sildenafil Citrate Tablet	47,739.87	662,057.75	–
– +BYS – Well-known	((thousand pills))			
Zhong Yi-Well-known	Xiao Ke Pill ((thousand bottles))	35,672.59	403,544.07	62.51
Kang Zhi Ba – Well-known	Cephalopropylene series (thousand pills)	78,381.68	213,278.74	65.08

Note: The above are the top five products in 2018 in terms of sales volume, revenue and profit margin which used the relevant trademarks.

6) Important medicinal materials involved in major TCM products

Major TCM products of the Group include Xiao Ke Pill, Qing Kai Ling Series, Xiao Chai Hu Granule, Xia Sang Ju Granule, Bao Ji Series, Hua Tuo Zai Zao Pill, Zi Shen Yu Tai Pill, Shu Jin Jian Yao Pill, An Gong Niu Huang Pill and Ke Gan Li Yan Oral Solution etc. The important medicinal materials involved and supply are as follows:

Major TCM products	Important medicinal material varieties	Purchasing modes	Supply and demand of medicinal material varieties and the influence of price fluctuation on cost
Xiao Ke Pill	Mongolian snake gourd Root and stigma of corn	Dominated by order plantation, directional purchase, supported by tendering	Supply and demand basically in balance. The market price rose generally and the overall cost increased.
An Gong Niu Huang Pill	Bezoar	Sentinel procurement	The price was affected by the manufacturer's cost
Zi Shen Yu Tai Pill	Cuscuta chinensis, amomum, rehmannia and so on	Purchasing by Invitation to Bid	Supply and demand basically in balance. The market price is stable, cost remained unchanged.
Hua Tuo Zai Zao Pill	Ligusticum, Chuanxiong, tetradium, ruticarpum, borneol, etc.	Purchasing by Invitation to Bid	Supply and demand basically in balance. The market price is stable, cost remained unchanged.

Discussion and Analysis of Operation

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

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

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

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

Major TCM products	Important medicinal material varieties	Purchasing modes	Supply and demand of medicinal material varieties and the influence of price fluctuation on cost
Qing Kai Ling	Honeysuckle, isatis root	The procurement is mainly from planting bases, complemented by bidding-based procurement	Supply and demand basically in balance. The market price rose slightly with costs increased.
Xia Sang Ju Granule	Prunella vulgaris, wild chrysanthemum flower, folium mori	Purchasing by Invitation to Bid	Supply and demand basically in balance. In particular, the price of wild chrysanthemum flower dropped by a large margin and the cost decreased
Xiao Chai Hu Granule	Chinese thoroughwort, Scutellaria baicalensis	Purchasing by Invitation to Bid	Supply and demand basically in balance. The market price rose slightly with costs increased.
Bao Ji Pill, Bao Ji Oral Liquid	Uncaria and chrysanthemum	Purchasing by Invitation to Bid	Supply and demand in balance. The market price is stable, cost remained unchanged
Ke Gan Li Yan Oral Solutio	Lonicera japonica and scutellaria baicalensis	Purchasing by Invitation to Bid	Supply and demand basically in balance. The market price rose slightly with costs increased
Shu Jin Jian Yao Pill	Woodwardia, rosa laevigata, caulis Spatholobi, etc.	Purchasing by Invitation to Bid	Supply and demand basically in balance. In particular, the price of rosa laevigata dropped by a large margin and the cost decreased

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

Discussion and Analysis of Operation

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

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

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

1) *The overall situation of research and development*

Applicable Not applicable

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

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

① Products in research

As at the end of the Reporting Period, the Group had 169 products in research, 11 products which had made applications. The main areas included the secondary development of chemical raw medicine, preparations, biological medicine, and legend products of traditional Chinese medicines.

② Approvals

During the Reporting Period, the number of the Group and its jointly controlled entities applied for a total of 2 approvals for manufacturing and filed 6 applications for clinical research approval.

Discussion and Analysis of Operation

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

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

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

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

③ Science and Technology Awards

During the Reporting Period, the Group and its jointly controlled entities received a total of 3 provincial-level science awards and honors, details of which are set out below:

Classification Level	Winning enterprises	Winning projects	Awards
Provincial level	HWBYS	Chinese and western medicine joint fundamental and translational research on nonalcoholic fatty liver disease	First Prize of Provincial Science and Technology Progress
	Zhong Yi	System evaluation and research on Chinese and western compound preparations for Xiao Ke Pill	Second Prize of Provincial Science and Technology Progress
	Chen Li Ji	Research on compound traditional Chinese medicine new drug Kunxian capsules for curing rheumatoid arthritis	Third Prize of Provincial Science and Technology Progress

④ Patents and Intellectual Property Rights

During the Reporting Period, the Group and its jointly controlled entities had applied for a total of 125 patents, among which, there were 67 patents for invention, 8 utility models; 50 licensed patents, 52 authorized patents; which included 27 patent licenses for invention, 7 utility model patents and 18 appearance patent authorization.

During the Reporting Period, Baiyunshan General Factory was recognized as the 2018 National Model Enterprise of Intellectual Property, and Wang Lao Ji was recognized as the 2018 National Advanced Enterprise of Intellectual Property. "Application of a Traditional Chinese Medicine Composition in the Preparation of Drugs for Treating Osteoporosis" of Chen Li Ji, "Preparation Method of an Egg Yolk Phosphatidylcholine for Injection" of Guangzhou Han Fang and "A Sildenafil Citrate Tablet and its Preparation Method" of Baiyunshan General Factory won the 20th China Patent Excellence Award. Tian Xin, Guang Hua, Ming Xing, WLJ Great Health, Guangzhou Medicine Company Chinese Medicine Decoction Piece Factory, Xing Qun, He Ji Gong, Guangzhou Han Fang, Guangxi Ying Kang, Pan Gao Shou, Qi Xing, Chen Li Ji and Guangzhou Bai Di passed the benchmark certification of the national intellectual property management system.

Accounting policies for research and development:

The Company's internal research and development project expenditure is divided into research phase expenditure and development phase expenditure.

Discussion and Analysis of Operation

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

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

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

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

④ Patents and Intellectual Property Rights *(Continued)*

The specific criteria for the classification of expenditure on the research phase and expenditure on the development phase is as follows: Expenditures on the research phase are all the expenditures incurred before the commencement of Phase III clinical trial for the medicine (including new medicines and changes in the form of the medicines). Commencement of Phase III clinical trial is determined based on the approval by authorities.

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

Expenditure on the research phase is recognized in the profit or loss in the period in which it is incurred.

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

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- 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;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- 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.

Discussion and Analysis of Operation

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

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

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

2) The investment situation of research and development

✓Applicable Not applicable

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

Company name	Products	Amount of the research and development investment (RMB'000)	Amount of the expenditure on research and development investment (RMB'000)	Amount of the capitalization on Research and development investment (RMB'000)	Research and development investment accounted for the proportion of revenue (%)	Research and development investment accounted for the proportion of cost (%)	Changes of the amount as compared with the corresponding period of last year (%)
Baiyunshan General Factory	Cefixime series preparations	15,295.56	15,295.56	0	0.47	0.95	218.34
Yi Gan	Therapeutic twoplasmid HBV DNA vaccine	13,866.60	13,866.60	0	0.00	96.95	142.71
Baiyunshan General Factory	Cefprozil series preparations	9,678.22	9,678.22	0	0.30	0.60	0.00
Baiyunshan General Factory	Amoxicill series preparations	9,080.67	9,080.67	0	0.28	0.57	109.87
Zhong Yi	Zi Shen Yu Tai Pill	8,218.03	8,218.03	0	0.97	2.35	153.41

Notes:

- In the above table, the proportion of R&D expenses in the revenue is the proportion of product R&D expenses in the revenue of the enterprise manufacturing the product. The proportion of R&D expenses in the operation cost is the proportion of product R&D expenses in the operation cost of the enterprise manufacturing the product.
- Since Yi Gan is a pure research and development company, the Company is not able to compile any statistics on its income from operations.

Discussion and Analysis of Operation

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

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

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

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

Explanation:

In 2018, the State issued a policy of strengthening the implementation of consistency evaluation in quality and efficacy of generic drugs. In addition, the State has also introduced a series of policies and regulations on innovative drugs and biological medicines to further standardize clinical research on new drugs. The Group intensified efforts in carrying out the study on the consistency evaluation of great varieties generics, the research and development of biological medicines, and the research and development of the above-mentioned varieties.

Comparison within the same industry

Applicable Not applicable

Comparable company in the same industry	Amount of the research and development investment (RMB'000)	Research and development investment accounted for the proportion of revenue (%)	Research and development investment accounted for the proportion of net assets (%)
Harbin Pharmaceutical Group Co., Ltd.	198,159.12	1.65	2.81
China National Medicines Co., Ltd.	40,561.98	0.11	0.50
Shanghai Pharmaceuticals Holding Co., Ltd.	836,062.60	0.64	2.46
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	1,529,291.70	8.30	6.04
Tongrentang Chinese Medicine-Since	218,966.43	1.64	2.60
Average amount of the research and development investment			564,608.40
Amount of the research and development investment of the Company during the Reporting Period			585,498
Research and development investment accounted for the proportion of revenue of the Company during the Reporting Period (%)			1.39
Research and development investment accounted for the proportion of net assets of the Company during the Reporting Period (%)			2.53

Notes:

- Full disclosure in the annual reports of the comparable companies for year 2018 is not yet available, the above information came from the annual reports of the comparable companies for year 2017.
- The average R&D investment amount in the industry is the arithmetic average of the five companies in the same industry.

Discussion and Analysis of Operation

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

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

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

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

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

Applicable Not applicable

During the Reporting Period, the Group's research and development expenses accounted for 1.39% of the revenue. In the face of changing market demand and changing policies in relation to registration of new drug research and development and quality consistency evaluation for generic drugs, the Company adjusted research and development strategy actively, strengthened research and analysis and selection of research and development projects initiation, followed up the research progress of each project, improved research and development resources investment management, and reappraised varieties at the stage of research to reduce research and development risks.

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

Discussion and Analysis of Operation

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

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

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

3) Basic information on the main research and development project

Applicable Not applicable

R&D Program	Basic information of product	R&D (Register) Stage:	Progress status	Accumulated Research Input (RMB'000)	Number of declared manufacturers	Number of approved domestic generic manufacturers
Standardised construction of Xiao Ke Pill	Studying the Chinese patent drug of lowering sugar---Xiaoke Pill and carrying out standardization project of Chinese medicines. Upon completion of such projects, formulating 16 certification standards and specifications relating to the industry of cultivation and production of medicinal materials, including Radix Trichosanthis, Rhizoma Dioscoreae, Radix Astragali and Kadsura Longipedunculata, and formulating another 11 corporate internal standards.	Study on the standardization of Chinese patent drug	According to the indicators of the task book, the research content of the project has been basically completed, and 2 national standards and 14 industry standards (group standards) have been drafted.	31,064	None	None
Therapeutic two-plasmid HBV DNA vaccine projects for IIC clinical study	DNA preparation for treating chronic hepatitis.	IIC clinical study has been started.	The enrollment for Program A has been completed and the follow-up is being conducted; the enrollment for Program B is being speeded up.	27,167	None	None

Discussion and Analysis of Operation

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

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

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

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

R&D Program	Basic information of product	R&D (Register) Stage:	Progress status	Accumulated Research Input (RMB'000)	Number of declared manufacturers	Number of approved domestic generic manufacturers
Clinical research on the application of Zi Shen Yu Tai Pill in vitro fertilization and embryo transfer	This project adopts evidence-based medicine method in combination with the mainstream assisted reproductive technology in modern western medical system, to carry out clinical research on the application of Zi Shen Yu Tai Pill in vitro fertilization-embryo transfer (IVF-ET) treatment.	Assessment and research after marketing	Multi-centered randomized double-blinded IVF-ET clinical, metabolomics, genomics studies have been completed. The results show that Zishen Yutai Pill can significantly increase the rate of planting of IVF-ET patients and significantly improve clinical pregnancy of older women and patients with a history of miscarriage.	18,296	None	None

Discussion and Analysis of Operation

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

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

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

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

R&D Program	Basic information of product	R&D (Register) Stage:	Progress status	Accumulated Research Input (RMB'000)	Number of declared manufacturers	Number of approved domestic generic manufacturers
Study on the top design of Kun Xian Capsule	Kun Xian Capsule is composed of Kunming Mountain malus spectabilis, epimedium, fructus lycii, and dodder, which has the function of tonifying kidney to smooth collaterals and removing wind pathogen to alleviate dampness. Advisable for rheumatoid arthritis due to accumulation of wind and dampness combined with kidney deficiency. The symptoms are joint swelling and pain, inconvenient flexing and stretching, morning stiffness, joint tenderness, joint's liking warmness and fearing coldness, soreness and weakness of waist and knees, pale tongue, white coating on the tongue, and weak pulse.	Post-marketing research	From 2014 to 2016, the quality standards and process research of Kun Xian Capsule were completed, and the effectiveness and safety tests and clinical research were carried out. In 2017, Kun Xian Capsule entered the national medical insurance new edition catalogue and was included in China Association of Chinese Medicine's guidelines for the diagnosis and treatment of rheumatism. In December 2018, the clinical research of Kun Xian Capsule was completed, and a clinical research report was issued. At present, all research content of the project has been completed.	7,781	None	None

Discussion and Analysis of Operation

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

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

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

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

R&D Program	Basic information of product	R&D (Register) Stage:	Progress status	Accumulated Research Input (RMB'000)	Number of declared manufacturers	Number of approved domestic generic manufacturers
Study on the reevaluation of An Gong Niu Huang Pill after launching	This project conducts the study on the reevaluation of An Gong Niu Huang Pill after launching from three aspects: pharmacodynamic evaluation, discussion on mechanism and guidance for safe and rational use of drug.	Study on the reevaluation after launching	The experimental study on the effect of An Gong Niu Huang Pill on plaque and neuroprotection as well as the study on the effect and mechanism of preventing and treating stroke have been completed. This project has been basically completed.	7,004	None	None

The impact of the research projects on the Company and the risks of the research projects

Applicable Not applicable

In 2018, in accordance with the Announcement on Implementing the Opinions of the General Office of the State Council on the Consistency Evaluation of the Quality and Efficacy of Generic Drugs (No. 106 of 2016) and the Announcement of the CFDA on Consistency Evaluation of the Quality and Efficacy of Generic Drugs (No. 100 of 2017), the consistency evaluation project of the drugs in the "289" catalogue entered the most critical year. At the same time, the State has also introduced a series of policies and regulations on innovative drugs and biological medicines to further standardize clinical research on new drugs. Under this macro environment, the Group proactively adjusted the new product research and development as well as the declaration strategy so as to comply with policies and regulations change. It focused on the new product research and development in the professional fields and the in-depth development of the market-oriented products in the subsidiary enterprises, and strengthened research and development of new products including biological medicine, chemical medicine, TCM and secondary development of famous products, and conducted study on the consistency evaluation of the quality and efficacy of generic drugs, providing the scientific and technological support for the development of the Group.

Discussion and Analysis of Operation

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

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

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

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

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

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

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

Applicable Not applicable

During the Reporting Period, the Group received a total of 2 approvals in respect of pieces for pharmaceutical products, which will further enrich the Company's product varieties, and increase the Company's products reserves. Moreover, the Company will at appropriate time launch the product into the market based on changes in the market.

Product name	Registry classification	Indication/Major functions
Glutathione for injection (0.3g). (0.6g)	Chemical medicine class 4	①Patients undergoing chemotherapy: including cisplatin, cyclophosphamide, doxorubicin, erythromycin, bleomycin chemotherapy, especially in high-dose chemotherapy; ②patients undergoing radiation therapy; ③ various hypoxemias: such as acute anemia, adult respiratory distress syndrome, sepsis, etc.; ④liver diseases: including liver damage caused by virus, drug toxicity, alcohol toxicity and other chemical toxicities. ⑤it can also be used for adjuvant treatment of organophosphorus, amine or nitro compound poisoning.

Discussion and Analysis of Operation

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

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

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

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

Applicable Not applicable

6) *Situation of the important research and development projects to be carried out in the next year*

Applicable Not applicable

In addition to the aforesaid “3) Basic information on the main research and development project”, in 2019, the Company plans to carry out clinical research on Sodium Ceftriaxime, research and development of ancient and classical prescriptions and consistency evaluation of related product.

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

In 2018, the Group received a total of RMB86,334,000 project subsidies. The following table lists the subsidies given to major projects:

Name of enterprise	Item name	Supporting type	Amount of subsidy (RMB'000)	Information on utilization
The Company	Study on consistency evaluation of a series of major variety of cefixime preparations	2017 application-oriented technological research and development and major technological achievement transformation special project	6,800	In the process of being used
	Research on synergistic innovation industrialization of the great variety of high-efficiency targeted anti-cancer series such as sorafenib	2015 Guangzhou industry-university-research collaborative innovation major project	2,000	In the process of being used
Baiyunshan General Factory	Technical transformation project regarding upgrade of cephalosporin solid preparation manufacturing led by integration of informationization and industrialization	2018 Guangzhou “Made in China 2025” industrial development fund technical transformation special industrial enterprise technical transformation and industrialization direction	5,000	Had been used
	Guangzhou key drug research project based on drug consistency evaluation process service platform	2016 Guangzhou industry-university-research collaborative innovation alliance special project	1,520	Had been used

Discussion and Analysis of Operation

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

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

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

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

Name of enterprise	Item name	Supporting type	Amount of subsidy (RMB'000)	Information on utilization
Zhong Yi	Quality improvement and new product development of the great variety of chinese patent medicines with high-quality medicinal material astragalus as raw material	Guangzhou Science Technology and Innovation Commission	4,000	In the process of being used
	Standardized construction of Xiao Ke Pill	Standardization project of traditional Chinese medicines in National Development and Reform Commission's emerging industry major engineering package	5,000	In the process of being used
	Identification of material basis of efficacy and clinical study of Zi Shen Yu Tai Pill based on quantitative-composition model	Guangzhou Science Technology and Innovation Commission-external science and technology cooperation program and external research and development special topic	1,200	In the process of being used
	Subsidy for standardized construction of Xiao Ke Pill	Special fund for promoting the development of advanced manufacturing industry in Guangzhou Development Zone in Huangpu District, Guangzhou	2,000	In the process of being used
Guangzhou Han Fang	Research and development and industrialization of high-end medicinal lipid raw materials	Special project for the development of strategic emerging industries	9,033	In the process of being used
	Research and development and industrialization of new distinctive medicinal lipid products	Industry-university-research collaborative innovation major special project	4,000	In the process of being used
	Study on deep processing of cell wall broken decoction pieces for precious medicinal materials such as ganoderma lucidum, conic gymnadenia tuber and gastrodia elata	Science and technology research program on people's livelihood	1,000	In the process of being used
	Industrialization of new injection lipid excipients and common key technological research and development of application, as well as the international registration	National major new drug creation	2,640	In the process of being used

Discussion and Analysis of Operation

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

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

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

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

Name of enterprise	Item name	Supporting type	Amount of subsidy (RMB'000)	Information on utilization
Guangzhou Bai Di	Construction of Bai Di Biological Research and Development Institution	Guangzhou's special project for construction of research and development institutions of enterprises	1,000	In the process of being used

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

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

Applicable Not applicable

Main therapeutic areas	Product name	Operating income (RMB'000)	Operating costs (RMB'000)	Gross profit (%)	Changes of operating income compared with last year (%)	Changes of operating costs compared with last year (%)	Changes of gross profit margin compared with last year (%)
Drugs used in internal medicine department	Xiao Ke Pill	403,544.07	151,278.46	62.51	(16.11)	7.67	(8.28)
	Xiao Chai Hu Granule	264,715.84	158,781.42	40.02	8.00	4.00	0.06
	Hua Tuo Zai Zao Pill	190,856.90	129,533.29	32.13	(21.99)	(21.88)	(0.30)
	Xiao Er Qi Xing granules (10 bags * 120 boxes)	164,269.85	113,380.25	30.98	(5.63)	12.04	(10.88)
	Zi Shen Yu Tai Pill	163,512.77	26,495.92	83.80	(4.56)	(45.21)	12.03
	Xia Sang Ju Granule 10g	153,965.49	80,631.73	47.63	(36.58)	(22.68)	(4.88)
	Bao Ji oral liquid (10 pieces)	110,041.71	37,579.30	66.85	18.30	8.39	3.12
Antimicrobial drugs	Cefixime series	856,990.85	211,638.32	75.30	88.06	189.67	(8.67)
	Cefathiamidine for Injection	704,911.64	564,140.44	19.97	104.02	165.92	(18.63)
	Cephalosporin series	213,278.74	74,472.45	65.08	85.14	51.21	7.84
	Amoxicillin series	212,661.55	142,302.43	33.09	5.30	11.86	(3.92)
	Cefixime	173,139.35	136,582.95	8.23	46.57	36.73	6.50

Discussion and Analysis of Operation

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

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

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

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

Main therapeutic areas	Product name	Operating income (RMB'000)	Operating costs (RMB'000)	Gross profit (%)	Changes of operating income compared with last year (%)	Changes of operating costs compared with last year (%)	Changes of gross profit margin compared with last year (%)
Andrology medication	Sildenafil Citrate Tablet	662,057.75	83,745.41	-	17.67	101.81	-
Drugs for easing pain, clearing heat, and resisting inflammation, wind-damp and gout	Paracetamol Caffeine Aspirin Powder	196,559.00	88,845.00	54.80	4.90	(1.30)	11.00
Dermatological medication	Feng Yong Jing series	105,941.00	49,051.00	53.70	5.20	19.70	1.30

Explanation:

Applicable Not applicable

During the Reporting Period, the gross profit rate of the principal operation of the Company was 23.52%, among which, the gross profit rate of the Great Southern TCM segment was 43.13%. The huge difference in gross profit rate between Great Southern TCM segment and the companies mentioned above was mainly due to the difference in the products structure and huge difference in the gross profit rate of principal products.

The gross profit rate of the companies in the industry:

Stock code	Abbreviation	Operation revenue (RMB'000)	Gross profit rate of pharmaceutical industry (%)	Overall gross profit rate (%)
600664	Harbin Pharmaceutical Group Co., Ltd.	12,017,531.25	54.48	25.88
600511	China National Medicines Co., Ltd.	36,284,746.33	42.41	7.81
601607	Shanghai Pharmaceuticals Holding Co., Ltd.	130,847,181.88	55.14	12.78
600196	Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	18,533,555.42	66.42	58.95
600085	Tongrentang Chinese Medicine-Since	13,375,966.34	50.58	46.24

Note: Full disclosure in the annual reports of the comparable companies for 2018 is not yet available, the above information came from the annual reports of the comparable companies for year 2017.

Discussion and Analysis of Operation

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

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

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

2) Analysis of the main sales model of the Company

Applicable Not applicable

For the details of the sales mode of each segment of the Group, please refer to Operation Model, (ii) of COMPANY'S BUSINESS PROFILE in Section 3 of this annual report.

3) Situation of the centralized purchase of drugs through bidding

Applicable Not applicable

Name of the main medicine (products)	Specifications	Interval of bidding price (RMB)	The total actual purchase quantity of medical institutions
Cephthiamidine for Injection	0.5g/bottles	26.26-35.50	22,830.20 thousand bottles
Cefoxime granule	50mg * 6 tablets/box	21.03-26.17	16,204.96 thousand boxes
Cephthiamidine for Injection	1.0 g/bottles	43.79-48.72	11,007.32 thousand bottles
Cefoxime capsules	0.1gx6 tablets/box	30.13-43.65	10,834.70 thousand boxes
Xiao Ke Pill	52.5g/bottle	31.84-45.60	9,223.09 thousand bottles
Ceflon dispersible tablets	0.25gx6 tablets/box	28.44-31.60	8,879.00 thousand boxes
Qing Kai Ling for injection	10ml*5 bottle/box	6.45-11.00	5,965.40 thousand boxes
Ke Gan Li Yan Oral Solutio	10ml*12 bottle/box	30.02-56.00	5,369.48 thousand boxes
Chlorfenoxamine tablet	50 tablets/bottle	28.00	4,751.20 thousand bottles
Cefazoxime sodium for injection	0.25g/ampoule	11.34-15.60	4,234.77 thousand ampoules
Qing Kai Ling capsules	0.25g*36 tablets/box	15.83-19.08	3,326.40 thousand boxes
Qing Kai Ling granule	10g*20 tablets/box	21.99-27.91	3,173.50 thousand boxes
Hua Tuo Zai Zao Pill	8g*12 tablets/box	35.70-37.44	3,063.62 thousand boxes
Zi Sheng Yu Tai Pill	5g*6 tablets/box	83.50-120.00	2,816.76 thousand bottles
Cefatini capsules	0.1g*6 tablets/box	49.00-57.40	2,774.00 thousand boxes

Discussion and Analysis of Operation

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

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

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

3) Situation of the centralized purchase of drugs through bidding *(Continued)*

Name of the main medicine (products)	Specifications	Interval of bidding price (RMB)	The total actual purchase quantity of medical institutions
Cefoxime capsules	50mg*6 tablets/box	19.38-25.68	2,437.69 thousand boxes
Cefatini capsules	0.1g*10 tablets/box	80.29-93.75	1,976.00 thousand boxes
Mi Lian Chuan Bei Pi Pa Confection	345g/box	22.00-44.64	1,812.00 thousand boxes
Carbocisteine Oral Solution (sugar free)	5g*10 ampoule/box	21.98-24.05	1,747.68 thousand boxes
Qing Re Xiao Yan Ning capsules	0.32g*24 tablets/box	24.77-48.00	1,366.08 thousand boxes

4) Analysis of sales expenses

Constitution of the sales expenses

Applicable Not applicable

Discussion and Analysis of Operation

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

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

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

4) Analysis of sales expenses (Continued)

Items	Amount occurred for the Report Period (RMB'000)	Percentage of amount occurred for the Report Period in the total sales cost (%)
Employee remuneration	2,084,916	41.23
Sales service fee	667,087	13.19
Transportation expenses	149,182	2.95
Office expenses	36,316	0.72
Freight and miscellaneous charges	691,761	13.68
Rental expenses	81,659	1.61
Conference expenses	88,330	1.75
Advertising and promotion fees	1,044,694	20.66
Consulting fees	46,271	0.92
Depreciation charges	42,398	0.84
Others	124,207	2.46
Total	5,056,821	100.00

Situation of the comparison in the same industry

Applicable Not applicable

Comparable companies in the same industry	Selling and distribution expenses (RMB'000)	Selling and distribution accounted for the proportion of revenue
Harbin Pharmaceutical Group Co.,Ltd.	761,022.40	6.33
China National Medicines Co.,Ltd.	694,011.20	1.91
Shanghai Pharmaceuticals Holding Co., Ltd.	7,11,261.80	5.66
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	5,790,535.60	31.24
Tongrentang Chinese Medicine-Since	2,659,258.10	19.88
The average amount of the sales expenses (RMB'000)		1,980,965
Total amount of the sales expenses of the Company during the Reporting Period (RMB'000)		5,056,821
Sales expenses accounted for the proportion of revenue of the Company during the Reporting Period (%)		11.97

Discussion and Analysis of Operation

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

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

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

4) Analysis of sales expenses *(Continued)*

Notes:

- a. Full disclosure in the annual reports of the comparable companies for year 2018 is not yet available, the above information came from the annual reports of the comparable companies for year 2017.
- b. The average amount of the sales expenses is the arithmetic average of the five companies in the same industry.

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

Applicable Not applicable

Due to the inclusion of GP Corp. and Wang Lao Ji in the scope of combination of the Company, the Company recorded an increase in selling and distribution expenses by RMB702 million; (2) the selling and distribution expenses of other subsidiaries increased slightly; (3) the reasons of the year-on-year change on advertising and promotional expenses and sales service fee are: WLJ Great Health, a subsidiary of the Company, further improved the accuracy of selling and distribution expenses by review in 2017, sorted out the detail of the selling and distribution expenses, reversed the product promotion fees in 2016 (including free gifts, display, exclusive sales, barcode and others fees) incurred but not yet settled from "selling and distribution expenses – advertising and promotion fees", and transferred it to "selling and distribution expenses – sales service fee". The "selling and distribution expenses – sales service fee" adjusted in accordance with the actual payment of related expenses resulted in a significant decrease in advertising and promotion fees in 2017 and a low year-on-year base during the Reporting Period; a substantial increase in sales service fee in 2017 resulted in a high year-on-year base during the Reporting Period. In addition to the above-mentioned reasons, WLJ Great Health offered more sales discount method in 2018, leading to increased sales discount and decreased sales expenses during the Reporting Period.

For details in relation to the sort-out of selling and distribution expenses, please refer to the Announcement of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited on the Reply to the Inquiry Letter from the Shanghai Stock Exchange published by the Company in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities journal (中國證券報), Securities Daily (證券日報) and on the websites of the SSE and HKEx on 23 November 2017.

Discussion and Analysis of Operation

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

(v) Investment situation

(i) Overall analysis on external equity investment

As at the end of the Reporting Period, the external equity investment of the Company amounted to RMB1,759,958,000, with a decline of RMB248,523,000 as compared with last year, mainly due to ① the decrease in long-term equity investment as a result of the 80% equity held by the Company in GP Corp., which was consolidated into the Company's accounts and accounted for using the cost method for long-term equity investment; ② the increase in long-term equity investment as a result of the accounting change of the equity held by the Company in Yi Xin Tang from "other non-current financial assets" to "long-term equity investment" measured at equity method; and ③ the Company completed the acquisition of 48.0465% equity interest in Wang Lao Ji, and Wang Lao Ji became a subsidiary controlled as to 96.093% by the Company and was consolidated into the Company's accounts. ④ The increase in long-term equity investment as a result of the investment gains recognized by the Group under the equity method for joint ventures and associates.

1) *Significant equity investment*

Applicable Not applicable

- ① The asset delivery and change in industry and commerce registration was completed on 31 May 2018 for the very substantial acquisition of 30% equity interest in GP Corp. held by Alliance BMP with RMB 1094.1 million in cash by the Company. Thereafter, GP Corp. became a subsidiary which is controlled as to 80% by the Company and was consolidated into the Company's accounts, thus further promoting the development of the Company's "Great Commerce" segment.
- ② During the Reporting Period, the Company completed the acquisition of 48.0465% equity interest in Wang Lao Ji. Thereafter, Wang Lao Ji became a subsidiary which is controlled as to 96.093% by the Company and was consolidated into the Company's accounts.

2) *Significant non-equity investment*

Applicable Not applicable

Discussion and Analysis of Operation

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

(v) Investment situation (Continued)

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

3) Financial assets evaluating at fair value

Applicable Not applicable

(i) Investments in stocks

Number	Type of Stock	Stock Code	Stock name	The initial amount of investment (RMB'000)	Number of shares held for the end of the Reporting Period (share)	Book value as at the end of the Reporting Period (RMB'000)	% of stock investment as at the end of the Reporting Period (%)	Gain/(Loss) during the Reporting Period (RMB'000)
1	A Share of SSE	600038	AVIC Helicopter Co., Ltd.	1,806	57,810	2,160	1.51	(517)
2	A Share of SSE	600664	Harbin Pharmaceutical Group Co., Ltd.	3,705	376,103	1,486	1.04	(512)
3	A Share of Shenzhen Stock Exchange	000950	C.Q.Pharmaceutical Holding	150,145	25,992,330	114,444	80.17	(135,862)
4	A Share of SSE	601328	Bank of Communications	525	394,567	2,285	1.60	104
5	A Share of SSE	601818	Everbright Bank	10,725	6,050,000	22,385	15.68	(1,022)
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	142,760	100.00	(137,809)

Discussion and Analysis of Operation

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

(v) Investment situation *(Continued)*

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

3) Financial assets evaluating at fair value *(Continued)*

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

Name of enterprises	Business nature	Major products or services	Equity		Income from Principal Operations (RMB'000)	Profit from Principal Operations (RMB'000)	Total assets (RMB'000)	Net assets (RMB'000)	Net profit (RMB'000)
			Registered capital (RMB'000)	directly held by the Company (%)					
WLJ Great Health	Manufacturing	Production and sales of pre-packaging food, dairy products, etc.	900,000	100.00	9,464,403	4,036,277	8,194,763	3,029,842	850,583
GP Corp.	Pharmaceutical business	retail of medical treatment apparatus	2,270,000	80.00	35,762,126	2,160,880	19,824,128	3,490,418	308,110

Note: The asset transfer and change in business registration was completed on 31 May 2018 for the major asset purchase event of acquiring 30% equity interest held by Alliance BMP in GP Corp. with RMB 1.0941 billion in cash by the Company. Thereafter, GP Corp. became a subsidiary which is controlled as to 80% by the Company and was consolidated into the Company's accounts.

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

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

Discussion and Analysis of Operation

3. DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT

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

2018 was a critical year of changes in respect of the policy environment of 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 and volume-based purchase still existed, growth of the industry has slowed down and it was mainly driven by innovative products and upgrading in consumption. On the other hand, outcomes of key reforms such as a new edition of medical insurance catalogue, consistency evaluation, acceleration in assessment and approval of innovative new drugs entered into the rewarding period gradually. The benefits of policy reform have provided new room for the growth of the pharmaceutical market. Meanwhile, China's accelerated population aging, increasing urbanization level, improvement of the medical security system, are generally beneficial to the development of the PRC pharmaceutical industry. These changes will continue to create new opportunities and challenges in the pharmaceutical industry in 2019, and promote the development of the pharmaceutical industry amid the structural adjustment of the stock market and the industry increment driven by innovation.

(2) Development strategy and annual work plan for year 2019

In 2019, the pharmaceutical industry has entered into a new era of development, and it is the main focus across the industry to mitigate risk and improve efficiency through innovative R&D and quality manufacturing. Based on its own situation, the Group will make great efforts on the following the works under the development theme of "Year of Risk Control and Efficiency Enhancement" in 2019:

1. Focus on "Big Products" to continue promoting the robust development of the Great Southern TCM segment: promote the characteristic development of "fashionable Chinese medicine", promote the professionalization of "generic and innovative chemical medicine" and promote the development of "biological pharmacy" on a large scale.
2. Promote development of the Great Health Industry by focusing on "diversified products": pay attention to the categories of product and subdivide the market of herbal tea, continue to solidify and promote the position of Wang Lao Ji in the industry, while nurturing new product markets and creating a characteristic product portfolio for the Great Health Industry to facilitate the development of the Great Health Industry under the pattern of "one core with multi-elements"; continue to strengthen the effect of the terminal business management and implementation, vigorously promote "Ji culture" and excavate the essence of "Ji culture"; and propel the synergetic development of the Wang Lao Ji products in red and green bottles.
3. Advance the expansion and development of the Great Commerce segment under the core strategy of "further development + expansion": the Group will continue to explore the hospitals and community healthcare businesses, and take forward the resource integration between the Great Southern TCM segment and the Great Commerce segment; it will speed up to tap into the lower areas in building the terminal delivery business network; we will accelerate the expansion and deployment of retail business and continue our efforts in promoting the GPC Pharmacy project.

Discussion and Analysis of Operation

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

(2) Development strategy and annual work plan for year 2019 *(Continued)*

4. Develop a medical service industry integrating medical treatment, medicine and recovery in the direction of “characterization and differentiation”, speed up the exploration of new business and new modes of business, and accelerate the implementation of the medical device project.
5. Develop under the support of technology and in an R&D manner with focus on both generic and innovative medicine: speed up the development of innovative medicine, generic medicine and Great Health products, optimize the technological innovation platform, and build a more effective quality system.
6. Further strengthen basic management and prevent significant risks by starting works such as special audits and special research on significant risks, intensifying the efforts on rectification and supervision, and giving full play to the role of auditing and risk control in preventing risks, improving management and enhancing economic efficiency.
7. Pursue scientific planning, coordination and layout formation by accelerating the construction of industrial base, enhancing production capacity and optimize layout formation, and using the drug marketing licensee system (pilot) to promote consolidation of production capacity steadily while enhancing the intelligent production standard.
8. 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.

(3) Potential challenges and risks

In 2019, with the completion of the reform of super-ministry system in medical treatment and healthcare and the accelerated medical reform, the substantial decrease in drug prices after the implementation of the pilot centralized medicine procurement organized by the government, the sluggish growth of traditional pharmaceutical commerce resulting from the complete implementation of the “two-invoice system”, and the tightened regulation on adjuvant medicine and the more stringent drug inspection, the tightened price control over the medicines covered by medical insurance and Medical Insurance Catalogue leaning toward innovative medicine with high performance price ratio, as well as the implementation and furtherance of other new policies, have brought challenges to the development of the Group’s traditional business.

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

Discussion and Analysis of Operation

4. OTHER MATTERS

(1) Accounts

The results of the Group for the year ended 31 December 2018 are set out in the consolidated income statement.

The financial condition of the Group as at 31 December 2018 is set out in the consolidated balance sheet.

The cash flows of the Group for the year ended 31 December 2018 are set out in the consolidated cash flow statement.

The cash flows of the Company for the year ended 31 December 2018 are set out in the cash flow statement.

(2) Financial Summary

A summary of the results and of the assets and liabilities of the Group are set out in the Discussion and Analysis of Operation contained in this annual report.

(3) Reserves

Details of the movements and amount of the reserves of the Group during the Year are set out in the financial report contained in this annual report.

(4) Distributable Reserves

The distributable reserves of the Group as at 31 December 2018 calculated in accordance with the PRC Accounting Standards was RMB5,261,378,000.

(5) Fixed Assets

Details of the movements of fixed assets for the year ended 31 December 2018 are set out in the financial report contained in this annual report.

(6) Ordinary Connected Transactions

Details of connected transactions were set out on the “Major Event” section of this annual report.

(7) Management Contracts

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

(8) Corporate Governance

The Company complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules of HKEx except for code provision A.6.7 as disclosed in the section headed 9 “Corporate Governance” below.

Discussion and Analysis of Operation

4. OTHER MATTERS (Continued)

(9) Tax Exemption

The Company shall withhold and pay the individual income tax and enterprise income tax at a rate of 10% or other applicable tax for H shareholders pursuant to the requirements of the Notice of State Administration of Taxation Concerning the Relevant Questions on the Withholding and Payment of Enterprise Income Tax Relating to the Payment of Dividends, Bonus and Interest by PRC Resident Enterprises to QFII (Guo Shui Han [2009] No. 47) (《關於中國居民企業向QFII支付股息、紅利、利息代扣代繳企業所得稅有關問題的通知》(國稅函[2009]47號)) and “Notification of Issues in relation to the Withholding and Payment of Enterprise Income Tax for Payment of Dividend to H Shareholders who are Overseas Non-resident Enterprises by Chinese Resident Enterprises” (Guo Shui Han [2008] No. 897) (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》(國稅函[2008]897號))。

(10) Retirement Scheme

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

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

(12) Environmental policy

The environmental policy and its performance of the Group were set out on the Social Responsibility Report in 2018 of the Company (full text of the report has been uploaded to the website of SSE and HKEx).

V. EXPLANATION ON THE FAILURE TO DISCLOSE AS PER RULES DUE TO INAPPLICABILITY OR SPECIAL REASONS SUCH AS STATE SECRETS AND BUSINESS SECRETS AND THE REASONS THEREFOR

Applicable Not applicable

Major Events

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

(1) Formulation of cash distribution policy and its implementation

The Company attaches great importance to the reasonable investment returns for investors, explicitly stipulated the distribution policy in accordance with the relevant provisions of Article 219 of the Articles of Association on distribution policy, including the principle of distribution, method of distribution, conditions of distribution and the lowest proportion of distribution, decision-making process of distribution and the conditions and process of the adjustment of distribution.

During the Reporting Period, having considered factors such as profit, investment, funding needs, cash flow and shareholders' returns planning, etc. in conjunction with the relevant provisions of the Article of Association relating to profit distribution, the management of the Company submitted the proposal in relation to the distribution the proposal on profit distribution and dividend payment for 2017 to the Board. After the proposal on profit distribution and dividend payment for 2017 was approved by the Board unanimously, it was submitted to the annual general meeting of the Company of 2017 for consideration, and was approved by shareholders present at the 2017 annual general meeting holding more than half of voting rights. The dividends had been distributed by the end of August 2018.

(2) Proposal on profit distribution and dividend payment for 2018

In accordance with the relevant provisions of the Companies Law and the Articles of Association, and in combination with the consideration of shareholders' return and the capital requirements of the Company's business development, as approved at the 20th meeting of the seventh board of directors of the Company, the board of directors of the Company proposed the following profit distribution plan for 2018: According to the audited financial report of the Company for the Year of 2018, the net profit of the Group attributable to the shareholders of the Company of 2018 amounted to RMB3,440,980,103.08. Based on the net profit of the Company of RMB2,139,729,642.17 in 2018, a 10% statutory surplus reserve in the amount of RMB213,972,964.22 was provided, with the addition of the undistributed profit carried over from last year in the amount of RMB3,955,047,509.80, and after deducting the cash dividends of 2017 by RMB619,426,351.57, the actual distributable profits amounted to RMB5,261,377,836.18.

Based on the actual circumstances of the Company, it is proposed that based on the share capital of 1,625,790,949 shares as at the end of 2018, a cash dividend of RMB4.24 (inclusive of tax) for every 10 shares, an aggregate of RMB689,335,362.38 be distributed, accounting for 20.03% of the net profit attributable to the shareholders of the listed company in the then consolidated income statement and 32.29% of the then net profit (after the deduction of non-recurring items) attributable to the shareholders of the listed company. The undistributed portion shall be transferred to the next distribution. There will not be any capitalization of capital reserve for 2018.

The independent directors of the Company have expressed their opinion on the profit distribution plan, and the above plan is still subject to the approval of the 2018 annual general meeting of the Company. Minority shareholders will be offered sufficient opportunities to express their views and requests at the 2018 annual general meeting of the Company through the combination of on-site open voting and online voting to ensure that their legal rights are fully safeguarded.

Major Events

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

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

Distribution year	Distribution for every 10 shares (inclusive of tax) (RMB)	Amount of profit distribution in cash (inclusive of tax) (RMB)	Net profit attributable to the shareholders of the listed Company for the distribution year as shown in the consolidated financial statements (After restatement) (RMB)	Proportion of payout distribution in the net profit as showed in the consolidated financial statements (%)
2018	4.24	689,335,362.38	3,440,980,103.08	20.03
2017	3.81	619,426,351.57	2,061,651,929.01	30.05
2016	2.80	455,221,465.72	1,508,032,671.07	30.19

Note: There was no reserved funds to equity shares scheme of the Company for the last three years.

(4) Cash offer to repurchase shares into cash dividends

Applicable Not applicable

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

Applicable Not applicable

Major Events

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

(1) Independence of listed company

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

Major Events

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

(2) Avoiding competition

Item	Content
Background of undertakings	Undertakings related to the Material Assets Reorganization in 2013
Party given the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none"> After completion of the Material Assets Reorganization in 2013, GPLH and its controlled subsidiaries should avoid engaging in business and operations which substantially compete with those of the Company subsisting after completion of the Material 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 new GPC legally and validly exists and GPLH owns controlling interest in new GPC.
Time and period of undertaking	The undertaking was given on 29 February 2012 and is valid permanently.
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Compliance or not	Yes

Major Events

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

(3) Regulating connected transactions

Item	Content
Background of undertakings	Undertakings related to the Material Assets Reorganization in 2013
Party given the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none"> After completion of the Material 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 new GPC after completion of the Material Assets Reorganization in 2013 and its other shareholders. The undertaking letter will remain effective so long as new GPC legally and validly exists and GPLH owns controlling interest in new GPC.
Time and period of the undertaking	The undertaking was given on 29 February 2012 and is valid permanently.
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Compliance or not	Yes

Major Events

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

(4) Undertakings related to trademarks

Item	Content
Background of the undertakings	Undertakings related to the Material 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 undertaking	Commitment made on 26 March 2012 and the period of validity is up to the date of completion of the undertakings
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Compliance or not	Yes

Major Events

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

(5) Undertakings related to properties with legal defects

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

Major Events

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

(6) Undertakings related to trademarks

Item	Content
Background of the undertakings	Undertakings related to the the Material Assets Reorganization in 2013
Party given the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none"> 1. GPLH undertakes that, within two years from the date of satisfaction of any one of the conditions set out below, it will legally transfer the trademarks in Wang Lao Ji series (25 in total) and 4 other trademarks (comprising trademarks with registration numbers of 125321, 214168, 538308 and 5466324) to the Company according to the requirements of laws and regulations then in force: (i) Upon the expiry on 1 May 2020, or earlier when the license agreement and its supplemental agreement were invalidated/void/terminated as determined by the arbitration institution, or earlier when the agreement was terminated or released as agreed between the parties; or (ii) Hung To (Holdings) Company Limited (鴻道(集團)(有限公司)) legally ceases to own the right of pre-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.
Time and period of the undertaking	The original undertaking was given on 29 February 2012. GPLH gave a supplemental undertaking in respect of the relevant contents on 15 June 2012. The undertaking remains valid until it has been fully performed.
Valid period for performance	N/A

Major Events

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

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

Item	Content
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, 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 2016 held on 13 March 2016 and was approved.</p>
Compliance or not	Yes
Remark	<p>On 16 August 2017, the Supreme People’s Court of the PRC announced the judgment on the “case of over red can decoration”, and the judgment is final. On the same day, GPLH and WLJ Great Health, the Company’s wholly-owned subsidiary, received the relevant civil judgment of the Supreme People’s Court of the PRC on the “case over red can decoration” (For details, please refer to the Announcement of the Final Judgement on the “Case over WangLaoJi Red Can Decoration” of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. dated 16 August 2017). According to GPLH’s undertaking made on 29 February 2012, the supplementary undertaking made on 15 June 2012 and the revised undertaking made in 2014, the conditions for GPLH to transfer “WangLaoJi” series trademarks to the Company had been satisfied.</p> <p>On 27 December 2018, the resolution regarding the proposal on purchasing trademarks in cash and the relevant agreements and connected transactions was considered and approved at the 18th meeting of the seventh session of the Board of the Company, by using the appraised value as the pricing basis, which was determined in the Assets Evaluation Report on Proposed Transfer of Trademarks by Guangzhou Pharmaceutical Holdings Limited Involving the 420 Exclusive Use Rights of Trademarks Owned by Guangzhou Pharmaceutical Holdings Limited (Zhong Lian Guo Ji Ping Zi [2018] No. WIGPZ0701) with valuation reference date of 30 June 2018, the Company intended to acquire all rights of WangLaoJi series of trademarks held by GPLH, the controlling shareholder (including trademarks already registered in the PRC and other countries or regions and trademarks under application and pending for approval) in cash, and signed the Agreement on Acquisition of Trademarks in Cash between Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and Guangzhou Pharmaceutical Holdings Limited and the Profit Compensation Agreement between Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and Guangzhou Pharmaceutical Holdings Limited. The above transactions are pending for consideration and approval by the general meeting of the Company.</p>

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

Major Events

3. THE COMPANY'S ASSETS OR PROJECTS INVOLVE PROFIT FORECAST AND WERE STILL IN THE PROFIT FORECAST PERIOD DURING THE REPORTING PERIOD, COMPANY'S EXPLANATION ON WHETHER THE ASSETS OR PROJECTS HAVE MET THE ORIGINAL PROFIT FORECAST AND THE REASONS THEREFOR

Reached Not reached Not applicable

(i) Basic information

On 21 December 2017, the Company entered into the Equity Interest Transfer Agreement with GP Corp. and Alliance BMP, pursuant to which, the Company: (1) acquired 30% equity interest in GP Corp. held by Alliance BMP by way of cash; and (2) granted the put options to Alliance BMP for the sales of all the remaining 20% equity interest in GP Corp. held by it to the Company during the exercise period (the "Transaction" or "Material Assets Reorganization in 2017").

The target asset price of this transaction is based on the asset valuation report "Guo Zhong Lian Ping Bao Zi (2017) No. 3-0085" issued by Guo Zhong Lian, the parties agreed the transaction price of the 30% the equity interest in GP Corp. as RMB1,094 million, which was paid in US dollars, after arm's length negotiations. Alliance BMP may sell its remaining 20% equity interest in GP Corp. to the Company during the exercise period (the exercise period of the put option commences from six months after the completion date of the Transaction up to thirty-six months after the completion date).

The asset transfer and change in business registration of this transaction was completed on 31 May 2018. After that, GP Corp. has changed to be a subsidiary controlled by the Company. Alliance BMP has not yet exercised the put option of the remaining 20% equity interest in the target company.

The above resolutions were approved at the 5th meeting of the seventh session of the Board held on 21 December 2017, the 5th meeting of the seventh session of the supervisory committee of the Company held on 21 December 2017 and the first extraordinary general meeting, respectively. For details, please see the "Report of Material Asset Acquisition", "Report of Material Asset Acquisition (Revised)" and "Implementation Report on Material Asset Acquisition" published on the SSE on 23 December 2017, 5 January 2018 and 4 June 2018 and the relevant disclosure in the announcements on the HKEx Limited on 23 December 2017, 2 January 2018 and 4 June 2018 and the relevant disclosure in the notice on the HKEx on 12 February 2018 by the Company.

Major Events

3. THE COMPANY'S ASSETS OR PROJECTS INVOLVE PROFIT FORECAST AND WERE STILL IN THE PROFIT FORECAST PERIOD DURING THE REPORTING PERIOD. COMPANY PLEASE EXPLAIN WHETHER THE ASSETS OR PROJECTS HAVE MET THE ORIGINAL PROFIT FORECAST AND THE REASONS THEREFOR (Continued)

(ii) Profit forecast

During the Transaction, the Company announced the Asset Valuation Report on the Market Value of All the Equity Interest of the Shareholders in Guangzhou Pharmaceuticals Corporation in Relation to the Proposed Equity Interest Acquisition by Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (Guo Zhong Lian Ping Bao Zi (2017) No. 3-0085) (國眾聯評報字(2017)第3-0085號《廣州白雲山醫藥集團股份有限公司擬實施股權收購涉及廣州醫藥有限公司股東全部權益市場價值資產評估報告》) on 23 Decemeber 2017. The asset valuation institution evaluates the assets to be acquired by the valuation methods which are based on future earnings forecast. The evaluation result is used as the reference for the pricing of the Transaction. The target asset price of the Transaction was determined after arm's length negotiations between the parties. The counterparty has not made performance guarantee.

Set out below is the information on the achievement of the profit forecast of GP Corp. in 2018:

Items	Actual amount (RMB'0000)	Estimated amount (RMB'0000)	Differences (RMB'0000)	Percentage of achievement (%)
Total profit	41,629.84	51,032.29	9,402.45	81.58
Net profit	30,811.00	38,274.21	7,463.21	80.50

In 2018, GP Corp. realized a total profit of RMB 416,928,400, with a percentage of achievement of 81.58% and a net profit of RMB308,811,000 with a percentage of achievement of 80.50%. GP Corp. did not reach the annual estimated profit of the Transaction in 2018 as stated in the asset valuation report, mainly due to: (1) price limit for medicine bidding, removal of the price markups on medicine in public hospitals, stringent control on the increase in medicine price, restrictions on prescription, medical insurance cost control and other factors; and (2) the comprehensive implementation of "Two-invoice system", which led to a notable decrease in the operating results of the commercial allocation wholesale business of GP Corp. and the failure to meet the estimated profit by the GP Corp..

The target asset price of the transaction was determined by the parties after arm's length negotiations. Alliance BMP did not make performance guarantee and was not required to make profit compensation to the Company.

4. COMPLETION PROCESS OF PERFORMANCE COMMITMENT AND ITS EFFECT ON GOODWILL IMPAIRMENT TEST

Applicable Not applicable

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

Applicable Not applicable

Major Events

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

Applicable Not applicable

7. EXPLANATION OF THE COMPANY ON THE REASONS FOR AND EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR THE CORRECTION OF MAJOR ACCOUNTING ERROR

(1) Explanation and analysis of the Company on the reasons for and effects of the changes in accounting policies and accounting estimates

Applicable Not applicable

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 abovementioned 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 required 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.

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: measured at amortized cost; measured at fair value through comprehensive income; measured at fair value through profit or loss for the current period. For investment in equity instrument recognized at fair value through other comprehensive income, accumulated profit or loss recognized into other comprehensive income in previous periods shall be transferred to retained earnings when the financial assets are derecognized, but not profit or loss for the current period.

Under the new financial instrument standards, the Company shall accrue provision for impairment loss and recognize impairment loss in respect of the credit for financial assets measured at amortized cost, investment in debt instrument recognized at fair value through other comprehensive income, lease receivables, contractual assets and guarantee contracts based on expected credit loss.

Major Events

7. EXPLANATION OF THE COMPANY ON THE REASONS FOR AND EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR THE CORRECTION OF MAJOR ACCOUNTING ERROR *(Continued)*

(1) Explanation and analysis of the Company on the reasons for and effects of the changes in accounting policies and accounting estimates *(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:

- A. 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.
- B. 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.

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:

Item	Carrying amount prior to changes in accounting policies as at 31 December 2017	The Group	
		Effect of the new financial instrument standards	Carrying amount after changes in accounting policies as at 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

Major Events

7. EXPLANATION OF THE COMPANY ON THE REASONS FOR AND EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR THE CORRECTION OF MAJOR ACCOUNTING ERROR (Continued)

(1) Explanation and analysis of the Company on the reasons for and effects of the changes in accounting policies and accounting estimates (Continued)

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

Item	Carrying amount prior to changes in accounting policies as at 31 December 2017	The Company	
		Impact of the new financial instrument standards	Carrying amount after changes in accounting policies as at 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	–	62,686,231.77	62,686,231.77
Other non-current financial assets	–	972,178,175.97	972,178,175.97
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

- ② Changes in accounting policies due to the implementation of the new revenue standards

On 5 July 2017, the Ministry of Finance issued the Accounting Standards for Business Enterprises No. 14 – Revenue (Revised in 2017) (Caikui [2017] No. 22) (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 the new revenue standards from 1 January 2018.

As approved by the resolution of the 15th meeting of the 7th 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 new revenue standards at the time required by the Ministry of Finance.

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

7. EXPLANATION OF THE COMPANY ON THE REASONS FOR AND EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR THE CORRECTION OF MAJOR ACCOUNTING ERROR *(Continued)*

(1) Explanation and analysis of the Company on the reasons for and effects of the changes in accounting policies and accounting estimates *(Continued)*

② Changes in accounting policies due to the implementation of the new revenue standards *(Continued)*

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

Item	Carrying amount prior to changes in accounting policies as at 31 December 2017	The Group	
		Effect of the new financial instrument standards	Carrying amount after changes in accounting policies as at 1 January 2018
Liabilities:			
Advance from customers	1,888,892,476.97	(1,888,892,476.97)	–
Contract liabilities	–	1,614,438,014.50	1,614,438,014.50
Taxes payable	206,462,076.94	274,454,462.47	480,916,539.41
Item	Carrying amount prior to changes in accounting policies as at 31 December 2017	The Company	
		Effect of the new financial instrument standards	Carrying amount after changes in accounting policies as at 1 January 2018
Liabilities:			
Advance from customers	116,889,039.40	(116,889,039.40)	–
Contract liabilities	–	99,905,161.88	99,905,161.88
Taxes payable	124,918,499.55	16,983,877.52	141,902,377.07

Major Events

7. EXPLANATION OF THE COMPANY ON THE REASONS FOR AND EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR THE CORRECTION OF MAJOR ACCOUNTING ERROR (Continued)

(1) Explanation and analysis of the Company on the reasons for and effects of the changes in accounting policies and accounting estimates (Continued)

③ Adjustments in financial statements:

The financial statements for the year ended 31 December 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.

Adjustments in the presentation of financial statements:

A. Affected items in the consolidated balance sheet and the Company's balance sheet as of 31 December 2017:

Item	Consolidated Balance Sheet		
	Before adjustments	Adjustments	After adjustments
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

7. EXPLANATION OF THE COMPANY ON THE REASONS FOR AND EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR THE CORRECTION OF MAJOR ACCOUNTING ERROR (Continued)

(1) Explanation and analysis of the Company on the reasons for and effects of the changes in accounting policies and accounting estimates (Continued)

③ Adjustments in financial statements: (Continued)

A. Affected items in the consolidated balance sheet and the Company's balance sheet as of 31 December 2017: (Continued)

Item	the Company's Balance Sheet		
	Before adjustments (RMB)	Adjustments (RMB)	After adjustments (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

B. Affected items in the consolidated income statement and the income statement of the Company for the year ended 31 December 2017:

Item	Consolidated Income Statement		
	Before adjustments (RMB)	Adjustments (RMB)	After adjustments (RMB)
General and administrative expenses	1,579,582,508.93	(373,287,521.71)	1,206,294,987.22
R&D expenses	–	373,287,521.71	373,287,521.71
Total	1,579,582,508.93	–	1,579,582,508.93

Item	The Company's Income Statement		
	Prior to adjustment (RMB)	Amount adjusted (RMB)	After adjustment (RMB)
General and administrative expenses	445,111,622.93	(130,836,506.00)	314,275,116.93
R&D expenses	–	130,836,506.00	130,836,506.00
Total	445,111,622.93	–	445,111,622.93

Major Events

7. EXPLANATION OF THE COMPANY ON THE REASONS FOR AND EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR THE CORRECTION OF MAJOR ACCOUNTING ERROR (Continued)

(2) Explanation and analysis of the Company on the reasons for and effects of the correction of major accounting error

Applicable Not applicable

(3) Communication with former accounting firm

Applicable Not applicable

(4) Others

Applicable Not applicable

8. APPOINTMENT, DISMISSAL OR CHANGE IN APPOINTMENT OF AUDITORS

	Previously auditors	Current auditors
Name of the domestic Certified Public Accountants	BDO China Shu Lun Pan CPAs LLP	Ruihua Certified Public Accountants LLP
Total remuneration of the domestic Certified Public Accountants (RMB'000)	2,203	2,669
Term of office of the domestic Certified Public Accountants	5	1
	Name	Remuneration (RMB'000)
Internal control audit certified public accountants	Ruihua Certified Public Accountants LLP	350

Explanatory notes on the appointment of auditors

Applicable Not applicable

- (i) As approved at the second meeting of the Audit Committee in 2018, the Company ceased to appoint BDO China Shu Lun Pan CPAs as the auditor and internal control auditor of the Company, and Ruihua CPAs LLP was appointed as the auditor of the Company for year 2018 and the internal control auditor of the Company for year 2018.
- (ii) The 9th meeting of the seventh session of the Board passed the resolution in relation to the appointment of Ruihua CPAs LLP as the auditor of the Company for year 2018 and the internal control auditor of the Company for year 2018.
- (iii) Pursuant to the approval given at the annual general meeting of 2017, Ruihua CPAs LLP was appointed as the auditor of the Company for year 2018 and the internal control auditor of the Company for year 2018.

A statement on the employment of an accounting firm during the audit period

Applicable Not applicable

Major Events

9. RISK OF FACING SUSPENSION OF LISTING

Applicable Not applicable

10. THE SITUATION AND REASONS FOR FACING SUSPENSION OF LISTING

Applicable Not applicable

11. MATTERS RELEVANT TO BANKRUPTCY AND SCHEME OF ARRANGEMENT

Applicable Not applicable

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

(1) 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 JDB (China) Beverage Co., Ltd.	Beijing Daxing District People's Court has issued the first instance judgment	Announcement dated 30 March 2018 on the website of SSE
	Case in relation to dispute over unauthorized use of the specific packaging and decoration of well-known products between GPHL and Wuhan JDB Beverage Co., Ltd.	Hubei Higher People's Court has issued the first instance judgment	Announcement dated 24 July 2018 on the websites of SSE and HKEx
	Case in relation to legal dispute over "Wang Lao Ji" trademark between GPHL and six companies including Guangdong Jiaduobao Co., Ltd.	Guangdong Higher People's Court has issued the first instance judgment	Announcement dated 27 July 2018 on the websites of SSE and HKEx
	Case in relation to legal dispute over "Wang Lao Ji" trademark between GPHL and Golden Force Pharmacy Limited	Guangzhou Intellectual Property Court has issued the second instance judgment	Announcement dated 23 August 2018 on the websites of SSE and HKEx

Major Events

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

(2) Litigation and arbitration involving the Group

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

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

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

Currently, Guangdong Higher People’s Court has issued the second instance judgment for this case, which will not cause estimated liability to the Company or any implications on the Company’s results. For details, please refer to the announcement dated 14 November 2017 published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and the announcement on the websites of the SSE and the HKEx.

2. The litigation in relation to the “equity dispute case” between the Company and Golden Force Pharmacy Limited

- (i) On 21 November 2014, the Company submitted a ruling request to the 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 or 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) on the website of the SSE and the announcement dated 26 December 2017 on the website of the HKEx.

Major Events

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

(Continued)

(2) Litigation and arbitration involving the Group (Continued)

2. The litigation in relation to the “equity dispute case” between the Company and Golden Force Pharmacy Limited (Continued)

- (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 for revocation of judgement made by Golden Force Pharmacy to the Intermediate People’s Court of Shenzhen, Guangdong Province.

For more details, please refer to the announcement dated 26 March 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 on the websites of the SSE and the HKEx.

- (iii) 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 the 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 more 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 on the websites of the SSE and the HKEx.

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

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

Applicable Not applicable

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

Applicable Not applicable

Major Events

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

(1) Equity incentive

Applicable Not applicable

(2) Employee stock ownership plan

Applicable Not applicable

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

The Employee Stock Ownership Scheme was completed on 17 August 2016, a total of 1,209 employees participated in the Employee Stock Ownership Scheme, subscribing a total of 3,860,500 shares (“Aboved Shares”) at the amount of RMB90,953,380.00. On the same day, the Placement Prosperous Age Exclusive Account No. 66 (as the trustee of the Employee Stock Ownership Scheme (2015)) which held 3,860,500 A shares of the Company, completed the registration of the newly-issued shares at 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.

(3) Other incentives

Applicable Not applicable

16. CONNECTED TRANSACTIONS

(1) Related party transactions in relation to the ordinary operations

(i) Events disclosed in temporary announcements and with no progress or change in subsequent implementation

Applicable Not applicable

Major Events

16. CONNECTED TRANSACTIONS (Continued)

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

(ii) Events disclosed in temporary announcements and with progress or change in subsequent implementation

Applicable Not applicable

The ordinary connected transactions of the Company is 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	4,310	0.01	Cash
HWBYS	Joint Venture	Purchase of goods	Medicine or pharmaceutical products	Market price	111,109	0.27	Cash
GP Corp.	Joint Venture	Purchase of goods	Medicine or pharmaceutical products	Market price	41,325	0.10	Cash
Wang Lao Ji	Joint Venture	Purchase of goods	Medicine or pharmaceutical products	Market price	898,962	2.16	Cash
Baxter Qiao Guang	Joint Venture	Purchase of goods	Medicine or pharmaceutical products	Market price	12,584	0.03	Cash
Subtotal					1,068,290	2.57	
HWBYS	Joint Venture	Sale of products	Medicine or pharmaceutical products	Market price	182,615	0.44	Cash
GP Corp.	Joint Venture	Sale of products	Medicine or pharmaceutical products	Market price	152,496	0.36	Cash
Wang Lao Ji	Joint Venture	Sale of products	Medicine or pharmaceutical products	Market price	476,600	1.14	Cash
Nuo Cheng	Joint Venture	Sale of products	Medicine or pharmaceutical products	Market price	112	0.00	Cash
Baxter Qiao Guang	Joint Venture	Sale of products	Medicine or pharmaceutical products	Market price	2,080	0.00	Cash
Hua Cheng	controlled by the same parent company	Sale of products	Medicine or pharmaceutical products	Market price	132,044	0.31	Cash
Subtotal					945,947	2.25	
GPHL	parent company	Provision of labour service	Advertising agency	Market price	1,076	1.07	Cash
Hua Cheng	controlled by the same parent company	Provision of labour service	Advertising agency	Market price	5,765	5.73	Cash
HWBYS	Joint Venture	Provision of labour service	Advertising agency	Market price	45,805	45.51	Cash

Major Events

16. CONNECTED TRANSACTIONS (Continued)

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

(ii) 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
GP Corp.	Joint Venture	Provision of labour service	Advertising agency	Market price	83	0.08	Cash
Wang Lao Ji	Joint Venture	Provision of labour service	Advertising agency	Market price	44,532	44.25	Cash
Baxter Qiao Guang	Joint Venture	Provision of labour service	Advertising agency	Market price	47	0.05	Cash
Wang Lao Ji	Joint Venture	Provision of labour service	Consigned processing	Market price	13,480	89.23	Cash
HWBYS	Joint Venture	Provision of labour service	Consigned processing	Market price	1,755	11.62	Cash
Hua Cheng	controlled by the same parent company	Provision of labour service	Consigned processing	Market price	1,626	1.62	Cash
HWBYS	Joint Venture	Provision of labour service	Research and development	Market price	248	3.18	Cash
Wang Lao Ji	Joint Venture	Provision of labour service	Research and development	Market price	189	2.42	Cash
Subtotal					114,606		
GPHL	Parent company	Acceptance of patents, rights to use trademarks and others	Rights to use trademarks	At price determined by agreement	139,645	80.67	Cash
Wang Lao Ji	Joint Venture	Acceptance of patents, rights to use trademarks and others	Rights to use trademarks	At price determined by agreement	13,664	91.44	Cash
HWBYS	Joint Venture	Acceptance of patents, rights to use trademarks and others	Rights to use trademarks	At price determined by agreement	1,279	8.56	Cash
HWBYS	Joint Venture	Others	Leased as tenant	At price determined by agreement	3,783	1.89	Cash
GPHL	parent company	Others	Leased as tenant	At price determined by agreement	7,564	3.78	Cash

Major Events

16. CONNECTED TRANSACTIONS (Continued)

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

(ii) 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	Others	Leased as landlord	At price determined by agreement	376	0.35	Cash
GP Corp.	Joint Venture	Others	Leased as landlord	At price determined by agreement	978	0.90	Cash
Baxter Qiao Guang	Joint Venture	Others	Leased as landlord	At price determined by agreement	3,031	2.80	Cash
Nuo Cheng	Joint Venture	Others	Leased as landlord	At price determined by agreement	2,298	2.13	Cash
HWBYS	Joint Venture	Others	Leased as landlord	At price determined by agreement	12	0.01	Cash
Total					2,301,473		

Notes:

- a. 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 1 June 2018.
- b. The Company completed the acquisition of 48.0465% equity interests in Wang Lao Ji, and Wang Lao Ji became a subsidiary controlled by the Company with 96.093% equity interests and was consolidated into the Company's accounts.

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

Major Events

16. CONNECTED TRANSACTIONS *(Continued)*

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

(iii) Events undisclosed in temporary announcements

Applicable Not applicable

(iv) The above connected transactions were transactions carried out in the ordinary course of business of the Group, determined with reference to market prices, and have no negative impact on the Group's abilities to continue its operations.

During the Reporting Period, the details of connected transactions disclosed in accordance with the requirements of the HKEx are set out as below:

	2018 (RMB'000)
Ultimate holding company	
License fee for trademark of "Wang Lao Ji"	139,645
Rental expenditure	7,564
Rental income	376
Advertising agency service fee	1,076
Ultimate Holding Company and its subsidiaries	
Sales of finished goods and raw materials	132,044
Purchase of finished goods and raw materials	4,310
Advertising agency service fee	5,765
Consignment processing service fee	1,626

Meanwhile, other transactions with the joint ventures, associates and the related parties have been disclosed in the notes to the financial statements. Such transactions did not constitute connected transactions under the Listing Rules of HKEx.

Major Events

16. CONNECTED TRANSACTIONS (Continued)

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

(iv) (Continued)

The board of Directors believed that the continuing connected transactions have been conducted in accordance with the terms of relevant agreements or contracts governing the transactions. The directors confirm that the cap for the License fee for trademark of "Wang Lao Ji", rental expenditure, sales of finished goods and raw materials, purchase of finished goods and raw materials, and rendering of advertising agency service fee and consignment processing service fee of the Company are as follows:

Item	Announcement/ Approval time	Cap announced/ Approved amount (RMB'000)
Ultimate holding company		
License fee for trademark of "Wang Lao Ji"	28 May 2018	330,000
Rental expenditure	30 March 2017	20,000
Rental income	1 August 2016	414
Ultimate holding company and its subsidiaries		
Sales of finished goods and raw material	18 April 2018	150,000
Purchases of finished goods and raw material	18 April 2018	12,000
Advertising agency service fee	18 April 2018	9,000
Consignment processing service fee	18 April 2018	30,000

Such continuing connected transactions have been reviewed by the independent non-executive directors of the Company and confirmed by each independent non-executive director that all of the continuing connected transactions are conducted in the ordinary and usual course of business of the Company. The transactions are conducted under normal commercial terms or under terms to the Company no less favorable than (i) terms to the independent third parties or (ii) terms from the independent third parties. Such transactions are conducted in accordance with the terms of the relevant agreements, which are fair and reasonable and in the interest of the shareholders as a whole. The aggregate amount of the connected transactions between the Company and the ultimate holding company and the ultimate holding company and its subsidiaries did not exceed the cap as disclosed in the previous announcement(s) dated 15 July 2016, 18 April 2018, and 28 May 2018, or the amount as approved by the Strategic Development and Investment Committee on 1 August 2016 and 30 March 2017 and by the Board of Directors on 15 March 2019 for such transactions.

The Company's auditors have been engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the HKICPA. The auditor has issued a letter containing the work results on Wang Lao Ji trademark fee, annual rental expenditure, sales of finished goods and raw materials, purchase of finished goods and raw materials, and rendering of advertising agency services and consignment processing services under rule 14A.56 of the Listing Rules of HKEx.

Major Events

16. CONNECTED TRANSACTIONS *(Continued)*

(2) Related party transactions on acquisition or disposal of assets or equity interests

- (i) Events disclosed in temporary announcements and with no progress or change in subsequent implementation

Applicable Not applicable

- (ii) Events disclosed in temporary announcements but with progress or change in subsequent implementation

Applicable applicable

On 27 December 2018, after consideration and approval at the 18th meeting of the seventh session of the Board of the Company and the 12th meeting of the seventh session of the supervisory committee of the Company, the Company intended to pay the consideration of RMB1,389.122631 (exclusive of VAT), and agreed the transfer of 420 WangLaoJi series exclusive rights of trademark (including some trademarks still under registration) held by GPLH, the controlling shareholder to the Company. The transaction constitutes a connected transaction and subject to the consideration and approval at the general meeting of the Company.

For details, please refer to the announcement on the Transfer of the “WangLaoJi” Series Trademarks and Connected Transaction of by Guangzhou Pharmaceutical Holdings Limited to Guangzhou Baiyunshan Pharmaceutical Holding Company Limited dated 27 December 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 website of SSE, and the announcements dated 27 December 2018, 30 December 2018 and 4 January 2019 published on the website of HKEx.

- (iii) Events undisclosed in temporary announcements

Applicable Not applicable

- (iv) Where there is agreement on financial performance, the performance achievements during the Reporting Period shall be disclosed

Applicable Not applicable

(3) Material related party transactions on joint external investment

- (i) Events disclosed in temporary announcements and with no progress or change in subsequent implementation

Applicable Not applicable

- (ii) Events disclosed in temporary announcements but with progress or change in subsequent implementation

Applicable Not applicable

- (iii) Events undisclosed in temporary announcements

Applicable Not applicable

Major Events

16. CONNECTED TRANSACTIONS (Continued)

(4) Claims and liabilities between related parties

- (i) Events disclosed in temporary announcements and with no progress or change in subsequent implementation
 Applicable Not applicable
- (ii) Events disclosed in temporary announcements but with progress or change in subsequent implementation
 Applicable Not applicable
- (iii) Events undisclosed in temporary announcements
 Applicable Not applicable

Related party	Relationship with the related parties	Funds provided to related parties			Funds provided by related parties to listed company		
		Balance as at the beginning of the Reporting Period (RMB'000)	Amount (RMB'000)	Balance as at the end of the Reporting Period (RMB'000)	Balance as at the beginning of the Reporting Period (RMB'000)	Amount (RMB'000)	Balance as at the end of the Reporting Period (RMB'000)
Bozhou Baiyunshan Pharmaceutical	Subsidiary of joint venture	16,239	15,619	620	-	-	-
Total		16,239	15,619	620	-	-	-

Reasons for the funds provided to/from related parties

The Company's other receivables from HWBYS for the Reporting Period included receivables of RMB620,000 from HWBYS' subsidiary, namely Bozhou Baiyunshan. HWBYS was originally a joint venture with 50% equity interest held by Baiyunshan, and Bozhou Baiyunshan was originally 80% and 20% equity interest held by Baiyunshan and HWBYS respectively. On 30 March 2013, Baiyunshan and HWBYS entered into "Equity Transfer Agreement of Bozhou Baiyunshan Pharmaceutical Co., Ltd", according to which Baiyunshan agreed to transfer its equity interest and all the associated rights and obligations in Bozhou Baiyunshan to HWBYS.

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

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

No significant impact

Major Events

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

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

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 "Retreat into Three", 11 enterprises under the Company planned to relocate to the Baiyun base in the Biological Medicine Town of GPL. 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 been completed on 23 December 2015 and the second phase of capital increase of RMB46,626,750 has been completed on 3 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 increased to RMB55 million.	Completed
4	5th meeting of the Strategic Development and Investment Committee in 2016	The Company's subsidiary Chemical & Pharmaceutical Technology Company 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 RMB55 million.	The Company has contributed additional capital of RMB12.47 million to Chemical & Pharmaceutical Technology Company 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) Company. Currently, the Zhuhai Project has entered into the construction design stage.
	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 Company 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 Company for use in the establishment of Guangyao Baiyunshan Chemical Pharmaceutical (Zhuhai) Co., Ltd. ("Chemical Pharmaceutical (Zhuhai) Company").	
	11th meeting of the seventh session of the Board	Initiation of the Zhuhai Project with a total investment amount of RMB731,879,100.	

Major Events

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

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

No.	Approval body	Subject matter	Status
5	2nd meeting of the Strategic and Investment Committee in 2017	The Company (Buyer) and GPL (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 GPL.	Completed
6	3rd meeting of the Strategic Development and Investment Committee in 2017	The Company contributed additional capital of RMB30 million to Xing Zhu based on 75% equity interest.	Completed
7	5th meeting of the Strategic Development and Investment Committee in 2017	Medical Instrument Investment Company, a subsidiary of the Company, 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 equity interest.	Initial capital contribution of RMB3.4 million has been completed.
8	1st meeting of the Strategic Development and Investment Committee in 2018	GP Corp., a subsidiary of the Company, acquired 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
9	2nd meeting of the Strategic Development and Investment Committee in 2018	Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, acquired 33,785 shares in PT Sano Gratia Farma for RMB20.496 million (or equivalent in Indonesian Rupiah) and subscribe for new shares 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

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

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

No.	Approval body	Subject matter	Status
10	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) established a joint venture Guangzhou Cai Zhi Lin Traditional Chinese Medical Center Co., Ltd. (廣州采芝林國醫館有限公司) 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.
11	4th meeting of the Strategic Development and Investment Committee in 2018	The Company's subsidiary Baiyunshan Medical and Healthcare Industry Company and Guangzhou Nanfang Runkang Service Co., Ltd. established Runkang Confinement Company, in which the Company has contributed RMB5.10 million and owns 51% equity interests through Baiyunshan Medical and Healthcare industry company.	Completed
12	4th meeting of the Strategic Development and Investment Committee in 2018	The Company invested RMB31.62 million to acquire 25% equity of Guangzhou Xingzhou Pharmaceutical Co., Ltd., another shareholder of Xing Zhu. Upon completion, Xing Zhu will become a wholly-owned subsidiary of the Company.	Completed
13	5th meeting of the Strategic Development and Investment Committee in 2018	The Company made an additional contribution of RMB26.00 million to its subsidiary Cai Zhi Lin, for the establishment by Cai Zhi Lin of "Cai Zhi Lin Chinese Medicine Industrialized Manufacturing Service Base Project in Meizhou" and Meizhou Guangyao Cai Zhi Lin Pharmaceutical Co., Ltd. ("Meizhou Cai Zhi Lin") with a total investment budget of approximately RMB129.30 million.	Completed
14	5th meeting of the Strategic Development and Investment Committee in 2018	The Company's subsidiary WLJ Great Health and the Trade Promoting Bureau of Nansha Development Zone in Guangzhou entered into the Agreement on the Investment of and Cooperation with WLJ Great Health for a Series of Projects in Nansha to construct operation headquarters and R&D headquarters for the Great Health segment and a bottling base of WLJ in Nansha District, Guangzhou with a total investment of approximately RMB1.0 billion.	The agreement has been entered into and the investment is in progress.
	18th meeting of the seventh session of the Board	The Company's subsidiary WLJ Great Health invested and commenced the construction of Nansha Base (Phase I) project with a total investment of RMB750 million.	

Major Events

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

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

No.	Approval body	Subject matter	Status
15	5th meeting of the Strategic Development and Investment Committee in 2018	The Company's subsidiary Cai Zhi Lin established Longxi Guangyao Cai Zhi Lin Pharmaceutical Co., Ltd. with 100% equity, which has a registered capital of RMB50.00 million, with initial contribution of RMB28.38 million completed through the additional contribution made by the Company to Cai Zhi Lin.	Initial contribution completed and the construction in progress
16	6th meeting of the Strategic Development and Investment Committee in 2018	The Company's subsidiary Guangzhou Bai Di and Shenzhen Jingke Industry Co., Ltd. established a joint venture named Guangzhou Bai yun shan Weiyi Industry Co., Ltd. with a registered capital of RMB10.00 million, where Guangzhou Bai Di contributed RMB5.10 million and owns 51% equity.	Completed
17	6th meeting of the Strategic Development and Investment Committee in 2018	Wang Lao Ji Great Health Industry (Ya'an) Co., Ltd. ("WLJ Ya'an Company"), a wholly-owned subsidiary of the Company's subsidiary WLJ Great Health, commenced the second phase construction with a total investment of approximately RMB47.00 million.	In progress
18	6th meeting of the Strategic Development and Investment Committee in 2018	The Company made an additional contribution of RMB30 million to its wholly-owned subsidiary Guangyao General Institute, with the first phase of RMB18 million and the second phase of RMB12 million.	First phase of capital increase completed.
19	7th meeting of the Strategic Development and Investment Committee in 2018	The Company granted the joint venture HWBYS the license to use "Wang Lao Ji" trademark on its products, and signed Trademark Licensing Contract and Supplementary Agreement to the Agreement of Trademark Custody. The Company granted to Xing Qun, a subsidiary, the license to use "Wang Lao Ji" trademark on its products, and signed Trademark Licensing Contract and Supplementary Agreement to the Agreement of Trademark Custody. The Company granted to WLJ Catering, a subsidiary, the license to use "Wang Lao Ji" trade name, and signed Trademark Licensing Contract and Supplementary Agreement to the Agreement of Trademark Custody.	Being performed accordance with contracts.

Major Events

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

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

No.	Approval body	Subject matter	Status
20	7th meeting of the Strategic Development and Investment Committee in 2018	<p>The Company's subsidiary, WLJ Great Health, intended to build a production base in Lanzhou, Gansu with a total investment of RMB350.00 million.</p> <p>The Company's subsidiary, WLJ Great Health, established Wang Lao Ji Great Health Industry (Lanzhou) Co., Ltd., subject to the final approval of name by the Administration of Industry and Commerce, with a registered capital of RMB50.00 million.</p>	In progress
21	7th meeting of the Strategic Development and Investment Committee in 2018	For the construction of the logistics (phase one) project of the Baiyun base in the Biological Medicine Town of GPL, the Company and Alliance BMP made additional contribution of RMB527 million in proportion to their respective shareholdings in GP Corp., of which the Company and Alliance BMP contributed RMB421.6 million and RMB105.4 million according to their respective shareholdings of 80% and 20%, respectively.	Completed
22	7th meeting of the Strategic Development and Investment Committee in 2018	The Company's subsidiary, GP Corp., made additional contributions of RMB450 million in cash to its nine wholly-owned subsidiaries including Guangzhou Guoying Pharmaceuticals Corporation, and two wholly-owned subsidiaries of GP Corp. made additional contributions of RMB47.34 million in total to their two whollyowned subsidiaries, respectively.	Completed
23	7th meeting of the Strategic Development and Investment Committee in 2018	The Company's subsidiary, GP Corp., independently established GP Corp, Pharmacy with a registered capital of RMB60.00 million.	Completed
24	6th meeting of the seventh session of the Board	The Company cooperated with Guangzhou Huiyin Huiji Investment Fund Management Co., Ltd. in establishing a company of equity investment fund management and the Pharmaceutical and Health Industry Investment Fund.	In progress

Major Events

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

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

No.	Approval body	Subject matter	Status
25	6th meeting of the seventh session of the Board	The Company cooperated with Shenzhen Jin Shen Yi Financial Investment Co., Ltd. for establishing a company of equity investment management and the Pharmaceutical and Health Industry Investment Fund.	The equity investment management company has been established and is promoting the related matters of establishment of the Pharmaceutical and Health Industry Investment Fund.
26	8th meeting of the seventh session of the Board	The Company established Baiyunshan Yi Xin Tang, with a registered capital of RMB300 million which shall be paid in installments, of which, the Company contributed RMB90 million, accounting for 30% of its registered capital.	The second phase of capital contribution completed amounts to RMB72 million and the remaining amounts to RMB18 million.
27	11th meeting of the seventh session of the Board	The Company invested in the establishment of GYBYS Biological Medicine and Health R&D Sales Headquarters project	The planning scheme has been completed and the preparations for design and construction is in progress.
28	13th meeting of the seventh session of the Board	The Company increased its capital contribution in the amount of RMB800 million in proportion to its 80% shareholding	Completed

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

Except for those disclosed in (2) in section 3 "Company's Business Profile" of this annual report, the Group did not engage in any material acquisitions of assets and equity.

Major Events

18. MATERIAL CONTRACTS AND THEIR PERFORMANCE

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

(2) Guarantees

Applicable Not applicable

(Unit: RMB'000)

Guarantee	The relationship between the guarantor and the listed company	Secured party	Amount guaranteed	External guarantees of the Group (excluding guarantees to subsidiaries)					Whether the guarantee has been performed and discharged	Whether the guarantee is overdue	Amount of guarantee overdue	Whether counter guarantee is provided	Whether guarantee is for the benefit of related parties	Connected relationship
				Date of guarantee (date of agreement)	Guarantee commencement date	Guarantee maturity date	Collateral type							
Total amount of guarantee provided during the reporting period (excluding guarantee provided to its subsidiaries)														-
Total balance of guarantee at the end of the reporting period (A) (excluding guarantee provided to its subsidiaries)														-
Guarantee provided by the Group for the benefit of its subsidiaries														
Total amount of guarantee provided for the benefit of subsidiaries during the reporting period														1,495,000
Total balance of guarantee provided for the benefit of subsidiaries at the end of the reporting period (B)														1,495,000
Total amount of the external guarantees of the Group (including guarantees for subsidiaries)														
Total amount of guarantee (A+B)														1,495,000
The proportion of the total amount of guarantees to the Company's net assets (%)														6.46
Including:														
Amount of guarantee provided for the benefit of shareholders, de facto controller and their related parties (C)														-
Amount of guarantee directly or indirectly provided for the benefit of parties with a gearing ratio in excess of 70% (D)														1,495,000
Portion of the total amount of guarantee in excess of 50% of net assets (E)														-
Aggregated amount of the above three amounts of guarantee (C+D+E)														1,495,000
Description of the potential joint and several repayment liability for outstanding guarantee														/
Description of guarantee														/

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

18. MATERIAL CONTRACTS AND THEIR PERFORMANCE (Continued)

(3) Management of cash assets by entrusting third parties

Applicable Not applicable

(i) The Group's entrusted wealth management activities during the Reporting Period

1) Overview of the entrusted wealth management products

Applicable Not applicable

Category	Source of funds	Amount (RMB'000)	Amount not matured yet (RMB'000)	Amount not received after maturity (RMB'000)
Bank wealth management products	Fund of the Group	30,400	30,400	–
Bank wealth management products	Proceeds from fund raising	1,100,000	1,100,000	–

Others

Applicable Not applicable

2) Individual entrusted wealth management products

Applicable Not applicable

Trustee	Type of entrusted wealth management product	Amount of entrusted wealth management (RMB'000)	Commencement date of entrusted wealth management	Ending date of entrusted wealth management	Capital source	Usage of funds	Method for determination of returns	Annualized returns (%)	Estimated returns (if any)	Actual gains or losses (RMB'000)	Actual recovery	Lawsuit involved or not	Any entrusted financial plan in the future	Impairment provision (RMB'000)
Guangzhou branch of Everbright Bank Co. Ltd	No.333 of twelfth issue of products will be customized for public structured deposits in 2018	600,000	25 December 2018	20 June 2019	Placement	/	Fixed income type	4.15	11,391	0	Not yet due	Yes	Yes	0
Guangzhou branch of Shanghai Pudong Development Bank Co., Ltd	Shanghai pudong development bank Co., LtdLi Duoduo No.18/G2728 product of RMB corporate structured deposit	500,000	25 December 2018	20 June 2019	Placement	Interbank market bill, Treasury bonds, corporate bonds, short term notes, inter-bank borrowing, etc	Fixed income type	4.10	9,378	0	Not yet due	Yes	Yes	0

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

Others

Applicable Not applicable

Major Events

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

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

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

3) *Provision for impairment of entrusted wealth management products*

Applicable Not applicable

(ii) During the Reporting Period, the Company's entrusted loans

1) *Overview of the entrusted loans*

Applicable Not applicable

Category	Source of funds	Amount (RMB'000)	Amount not received after maturity (RMB'000)	Amount not received after maturity (RMB'000)
Entrusted bank loan	Fund of the Group	127,173	119,873	0

Note: The Group does not have the situation of external loan.

Others

Applicable Not applicable

2) *One-off entrusted loans*

Applicable Not applicable

Others

Applicable Not applicable

3) *Provision for impairment of entrusted wealth management products*

Others

Applicable Not applicable

Major Events

19. AS AT THE END OF THE REPORTING PERIOD, THE EXPENSES ON CONSTRUCTION AND EQUIPMENT IN RELATION TO WHICH CONTRACTS HAD BEEN ENTERED INTO BY THE GROUP BUT PAYMENTS HAD NOT BEEN MADE YET WAS RMB1,064,737,000 AND THE RENTAL EXPENSES IN RELATION TO WHICH CONTRACTS HAD BEEN ENTERED INTO BY THE GROUP BUT PAYMENTS HAD NOT BEEN MADE YET WAS RMB587,027,000.
20. ACCORDING TO THE REQUIREMENTS OF RULE 23 OF APPENDIX 16 TO THE LISTING RULES OF HKEX, THE COMPANY DID NOT HAVE ANY INVESTMENT PROPERTIES WHOSE ASSETS RATIO, CONSIDERATION RATIO, PROFITS RATIO AND REVENUE RATIO EXCEEDED 5% DURING THE REPORTING PERIOD.
21. ACCORDING TO THE REQUIREMENTS OF RULES 11A AND 11(8) OF APPENDIX 16 TO THE LISTING RULES OF HKEX, THE REMAINING PROCEEDS FROM ANY ISSUE OF EQUITY SECURITIES MADE IN PREVIOUS FINANCIAL YEAR(S) WERE BROUGHT FORWARD TO THIS FINANCIAL YEAR, AND THE LISTED ISSUER SHALL DISCLOSE THE AMOUNT OF PROCEEDS BROUGHT FORWARD AND THE DETAILS OF THE USE OF PROCEEDS.

Upon the receipt of The Approval on the Non-public Offering of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (zhengjianxuke [2016] No. 826) from the CSRC, the Company, through the non-public offering, issued 334,711,699 A shares, with the total proceeds of RMB7,885,807,628.44 and the net proceeds of RMB7,863,446,528.33 (after deducting all relevant expenses) raised. For details, please refer to the circular to the shareholders of the Company dated 26 February 2015 and the announcement of the Company dated 18 August 2016 on the websites of SSE and HKEx.

The Company used the proceeds of RMB81,224,300 in 2018. As of 31 December 2018, the aggregate proceeds invested amounted to RMB3,096,644,400, and the aggregate proceeds invested (after the deduction of bank charges and addition of accrued interest income) amounted to RMB506,772,560. The details are as follows:

No.	Name of projects	Proposed investment amount (RMB'0000)	Amount invested as of 31 December 2018 (RMB'0000)	Difference between the accumulated total amount invested and the total amount committed for investment as at the end of the year	Date of the projects becoming ready for intended use
1	The construction project of the Great Southern TCM research and development platform	150,000.00	5,696.48	(144,303.52)	31 December 2019
2	The construction project of the Great Southern production base (phase 1)	100,000.00	3,392.03	(96,607.97)	31 January 2021 (note a)
3	The extension project of modern medical logistics services	100,000.00	0	(100,000.00)	Proposed change in use (note b)
4	The project for establishment of channels and brands	200,000.00	80,000.78	(119,999.22)	N/A
5	The project for establishment of information platform	20,000.00	2,069.95	(17,930.05)	31 December 2020 (note a)
6	Replenishment of liquidity	216,344.65	218,505.20 (including the use of deposits interest)	2,160.55	N/A
	Total	786,344.65	309,664.44	(476,680.21)	-

Major Events

21. ACCORDING TO THE REQUIREMENTS OF RULES 11A AND 11(8) OF APPENDIX 16 TO THE LISTING RULES OF HKEX, THE REMAINING PROCEEDS FROM ANY ISSUE OF EQUITY SECURITIES MADE IN PREVIOUS FINANCIAL YEAR(S) WERE BROUGHT FORWARD TO THIS FINANCIAL YEAR, AND THE LISTED ISSUER SHALL DISCLOSE THE AMOUNT OF PROCEEDS BROUGHT FORWARD AND THE DETAILS OF THE USE OF PROCEEDS. (Continued)

Notes:

- a. The proposals in relation to the postponement of certain fund-raising investment projects was approved at the 18th meeting of the seventh session of the Board and the 12th meeting of the seventh session of the Supervisory Committee held on 27 December 2018, respectively. Due to the slow progress of the construction project of the Great Southern production base (phase 1) and the project for establishment of information platform, the Company proposed to postpone the implementation date of the construction project of the Great Southern production base (phase 1) and the project for establishment of information platform to 31 January 2021 and 31 December 2020, respectively. For details, please refer to the announcements of the Company dated 27 December 2018, 30 December 2018 and 4 January 2019 and the circular of the Company dated 31 January 2019 on the websites of SSE and HKEx.
- b. Taking into account the development trend of extending modern medical logistics services, changing industry landscape, changes in the equity interest in GP Corp., the availability of the balance of proceeds for the project for establishment of information platform, the 18th meeting of the seventh session of the Board and the 12th meeting of the seventh session of the supervisory committee were held at which the proposals in relation to the postponement of certain fund-raising investment projects was approved. The Company intends to change the use of RMB1,000 million and RMB80 million out of the proceeds for the extension project of modern medical logistics services and the project for the establishment of information platform respectively to the acquisition of the “Wang Lao Ji” series trademarks held by GPL, the controlling shareholder of the Company. The change of proceeds above is subject to the approval of the extraordinary general meeting of the Company. For details, please refer to the announcements of the Company dated 27 December 2018, 30 December 2018 and 4 January 2019 and the circular of the Company dated 31 January 2019 on the websites of SSE and HKEx.

As of 31 December 2018, the use of the proceeds through the non-public offering of A shares above was in line with the use of the proceeds as disclosed previously.

In addition, pursuant to the requirements of the Supervisory Guidelines No. 2 for Listed Companies – Supervisory Requirements for Management and Use of Proceeds of Listed Companies (Announcement of CSRC [2012] No.44) issued by CSRC and the Measures for the Management of Proceeds of Listed Companies on the Shanghai Stock Exchange (revised in 2013) (Shang Zheng Gong Zi [2013] No.13) and other relevant guidelines, the Company made a special report on the deposit and actual use of the proceeds in 2018 (the full text of which had been uploaded to the website of SSE).

22. DURING THE REPORTING PERIOD, THE COMPANY DID NOT HAVE ANY SPECIAL TRANSACTION WITH ITS CONNECTED PARTIES INCLUDING DIRECT DONATIONS IN CASH OR ASSETS IN KIND, DIRECT EXEMPTION OR REPAYMENT FOR OTHERS.

Major Events

23. EXPLANATORY NOTES ON OTHER MAJOR EVENTS

Applicable Not applicable

1. On 21 December 2017, the Company entered into the Equity Interest Transfer Agreement and the Joint Venture Contract with Guangzhou Pharmaceuticals Corporation and Alliance BMP for a very substantial acquisition, pursuant to which the Company acquired 30% equity interest in GP Corp. held by Alliance BMP by way of cash and granted the put options to Alliance BMP for transfer all of the remaining 20% equity interest in GP Corp. held by it (for details, please see the "Report of Material Asset Acquisition" and "Report of Material Asset Acquisition (Revised)" published on SSE on 22 December 2017 and 5 January 2018 and the relevant disclosure in the announcements on the HKEx on 22 December 2017 and 2 January 2018 by the Company. The acquisition was considered and passed at the 2018 first extraordinary general meeting held on 29 March 2018 and the transfer of target assets was completed on 31 May 2018, the consideration of which was RMB1,094,100,000.
2. In relation to the transfer of "WangLaoji" series 420 exclusive use rights of trademarks (including trademarks under application for registration) held by GPL, the controlling shareholder, to the Company, please refer to the relevant contents in "(2) Related party transactions from acquisition and disposal of assets or equity interests" under "16. CONNECTED TRANSACTIONS" of this section for details.
3. Pursuant to the Arbitration Award Hua Nan Guo Zhong Shen Cai [2017] No. 578 issued by the Committee of South China International Economic and Trade Arbitration ("Shenzhen International Court of Arbitration"), the Company transferred the consideration payment of RMB338,436,381.95 in total (after deducting the fees in the Arbitration Ruling totaling RMB7,444,064.44 and withholding enterprise income tax of RMB23,038,699.86) to the account designated by the court on 1 August 2018. According to the "Notice of Assistance in Execution" [(2018) Yue 01 Zhi No.985] issued by Guangzhou Peoples' Intermediate Court* (廣州市中級人民法院), the registration of change in relation to the transfer of the 48.0465% equity interest in Wang Lao Ji held by Golden Force Pharmacy Limited (98,378,439 shares in total) to the Company has been completed during the Reporting Period. Wang Lao Ji, included in the scope of the combination by the Company, is a subsidiary controlled by the Company, which holds 96.093% equity interest therein. For details, please refer to the announcement of the Company dated 6 September 2018 on the website of SSE and the website of HKEx.

24. PERFORMANCE OF SOCIAL RESPONSIBILITIES

(1) Needy alleviation efforts of listed companies

Applicable Not applicable

(i) Plan of targeted approach to aid the needy

While pursuing commercial values, we also actively echoed the national policy of “targeted poverty alleviation”, and continuously improved the self-development ability of poverty-stricken areas and poor people through development-oriented aid. Xing Qun, Guang Hua and Cai Zhi Lin, the subsidiaries of the Company, established poverty alleviation partnership with the three poverty-stricken villages, namely Jingkou, Wanxi and Yuanling”, continued to follow the general concept of poverty alleviation of “targeted, early and distinct”, and strived to achieve the fundamental targeted poverty alleviation objective of “they no longer need to worry about food and clothes, compulsory education, basic medical services and residential safety are guaranteed” 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”.

(ii) Outline of targeted approach to aid the needy in 2018

1) *Poverty alleviation partnership*

The three subsidiaries of the Company established poverty alleviation partnership with the three poverty-stricken villages, invested in the construction of photovoltaic power generation project and optimized the infrastructure construction, so as to continuously improve the self-development ability and living standards of poor people.

2) *Industrial poverty alleviation*

The Group took full advantage of local extensive natural resources, integrated targeted poverty alleviation with the overall regional development, provided positions, enhanced the human capital value of poverty-stricken family, and actively explored the “development-oriented” poverty alleviation model.

3) *Intelligent capability poverty alleviation*

The Group actively carried out employment training to help surplus labour of poverty-stricken family through employment. As at December 2018, the cumulative number of poor people accepted employment training of 117, 96 people were employed.

Major Events

24. PERFORMANCE OF SOCIAL RESPONSIBILITIES (Continued)

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

(iii) Achievement of the Targeted Poverty Alleviation

In 2018, the Group helped the poverty-stricken family to increase their production and income through stepping up the efforts in support. As at 31 December 2018, a total of approximately RMB6.65 million had been invested in helping 343 people out of poverty, with poverty alleviation rate of 92%. The collective economic income of all the three villages increased from RMB10,300 in 2015 to RMB180,000 in 2018, representing an increase of 16.5 times. Xing Qun, Guang Hua and Cai Zhi Lin were also awarded the honor of the Bronze Medal of Poverty Alleviation of Meizhou.

(RMB'0000)

Index	Number and implementation information of GYBYS
1. General information	
Including: 1. Fund	119.88
2. Materials trade	2.24
3. Number of poor people helped to be removed from administrative record for poverty registering (Person)	181
2. Itemized input	
(1) Poverty alleviation through industrial development	
Including: 1.1 Type of industrial poverty alleviation projects	<ul style="list-style-type: none"> ■ Poverty alleviation through agriculture and forestry □ Poverty alleviation through tourism □ Poverty alleviation through E-commerce ■ Poverty alleviation through assets income □ Poverty alleviation through science and technology ■ Others
1.2 Number of industrial poverty alleviation projects	12
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)	35
(2) Poverty alleviation through employment	
Including: 2.1 Amount invested in vocational training	0.00
2.2 Number of people received vocational training (Persons/Time)	117
2.3 Number of poor people in administrative record for poverty registering employed (Persons)	96
(3) Poverty alleviation through relocation	
Including: 3.1 Number of relocated people employed (Persons)	0

Major Events

24. PERFORMANCE OF SOCIAL RESPONSIBILITIES (Continued)

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

(iii) Achievement of the Targeted Poverty Alleviation (Continued)

Index	Number and implementation information of GYBYS
(4) Poverty alleviation through education	
Including: 4.1 Amount invested in subsidizing poor students	3.53
4.2 Number of students received allowance (Persons)	37
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	6.51
(6) Poverty alleviation through ecological protection	
Including: 6.1 Name of project	
	<input checked="" type="checkbox"/> Launching ecological protection and construction <input type="checkbox"/> Establishing compensation for the ecological protection <input type="checkbox"/> Creating ecological and public welfare positions <input type="checkbox"/> Others
6.2 Amount invested	8.89
(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
7.3 Amount invested in helping poor people with disabilities	0.00
7.4 Number of poor people with disabilities helped (Persons)	0.00
(8) Poverty alleviation in the society	
Including: 8.1 Amount invested in poverty alleviation in the east and west parts of the country	0.00
8.2 Amount invested in fixed-point poverty alleviation work	0.00
8.3 Poverty alleviation fund	0.00
(9) Other projects	
Including: 9.1 Number of projects (Project)	14
9.2 Amount invested	102.29
9.3 Number of poor people helped to be removed from administrative record for poverty registering (Persons)	0

Major Events

24. PERFORMANCE OF SOCIAL RESPONSIBILITIES *(Continued)*

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

(iii) Achievement of the Targeted Poverty Alleviation *(Continued)*

Index	Number and implementation information of GYBYS
9.4 Details of other projects	Mainly including the renovation of the dilapidated buildings, showing love and care, donations, village public welfare projects (renovation of culture centers and complex buildings), better living environment projects (street lighting improvement project).
3. Awards (details and levels)	Each of Xing Qun, Guang Hua and Cai Zhi Lin obtained the Bronze Medal of Poverty Alleviation of Meizhou 2017

(iv) Follow-up alleviation plan

The Group will step up the efforts in poverty alleviation and promote intelligent capability poverty alleviation, industrial poverty alleviation, poverty alleviation through education and infrastructure improvement in an all-round way. The Group adheres to the combination of poverty alleviation with enhancement of determination, and stimulate the endogenous power of poverty-stricken family. The Group broadens the range of supporting industries, and help poverty-stricken family to increase their production and income via several channels and modes. The Group also continue to carry out the support of education activities to alleviate the burden of education for poverty-stricken family, and implement people-benefit projects such as housing repair and maintenance and trash removal for poverty-stricken family to optimize the living environment of poverty-stricken villages.

(2) Work on social responsibilities

Applicable Not applicable

The Company prepared the Social Responsibilities Report of 2018 (full version is available on the website of the SSE and the HKEx) in accordance with the requirements of the "Notice on Preparation of the 2018 Annual Report in an orderly manner by Listed Companies" issued by the SSE.

The Company has complied with the rules of Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and prepared the 2018 Social Responsibilities Report (environmental quality, professional health and safety, environmental protection and social participation and was published on the websites of the SSE and the HKEx on the same day on which the annual report was published.

Major Events

24. PERFORMANCE OF SOCIAL RESPONSIBILITIES (Continued)

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

(i) Drainage information

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

✓Applicable □Not applicable

Company name	Names of major pollutants and characteristic pollutants	Emission mode	Number of emission ports	Distribution of emission ports	Annual average emission concentration (mg/m ³)	Implementation of pollutant emission standards (mg/m ³)	Total annual emissions (ton)	Approved total emissions (ton)	Excessive emissions
Chemical Pharmaceutical Factory	Sulfur dioxide	Interval	1	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC	6.19	"Integrated emission standard of air pollutants", ≤50	0.21	2.16	None
	Nitrogen oxides	Interval	1	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC	76.25	"Integrated emission standard of air pollutants", ≤200	2.27	8.62	None
	Particulate matter (smoke dust)	Interval	4	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC	9.5	"Integrated emission standard of air pollutants", ≤30	1.49	17.78	None
	Total VOCs	Interval	5	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC	14.32	"Integrated emission standard of air pollutants", ≤120	1.71	15.56	None
Xing Zhu	Sulfur dioxide	Interval	1	No. 4 Venture Avenue South, Pearl Industrial Park, Conghua, Guangzhou City, Guangdong Province	2.80	"Integrated emission standard of air pollutants", ≤50	0.02	3.83	None
	Nitrogen oxides	Interval	1	No. 4 Venture Avenue South, Pearl Industrial Park, Conghua, Guangzhou City, Guangdong Province	77.50	"Integrated emission standard of air pollutants", ≤120	3.64	17.92	None
	Particulate matter (smoke dust)	Interval	1	No. 4 Venture Avenue South, Pearl Industrial Park, Conghua, Guangzhou City, Guangdong Province	3.00	"Integrated emission standard of air pollutants", ≤30	0.14	2.30	None
WLJ Ya' An	COD	Discharge after treatment	1	No.1 Deguang Road, Ya'an Economic Development Zone, Sichuan Province	52.85	"Integrated Wastewater Discharge Standard (III-class criteria)"	4.30	5.86	None
Weiling	COD	Discharge after treatment	1	No. 36, Huancheng East Road, Heshan Community, Hepo Street, Jiexi County, Guangdong Province	71.75	"Integrated Wastewater Discharge Standard (III-class criteria)"	4.02	4.50	None

Major Events

24. PERFORMANCE OF SOCIAL RESPONSIBILITIES (Continued)

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

(ii) Construction and operation of pollution prevention and control facilities

Chemical Pharmaceutical Factory, Xing Zhu, WLJ Ya' An and Weiling had, 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 Weiling and their implementations (exhaust gas) are as follows:

Company name	Name of pollution preventing facility	Put into use date	Pollution category	Procedure	Average daily processing capacity (m ³ /h)
Chemical Pharmaceutical Factory	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
	VOCs treatment system (dichloromethane; acetone and ethanol treatment)	2018.11.22	VOC	Dichloromethane: water spray + L2 T-HPs resin adsorption method Acetone and ethanol: closed absorption through water circulation + water spray + biosorption	3000; 2200
	Xing Zhu	Pulse separator with filter bag + high altitude discharge + high altitude discharge	2017.12.15	Workshop exhaust gas	Bag-type dust collecting
WLJ Ya' An Weiling	Sewage Treatment Station	2015.09.01	COD, ammonia nitrogen	AO Process	40
	Sewage Treatment Station	2016.06.07	COD, ammonia nitrogen	AO Process	40

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

Major Events

24. PERFORMANCE OF SOCIAL RESPONSIBILITIES *(Continued)*

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

(ii) Construction and operation of pollution prevention and control facilities *(Continued)*

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

The designing, construction and trial run of plants, 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. During the Reporting Period, the environmental protection facilities were running smoothly, ensuring the legal discharge of water, air and sound and standardized management of hazardous waste. There was no newly-commenced project in the Reporting Period..

(iii) 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.

(iv) 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 the public. Meanwhile, such entities entered into the Environmental Monitoring Technology and Service Contract with a qualified third-party monitoring authority having relevant qualifications 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 the testing report.

(v) Other environmental information that should be disclosed to the public

Applicable Not applicable

(vi) Companies other than the key pollutant discharging units

Applicable Not applicable

(vii) Explanations on subsequent status on or changes in environmental information disclosed in the Reporting Period

Applicable Not applicable

Major Events

24. PERFORMANCE OF SOCIAL RESPONSIBILITIES *(Continued)*

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

(viii) Other

Applicable Not applicable

On 8 June 2018, the law enforcement officers of Guangzhou Environmental Protection Bureau conducted enforcement inspection on Xing Zhu. Upon investigation, the improper treatment of herb residue by the herb residue treatment cooperative enterprise of Xing Zhu (Guangzhou Conghua Honggaoliang Fruit and Vegetable Professional Cooperative (廣州市從化紅高粱果蔬專業合作社)) was found, and Xing Zhu shall bear the joint and several liability as the supplier of herb residue. According to the Decision of Administrative Penalties of Guangzhou Conghua Environmental Protection Bureau (Cong Huan Fa [2018] No. 111), which ordered Xing Zhu to halt the illegal act and to rectify within a time period of 30 days, and imposed a penalty of RMB80,000. Xing Zhu has completed the rectification and strengthened self-inspection on existing waste disposal work processes to ensure green emissions.

Other than the companies named above which are key pollutant discharging units in Guangzhou, all the other subsidiaries of the Company are low-energy consumption and low-emission enterprises, and most of them are provincial and municipal cleaner production units as well as national, provincial and municipal green enterprises. They have strictly complied with national, provincial and municipal laws and regulations related to environmental protection, and have not discharge excessive pollutants.

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

Changes in Share Capital and Shareholders

1. CHANGES IN SHARE CAPITAL

(1) Changes in share capital

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

(2) Change in shares with selling restrictions

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

2. INTERNAL STAFF SHARES

The Company did not have any internal staff shares.

3. INFORMATION ON SHAREHOLDERS

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

As at 31 December 2018, there were 60,014 shareholders in total, of which 59,988 were holders of domestically listed Renminbi-denominated ordinary shares (A shares) and 26 were holders of overseas listed shares (H shares).

As at 28 February 2019, there were 69,440 shareholders in total, of which 69,413 were holders of domestically listed Renminbi-denominated ordinary shares (A shares) and 27 were holders of overseas listed shares (H shares).

Changes in Share Capital and Shareholders

3. INFORMATION ON SHAREHOLDERS (Continued)

(2) As at 31 December 2018, the top ten shareholders of the Company are set out as follows

Shareholders	Increase/ (Decrease) during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Approximate percentage of the total issued share capital (%)	Number of shares subject to selling restrictions (share)	Number of shares pledged or locked (share)	Class of shares
GPHL	0	732,305,103	45.04	148,338,467	0	State-owned legal person
HKSCC Nominees Limited	61,940	219,739,409	13.52	0	0	Overseas Legal Person
GZ SOA Development	0	87,976,539	5.41	87,976,539	0	State-owned legal person
GZ Chengfa	0	73,313,783	4.51	73,313,783	0	Other
China Securities Finance Corporation Limited	(325,574)	47,278,008	2.91	0	0	Other
Yufeng Investment	0	21,222,410	1.31	21,222,410	21,222,410	Other
Central Huijin Asset Management Co., Ltd.	0	15,260,700	0.94	0	0	Other
The National Social Security Fund – One Zero Five Combination	10,326,823	10,326,823	0.64	0	0	Other
Hong Kong Securities Clearing Co. Ltd.	6,394,621	10,172,609	0.63	0	0	Other
China AMC – Agricultural Bank – Huaxia China Securities Financial Asset Management Plan	3,563,400	8,795,136	0.54	0	0	Other

Changes in Share Capital and Shareholders

3. INFORMATION ON SHAREHOLDERS (Continued)

(2) As at 31 December 2018, the top ten shareholders of the Company are set out as follows: (Continued)

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

Shareholders	Number of shares without selling restrictions (share)	Class of shares	The number of shares (share)
GPHL	583,966,636	Domestic shares	732,305,103
HKSCC Nominees Limited	219,739,409	H shares	219,739,409
China Securities Finance Corporation Limited	47,278,008	Domestic shares	47,278,008
Central Huijin Asset Management Co., Ltd.	15,260,700	Domestic shares	15,260,700
The National Social Security Fund – One One Five Combination	10,326,823	Domestic shares	10,326,823
Hong Kong Securities Clearing Co. Ltd	10,172,609	Domestic shares	10,172,609
China AMC – Agricultural Bank – Huaxia China Securities Financial Asset Management Plan	8,795,136	Domestic shares	8,795,136
China European Fund-Agricultural Bank of China-Central European Central China Financial Asset Management Plan	8,680,636	Domestic shares	8,680,636
Boshi Fund-Agricultural Bank of China-Bo card in Financial Asset Management Plan	8,662,836	Domestic shares	8,662,836
Dacheng Fund-Agricultural Bank of China-Dacheng certificate of Financial Assets Management Plan	8,657,836	Domestic shares	8,657,836

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

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

Changes in Share Capital and Shareholders

3. INFORMATION ON SHAREHOLDERS *(Continued)*

(2) As at 31 December 2018, the top ten shareholders of the Company are set out as follows *(Continued)*

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

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

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

Changes in Share Capital and Shareholders

3. INFORMATION ON SHAREHOLDERS (Continued)

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

As at 31 December 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	Class of shares	Number of shares held (share)	Capacity	Long Positions	
				Approximate % of the total issued domestic shares (%)	Approximate % of the total issued H shares (%)
GPHL	Domestic shares	732,305,103	Beneficial owner	52.09	–
GZ SOA Development	Domestic shares	87,976,539	Beneficial owner	6.26	–
GZ Chengfa	Domestic shares	73,313,783	Beneficial owner	5.21	–
Norges Bank	H shares	24,948,000	Beneficial owner	–	11.35
Citigroup Inc. (note 1)	H shares	18,000 (long position)	Person having a security interest in shares	–	0.008
		570,000 (long position)	Interests of corporation controlled by you		0.259
		438,000 (short position)			0.199
		21,331,106 (long position)	Approved lending agent		9.70

Note: 1. According to the notice of substantial corporate shareholders filed by the Citigroup Inc.:

- a) Interests in long position of 588,000 foreign shares and short position in 438,000 foreign shares in the Company were held by Citigroup Global Markets Limited, which was owned as to 100% by Citigroup Global Markets Holdings Bahamas Limited. Citigroup Global Markets Holdings Bahamas Limited was owned as to 90% by Citigroup Financial Products Inc. Citigroup Financial Products Inc. was wholly-owned by Citigroup Global Markets Holdings Inc.. Citigroup Global Markets Holdings Inc. was wholly-owned by Citigroup Inc.. As such, Citigroup Inc. was deemed to be interested in the shares held by Citigroup Global Markets Limited under the SFO.
- b) Interests in long position of 21,331,106 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. Citigroup Inc. was deemed to be interested in the shares held by Citibank, N.A. under the SFO.

2. Long position in 294,000 foreign shares and short position in 18,000 foreign shares in the Company are unlisted derivatives to be settled in cash.

As far as the Directors are aware, as at 31 December 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

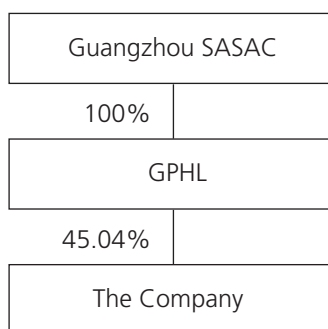
4. INFORMATION ON CHANGES OF THE COMPANY'S CONTROLLING SHAREHOLDER AND ITS BENEFICIAL OWNER

(1) Controlling shareholder

Name of shareholder	Guangzhou Pharmaceutical Holdings Limited
Legal representative	Li Chuyuan
Date of establishment	7 August 1996
Business scope	To invest in and manage State-owned assets, to sell and manufacture pharmaceutical intermediates, Chinese and western medicine, Chinese raw medicine, bio-tech products, medical apparatus, pharmaceutical equipment, packing materials for pharmaceutical products, health drinks and food, hygienic materials and pharmaceutical related merchandise; to undertake medicine related import and export affairs and to develop real estate.
Shareholding information of other domestic and overseas listed companies during the Reporting Period	No

(2) Beneficial owner(s)

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



Changes in Share Capital and Shareholders

5. OTHER SHAREHOLDERS HOLDING 10% OR MORE OF THE COMPANY'S TOTAL ISSUED SHARES

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

6. NEITHER THE COMPANY NOR ANY OF ITS SUBSIDIARIES HAD PURCHASED, SOLD OR REDEEMED ANY OF THE COMPANY'S SHARES DURING THE REPORTING PERIOD

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

8. PUBLIC FLOAT

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

9. PRE-EMPTIVE RIGHTS

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

10. DESCRIPTION ON RESTRICTIONS ON SHARES

For relevant contents, please refer to the "Number of shares held by the top ten shareholders subject to selling restrictions and the selling restrictions" under "3. Information on Shareholders" for details.

Relevant Information on Preferred Shares

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

Directors, Supervisors, Senior Management and Staff

1. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

(1) Executive directors

Mr. Li Chuyuan, aged 53, completed postgraduate education and holds an EMBA degree and is a senior economist as well as a senior engineer of professor grade. Mr. Li is entitled to the special allowances granted by the State Council. He received the “National Model Workers Award”, was selected for the “List of Chinese Good Fellows (中國好人榜)”, and was awarded the “Top Ten Economic Figures of China”, the person of “China Double Embrace”, “Guangdong Top 10 Innovative Persons”, “Guangdong Top 10 Most Influential Persons in Economy” and “Guangzhou Top 10 Outstanding Youth”. He is a member of Guangzhou Municipal People’s Congress, the representative of Guangzhou Communist Party, Guangzhou Outstanding Management Expert, the deputy officer of the Science and Education, Sanitation and Sport Committee of Guangdong Political Consultative Conference and a member of the Guangdong Provincial People’s Congress. Since Mr. Li began his career in July 1988, Mr. Li had successively served as the Deputy Director of operation department of Baiyunshan General Factory, Deputy General Manager, Deputy Secretary of the Communist Party and Chairman of Baiyunshan, director and Secretary of the Communist Party of Guangzhou Baiyunshan Chinese Medicine Factory, the General Manager, Vice Chairman and Secretary of the Communist Party of HWBYS, General Manager, Vice Chairman, Deputy Secretary of the Communist Party of GPL, the Vice Chairman of the Company and the Vice Chairman of the Guangzhou Pharmaceuticals Corporation. Mr. Li has served as the Chairman of the Company since 8 August 2013, and now is the Chairman and Secretary of the Communist Party of GPL, Chairman and Secretary of the Communist Party of the Company and Secretary of the Communist Party and Vice Chairman of HWBYS. Mr. Li has extensive experience in the fields of corporate management and marketing.

Mr. Chen Mao, aged 55, holds a bachelor degree in medicine and is a pharmaceutical engineer. He was awarded the “National Labour Day Award”. Mr. Chen began his career in November 1985, and has been the deputy factory manager of Guangzhou Baiyunshan Pharmaceutical Factory* (廣州白雲山中藥廠), the chairperson of Pharmaceutical Technology, the general manager of Baiyunshan, the factory manager of Baiyunshan General Factory, the chairperson of Guang Hua, the chairperson and the secretary of the Communist Party of WLJ Great Health and deputy general manager of GPL. Mr. Chen has been the vice chairperson of the Company since January 2014 and is also currently the general manager, vice chairperson and deputy secretary of the Party Committee of GPL, deputy chairperson and deputy secretary of the Party Committee of the Company and the chairperson of Baxter Qiao Guang. Mr. Chen has extensive experience in corporate management and marketing.

Ms. Liu Juyan, aged 54, completed postgraduate education and holds a doctorate degree in medicine and is a senior engineer of professor grade. She is also an expert who enjoys special allowances from the State Council. Ms. Liu was awarded the “March 8th Flag Bearer” of China and is a member of the Guangzhou Provincial People’s Progress. She was an “Outstanding City Management Expert” of Guangzhou and also was a Guangzhou “121” reserved talent. Ms. Liu began her career in July 1990 and had been the chairperson and general manager of Guangzhou Han Fang, the head of the technology and quality department of GPL, the chairperson of Yi Gan and the chairperson of the Guangyao General Institute. Since August 2005, Ms. Liu has been the chief engineer of GPL and the chief technical officer of the Company. Since January 2011, she has been the deputy general manager of GPL. Ms. Liu has been the chairperson of Nuo Cheng since March 2014 and has been a director of the Company since December 2013. Ms. Liu has extensive experience in scientific research and development, technological research and quality management.

Directors, Supervisors, Senior Management and Staff

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

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

(1) Executive directors *(Continued)*

Ms. Cheng Ning, aged 53, completed tertiary education and is an accountant. Ms. Chen possesses several professional qualifications, including PRC certified public accountant, PRC certified tax consultant, senior international finance manager and senior accounting (finance management) technician. Ms. Cheng began her career in August 1986 and had been an officer of the finance department of Baiyunshan General Factory, the deputy head of the finance department of Guangzhou Baiyunshan Bao De Pharmaceutical Factory* (廣州白雲山寶得藥廠), the head of the finance department of Guangzhou Baiyunshan Veterinary Medicine Factory* (廣州白雲山獸藥廠), the head of the settlements division of the operations department, head of the accounts and payments division of the settlements centre, deputy head of the finance department and a member and secretary of the supervisory committee of Baiyunshan, the acting manager and manager of the financial resources department and the head of the finance department of Guangzhou Baiyunshan Enterprise Group Co., Ltd.* (廣州白雲山企業集團有限公司), the deputy head and the head of the finance department of GPHL, a director of each of Zhong Yi, Cai Zhi Lin, Qi Xing, Guangxi Yingkang, WLJ Investment, Wang Lao Ji Catering and GP Corp and the chairperson of the supervisory committee of WLJ Great Health. Ms. Cheng has been a Director since 19 September 2012, and is also currently the deputy general manager, the financial controller and a member of the party committee of GPHL, the convenor of the board of directors of Guangyao Baiyunshan Hong Kong Company. Ms. Cheng has extensive experience in finance management and internal control management.

Mr. Ni Yidong, aged 47, completed postgraduate education and holds a doctorate degree in medicine and is a senior engineer. Mr. Ni began his career in July 1994 and had been the head of the marketing department of GPHL and the chairperson and secretary of the Party Committee of Zhong Yi. He has been a Director since January 2014, and is also currently the deputy general manager and a member of the party committee of GPHL. Mr. Ni has extensive experience in corporate management, marketing and brand protection and management.

Mr. Li Hong, aged 52, holds a bachelor degree and a MBA degree. Mr. Li also holds the titles of engineer and senior political work engineer and possesses the qualification of practising pharmacist. Mr. Li is a specially appointed committee member of the 11th Chinese People's Political Consultative Conference of Guangdong Province. Mr. Li started his career in July 1990. He had served as a director and the chairperson of the board of Guangzhou Baiyunshan Qiao Guang Pharmaceutical Co., Ltd.; a director and the general manager of Tian Xin; a general manager, chairperson and secretary of the party committee of Ming Xing; a director of Baiyunshan and an assistant to the general manager of GPHL. Mr. Li has been a Director and general manager of the Company since 22 June 2018 and is currently a member of the party committee of the Company.

Mr. Wu Changhai, aged 53, holds a bachelor degree and EMBA degree, and is a senior economist. Mr. Wu began his career in August 1989 and had been the Deputy General Manager of Guangxi Ying Kang, the Deputy General Manager, General Manager, director, Chairman and Secretary of the Communist Party of Zhong Yi, the Chairman and director of Qi Xing, the chairman and director of Xing Qun, Chairman of WLJ Great Health, Chairman of WLJ Great Health Industry (Ya'an) Co., Ltd., Chairman of Wang Lao Ji Great Health Industry (Mei Zhou) Co., Ltd., director of Chen Li Ji and Managing Director of GPC. Mr. Wu has served as a director of the Company since 28 June 2010, and is currently the Deputy General Manager of the Company, a director of Xing Zhu and a director of WLJ Great Health. Mr. Wu has extensive experience in the operation and management, marketing and scientific research and development of listed companies and pharmaceuticals, food and beverage businesses.

Directors, Supervisors, Senior Management and Staff

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

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

(2) Independent non-executive directors

Mr. Chu Xiaoping, aged 64, holds a doctorate degree in management and is a professor and a doctoral advisor. Mr. Chu graduated from the Xi'an Jiaotong University. He was a lecturer, associate professor, professor, associate dean and the dean of the Business School of Shantou University in Guangdong and a visiting scholar of the University of Hong Kong. He had been an independent director of Shengyi Technology Co., Ltd. and Lafang China Co., Ltd. for six years. He also served as an independent director of Oppein Home Group Inc. and Guangzhou Haoyang Electronic Co., Ltd.. He is currently a professor and a doctoral advisor at the Lingnan (University) College, Sun Yat-sen University. Mr. Chu has extensive experience in the organisation, leadership, innovation and sustainable development of enterprises.

Mr. Jiang Wenqi, aged 61, holds a master's degree in clinical medicine and advanced health management and is a professor, doctoral advisor and a chief physician. Mr. Jiang obtained his medical degree from Shanghai Medical University in 1982 and obtained his master's degree in oncology from the Sun Yat-sen University in 1988. He was a physician, vice president and the head of the medical department of the Sun Yat-sen University Cancer Center (an affiliate hospital of the Sun Yat-sen University) and the dean of the School of Medicine of the Shenzhen University. Mr. Jiang is currently the head of the medical department of the Sun Yat-sen University Cancer Center. Mr. Jiang has extensive experience in pharmaceutical industry and hygiene management.

Directors, Supervisors, Senior Management and Staff

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

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

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

Mr. WONG Hin Wing, aged 56, holds a Master's degree in Executive Business Administration from The Chinese University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in England & Wales, the Association of Chartered Certified Accountants, the Hong Kong Institute of Directors and the Institute of Chartered Secretaries and Administrators. He is also a member of the American Institute of Certified Public Accountants and a chartered member of the Chartered Institute for Securities & Investment. He is an Independent Non-executive Director of AEON Credit Service (Asia) Co. Ltd. (a public company listed on the HKEx), Dongjiang Environmental Company Limited (a public company with A shares listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange and H shares listed on the HKEx), CRCC High-Tech Equipment Corporation Limited (a public company with H shares listed on the HKEx), Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (a public company with A shares listed on the SSE and H shares listed on the HKEx), Inner Mongolia Yitai Coal Co., Ltd. (a public company with B shares listed on the SSE and H shares listed on the HKEX) and Wine's Link International Holdings Limited (a public company listed on the HKEx) and Jiangxi Bank Co., Ltd. (a public company with H shares listed on the HKEx). He is also a Member of Anhui Provincial Committee of the Chinese People's Political Consultative Conference, a panel member of Securities and Futures Appeals Tribunal, a member of Nursing Council of Hong Kong and a member of the Construction Industry Council. He is the Managing Director and has been the responsible officer of Silk Road International Capital Limited (formerly known as Legend Capital Partners, Inc.), a licensed corporation under the SFO since 1997. Prior to this, he had worked with an international audit firm for four years and then a listed company as Chief Financial Officer for seven years. He has 35 years of experience in accounting, finance, investment management and advisory.

Ms. Wang Weihong, aged 56, completed postgraduate education and holds a master degree in management. Ms. Wang is a professor, a member of each of the ninth, tenth and eleventh session of the Chinese People's Political Consultative Conference of Guangdong Province, a member of the twelfth session of the Research Consultative Committee of the Chinese People's Political Consultative Conference and a consultant of the People's Government of Guangdong Province. Ms. Wang graduated from the Hunan Institute of Economics and Finance (currently known as the Hunan University). She began her career in July 1986 and had been a teacher of the Department of Trade and Economics of the Hunan Institute of Finance and Economics, the head and an associate professor of the Teaching and Research Office of the Department of Business Administration of the Hunan Institute of Finance and Economics, an associate professor of the Department of Marketing and Sale of the Business Faculty of the Hunan University, the head of the Department of Marketing and Sale of Guangdong University of Foreign Studies and an evaluation expert of the Association of the Social and Scientific Sectors of Guangdong (廣東省社會科學界聯合會). Ms. Wang is currently the head of the Research Center of the Business College and a third-tier professor of the Guangdong University of Foreign Studies. Ms. Wang is also a standing director of the China Marketing Association, the deputy secretary general of China Business Administration Association of University (中國高校商務管理研究會), a standing director of China Marketing Association of University (中國高校市場學研究會), the deputy secretary general of Guangdong Marketing Association and a standing director of Guangdong Institute of Research on the Tertiary Sector (廣東省第三產業研究會). Ms. Wang has extensive experience in strategy management, marketing management and brand operation.

Directors, Supervisors, Senior Management and Staff

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

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

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

For details of the membership information of the board committees on which the independent non-executive directors serve, please refer to the section headed “4. Committees of the Board” of “4. Corporate Governance” in this report. For details of the terms of the independent non-executive directors of the Company, please refer to the section headed “2. Changes in Interests and Emoluments” in this report.

(3) Supervisors

Mr. Xian Jiaxiong, aged 59, holds a bachelor degree and a master’s degree in business administration, and is an economist and senior political engineer. Mr. Xian began his career in September 1976 and had been the deputy secretary of the Party Committee of Guangzhou Grandbuy Co., Ltd. and assistant to the general manager and the secretary of the disciplinary committee of Guangzhou Department Store Enterprise Group Co., Ltd. Mr. Xian has been the chairman of the supervisory committee of the Company since October 2013, and is also currently the deputy secretary of the Party Committee of GPL. Mr. Xian has extensive experience in economic management, operations of the Chinese Communist Party and legal affairs.

Ms. Li Jinyun, aged 51, obtained a bachelor’s degree from the Central Party School of the Communist Party of China. She is a senior political engineer, an engineer, an economist and is also a representative of the Chinese Communist Party of Guangzhou. Ms. Li began her career in July 1990 and had been the chairperson of the labour union of Guangzhou Baiyunshan Chinese Medicine Factory* (廣州白雲山中藥廠), the deputy secretary of the Party Committee of Baiyunshan Chemical Factory and the deputy head of the human resources department, the deputy head of the political works department, the head of the organisational and personnel department, a member of the disciplinary committee, the deputy secretary of the retirement office of the Party Committee and the secretary of Party Committee of Baiyunshan. From March 2014 to June 2017, Ms. Li was the head of the organisational department, the head of the human resources department of the Company. Since September 2016, Ms. Li has been a member of the supervisory committee of the Company and is currently the chairperson of the labour union member of the disciplinary committee and head of the organizational department of the Party Committee of GPL, member of the Party Committee and chairperson of the labour union of the Company. Ms. Li has been engaged in the political work of the Chinese Communist Party and administration and human resource management for more than 20 years and has extensive experience in the development and innovation aspects of the Chinese Communist Party, talent recruitment and development.

Ms. Gao Yanzhu, aged 53, holds a bachelor degree and a MBA degree. She is a senior economist, auditor and an engineer and a member of the 16th session of Guangzhou City Liwan District People’s Congress. Ms. Gao started her career in July 1988 and had been the deputy director of the office of the operation and management of the enterprise management department of Guangzhou Baiyunshan Enterprise Group Co., Ltd., representative of securities affairs and company’s legal adviser of Baiyunshan Pharmaceutical, deputy department head of the audit department and the deputy director of the risk control office of GPL. Ms. Gao was the deputy department head of the audit department and the deputy director of the risk control office of the Company during March 2014 to January 2017. Ms. Gao has extensive experience in audit, risk control and securities affairs.

Directors, Supervisors, Senior Management and Staff

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

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

(4) Senior management

Mr. Zhang Chunbo, aged 42, holds a bachelor degree and a master degree of EMBA, and is a druggist. Mr. Zhang graduated from the China Pharmaceutical University in July 2000 and began his career in the same year. In December 2010, he obtained a master degree of EMBA from the Lingnan (University) College of the Sun Yat-Sen University. He had served as the vice manager of the second zone, the assistant to the manager of sales department, the vice general manager of sales department, the manager of sales department, the vice director of marketing department of HWBYS, the vice general manager and the vice general manager of Zhong Yi. Mr. Zhang has been as the vice general manager of the Company since January 2015, and is currently the chairperson of each of Zhong Yi, Qi Xing. Mr. Zhang has extensive experience in corporate management and marketing.

Ms. Huang Xuezhen, aged 45, holds a master's degree. She is a economist and a member of the 15th session of the People's Congress of Liwan District, Guangzhou City. Ms. Huang started her career in July 1977 and joined the Company in September 2003. She had served as the deputy officer of the Secretariat to the Board of the company, the head of the secretariat and representative of securities affairs. She has served as the secretary to the Board of the Company since 26 April 2017 and is currently the company secretary of the Company, the head of the Secretariat to the Board and a director of Golden Eagle Fund.

(ii) Information on the Changes in Directors, Supervisors and Senior Management of the Company During the Reporting Period

Ms. Lee Mei Yi resigned as the company secretary of the Company on 16 August 2018 and had confirmed that she had no disagreement with the Board and there is no matter in connection with her resignation that needed to be brought to the attention of the shareholders of the Company or HKEx. Ms. Huang Xuezhen had been appointed as the company secretary of the Company with effect from 16 August 2018 in place of Ms. Lee Mei Yi.

Directors, Supervisors, Senior Management and Staff

2. CHANGES IN INTERESTS AND EMOLUMENTS

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

During the Year, the total amounts of remuneration received by the Directors, supervisors and the senior management from the Group, the shareholder(s) of the Company and other connected entities was RMB11,985,020.

Name	Position (Note)	Gender	Age	Commencement date of term of office	Ending date of term of office	Shares held as at the beginning of the Reporting Period (shares)	Shares held as at the end of the Reporting Period (shares)	Change in shareholding during the Reporting Period	Reasons for change	Emoluments received from the Company during the Reporting Period (RMB'000) (before tax)	Emoluments received from the Company's shareholder during the Reporting Period (RMB'000)
Interest (A shares) and emoluments of the current directors, supervisors and senior management of the Company											
Li Chuyuan	Chairperson	Male	53	2010-06-28	Note ①	100,000	100,000	0	Note ④	/	1,014.20
Chen Mao	Vice chairperson	Male	55	2014-01-28	Note ①	50,000	50,000	0	Note ④	/	968.74
Liu Juyan	Executive director	Female	54	2014-01-28	Note ①	13,000	13,000	0	Note ④	/	990.25
Cheng Ning	Executive director	Female	53	2012-09-19	Note ①	21,500	21,500	0	Note ④	/	970.54
Ni Yidong	Executive director	Male	47	2014-01-28	Note ①	0	0	0	Note ④	/	933.73
Li Hong	Executive director	Male	52	2018-06-22	Note ①	10,000	10,000	0	Note ④	1,094.45	/
Wu Changhai	Executive director	Male	53	2010-06-28	Note ①	13,000	13,000	0	Note ④	1,156.17	/
Chu Xiaoping	Independent non-executive director	Male	64	2014-01-28	Note ①	0	0	0	/	100.00	/
Jiang Wenqi	Independent non-executive director	Male	61	2016-03-17	Note ①	0	0	0	/	100.00	/
WONG Hin Wing	Independent non-executive director	Male	56	2017-06-23	Note ①	0	0	0	/	100.00	/
Wang Weihong	Independent non-executive director	Female	56	2017-06-23	Note ①	0	0	0	/	100.00	/
Xian Jiaxiong	Chairperson of the Supervisory Committee	Male	59	2014-01-28	Note ①	11,000	11,000	0	Note ④	/	998.47
Li Jinyun	Supervisor	Female	51	2016-09-07	Note ①	10,000	10,000	0	Note ④	/	968.31
Gao Yanzhu	Supervisor	Female	53	2017-06-23	Note ①	5,000	5,000	0	Note ④	556.26	/
Zhang Chunbo	Deputy general manager	Male	42	2015-01-12	Note ①	10,000	10,000	0	Note ④	1,146.24	/
Huang Xuezhen	Secretary to the Board	Female	45	2017-04-26	Note ①	2,500	2,500	0	Note ④	787.66	/
Total	/	/	/	/	/	246,000	246,000	0	/	5,140.78	6,844.24

Directors, Supervisors, Senior Management and Staff

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

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

Notes:

- ① Except for Mr. Li Hong whose term of office commenced from 22 June 2018 until members of new session of the board of directors are elected, the term of office of the members of the 7th session of the Board, Supervisory Committee and senior management commenced from 23 June 2017 up to the date on which members of new session of the Board and the Supervisory Committee are elected.
- ② The emoluments of Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong, Mr. Xian Jiaxiong and Ms. Li Jinyun for the Year were the emoluments they received from the Company's shareholder, which included the basic salary, bonus, allowance, subsidy, staff welfare benefits, insurance premiums, statutory surplus reserve, annuity as well as settlement of annual salary for the previous year, etc.
- ③ The emoluments of Mr. Li Hong, Mr. Wu Changhai, Mr. Zhang Chunbo, Mr. Chu Xiaoping, Mr. Jiang Wenqi, Mr. WONG Hin Wing, Ms. Wang Weihong, Ms. Gao Yanzhu and Ms. Huang Xuezhen for the Year were the emoluments they received from the Company, which included the basic salary, bonus, allowance, subsidy, staff welfare benefits, insurance premiums, statutory surplus reserve, annuity as well as settlement of annual salary for the previous year, etc.
- ④ Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Li Hong, Mr. Wu Changhai, Mr. Zhang Chunbo, Mr. Xian Jiaxiong, Ms. Li Jinyun, Ms. Gao Yanzhu and Ms. Huang Xuezhen had participated in the Stock Ownership Scheme.

(2) Equity incentives given to the Directors, supervisors and senior management

Applicable Not applicable

Directors, Supervisors, Senior Management and Staff

2. CHANGES IN INTERESTS AND EMOLUMENTS (Continued)

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

- (i) As at 31 December 2018, the directors, supervisors, 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
Wu Changhai	Beneficial Owner	Company (A shares)	13,000	0.0009
Li Hong	Beneficial Owner	Company (A shares) Tian Xin	10,000 5,000	0.0007 Note

Supervisors	Capacity	Company	Number of shares (long position) (share)	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

Note: In the table above, the shares of Tian Xin held by Mr. Li Hong are company shares, which are non-listed company shares, accounting for 0.01% of the shares of Tian Xin. The A shares of the Company held by the remaining directors and supervisors are held under the Employee Stock Ownership Scheme (2015).

Directors, Supervisors, Senior Management and Staff

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

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

- (ii) Saved as disclosed above, as at 31 December 2018, none of the directors, supervisors, chief executive 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.

3. POSITIONS HELD IN THE COMPANY'S SHAREHOLDER BY THE CURRENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND THOSE WHO DEPARTED DURING THE REPORTING PERIOD

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

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

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

Directors, Supervisors, Senior Management and Staff

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

At the 2017 Annual General Meeting of the Company held on 22 June 2018, Mr. Li Hong was elected as an 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 Rules of HKEx, the change in information of directors after the publication of the interim report of the Company for the six months ended 30 June 2018 is as follows:

Name of director	Details of change
Mr. WONG Hin Wing	Resigned as the independent non-executive director of China Agri-Products Exchange Limited on 30 November 2018.

6. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the existing directors and existing supervisors of the 7th session has entered into a service contract with the Company. Except for Mr. Li Hong, a executive director, the contract term commenced from 23 June 2017 up to the date on which members of the new session of the Board are elected.

The term of the contract in relation to Mr. Li Hong, an executive director, commenced from 22 June 2018 up to the date on which members of the 8th session of the Board are elected.

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

7. PERMITTED INDEMNITY

At no time during the Year and up to the date of this report, there was or is, any permitted indemnity provision being in force for the benefit of any of the Directors and the supervisors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

The Company has arranged appropriate Directors', supervisors' and senior management's liability insurance coverage for the Directors, Supervisors and senior management.

8. INTERESTS OF DIRECTORS AND SUPERVISORS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

9. PUNISHMENTS IMPOSED BY SECURITIES REGULATORY AUTHORITIES IN THE PAST THREE YEARS

Applicable Not applicable

Directors, Supervisors, Senior Management and Staff

10. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

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

11. EMPLOYEES OF THE GROUP

(1) Situation of the employees

Numbers of the employees of the parent company	2,392
Numbers of the employees of the major subsidiaries	20,739
	<hr/>
Total	23,131
Retired employees of the Company and major subsidiaries whose expenses were assumed by the Company and major subsidiaries	13,393
Gross payroll of the Group	RMB2.629 billion

Composition

Category constitution	a number of constitute staff
Production staff	4,396
Sales personnel	12,444
Technical staff	2,804
Finance staff	409
Administrative staff	3,078
	<hr/>
Total	23,131

Educational Level

	Number
Post Graduate	469
Undergraduate	6,557
University college	6,988
Secondary and below	9,117
	<hr/>
Total	23,131

Directors, Supervisors, Senior Management and Staff

11. EMPLOYEES OF THE GROUP *(Continued)*

(2) Remuneration policy

The remuneration of the employees of the Group included salaries, bonuses and other fringe benefits. The Group, in compliance with the relevant PRC laws and regulations, paid different rates of remuneration to different employees, based on the employees' performance, qualifications, position and other factors.

(3) Training plan

In view of staffs' career development needs, the Group improved the training organizational structure through preparing Staff Training Management System and Internal Lecturer Training Management Measures. By virtue of the characteristics of each type of talents, the Group combined the internal and external training to build a comprehensive training system, with personnel levels covering staff at all levels from frontline production to senior management of the Company, and including the contents such as professional skills, safety education, quality management and leadership development, so as to promote the growth of staff at all levels and enterprises.

Corporate Governance

1. CORPORATE GOVERNANCE AND INSIDERS REGISTRATION MANAGEMENT

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

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

During the Reporting Period, the Company complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules of HKEx (“CG Code”) and the code provisions of the CG Code except that (i) Mr. Ni Yidong, an executive Director, and Mr. Chu Xiaoping, an independent non-executive Director, were unable to attend the first extraordinary general meeting in 2018 due to business reasons which constituted deviation from code provision A.6.7, and (ii) Mr. Chen Mao, Ms. Liu Juyan, Mr. Ni Yidong and Mr. Wu Changhai, each an executive Director, Mr. Mr. WONG Hin Wing and Ms. Wang Weihong, each an independent non-executive Director, , were unable to attend the annual general meeting in 2017 due to business reason which constituted a deviation from code provision A.6.7.

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

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

The review of the business and financial position of the Company for 2018 is set out in the section headed “Report of the Board” in this annual report.

Corporate Governance

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

(1) *(Continued)*

The Board confirmed that it was responsible for risk management and internal control and was responsible for continuously reviewing the effectiveness of the risk management and internal control and overseeing management in the design, implementation and monitoring of the risk management and internal control system. The Audit Committee under the Board monitors the Company's risk management and internal control system to ensure that management has fulfilled its responsibilities to establish an effective system. The Audit Committee convened the second Audit Committee meeting of the Company on 15 March 2019 to review and approve the Company's 2018 internal control evaluation report. The Audit Committee (and the Board) are of the view that the internal control and risk management system of the Company is adequate and effective and the Company has complied with the provisions of the CG Code regarding internal control and risk management system, including:

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

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

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

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

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

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

Corporate Governance

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

(1) *(Continued)*

(v) Internal audit function

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

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

The Company performed review on its internal control and fulfillment of social obligations for year 2018 pursuant to the requirement of the “Notice on Proper Preparation of the 2018 Annual Report by Listed Companies” issue by the SSE. Accordingly, the Company prepared the “Self-assessment Report of the board of director of the Company on Internal Control for 2018” and the “Report on Performance of Social Responsibilities for 2018”, both of which were disclosed after being duly considered and approved at the Board meeting of the Company held on 15 March 2019.

(3) **Establishment and implementation of insider information management**

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

The Company has established satisfactory procedures to deal with inside information and satisfactory measures in relation to internal control. The Company has designated relevant departments to be in charge of the monitoring, managing, registering, disclosing and record-keeping of inside information on day-to-day basis. The supervisory committee of the Company is responsible for monitoring the implementation of the system regarding the registration and management system of the persons in possession of inside information, ensuring that the persons in possession of inside information are aware of their rights, obligations and legal liabilities, urging the relevant persons to strictly complying with the duty of confidentiality. The supervisory committee of the Company is determined to eradicate insider dealings.

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

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

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

Corporate Governance

2. SHAREHOLDERS AND GENERAL MEETINGS OF SHAREHOLDERS

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

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

- (i) Shareholders can convene the general meeting of shareholders on its own initiative, but shall send out a written notice to the Board, and shall submit the records to the branch of CSRC where the Company is located and the stock exchange.
- (ii) Prior to the announcement of the resolution of the general meeting of shareholders, the shareholdings of the shareholders convening the general meeting shall not be less than 10%. Upon the issue of the notice and the announcement of resolution of the general meeting of shareholders, the shareholders convening the general meeting shall submit the relevant documentary information to the branch of CSRC where the Company is located and the stock exchange.
- (iii) Shareholders to enjoy the rights of access to information, participation and decision on material matters as stipulated by law, administrative regulation and the Articles of Association.
- (iv) Where the Company convenes an annual general meeting of the shareholders, the shareholders with 3% or more of the total voting rights of the Company shall be entitled to put forth a new resolutions in writing to the Company. The Company shall dispatch supplemental notice of the general meeting within two days after receiving such proposal to announce the contents of such resolutions. Any matters contained in such resolutions which are within the terms of reference of the general meeting of the shareholders shall be included in the agenda of the meeting.

In accordance with the Shareholders Communication Policy of the Company, the shareholders of the Company have the following rights:

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

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

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

Corporate Governance

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

Information on the general meetings of the Company held during the Reporting Period is as follows:

Session and number of meeting	Date of meeting	Resolutions	Resolutions passed or not	Newspapers in which the resolutions were published	Disclosure date
First Extraordinary General Meeting in 2018	29 March 2018	(1) By ordinary resolutions: Resolution on the conformity of the significant transaction with the provisions of the relevant laws, regulations and policies; Resolution on the significant transaction not constituting a connected transaction; Resolution on the conformity of the significant transaction with Rule 4 of the Regulations on standardizing several issues concerning the significant transactions of listed companies; Resolution on the implementation of the legal procedures, compliance, and the validity of the submission of legal documents regarding the significant transaction; Resolution on the independence of the valuer, the reasonableness of the appraisal assumptions, the relevance between the appraisal method and the purposes of the appraisal and the opinions on the fairness of the appraised value; Resolution on confirmation of the Audit Report and the Valuation Report for the significant transaction; Resolution on the current earnings per share of the Company will not be diluted as a result of completion of the transaction in relation to the significant transaction; (2) By special resolutions: Resolution on the significant transaction proposal, the overall proposal for the significant transaction, the specific proposal for the significant transaction, the base date for valuation, transaction manner and counterparties, the valuation of the target assets, payment of the consideration for the acquisition, put options, the allocation arrangement of the profit and loss for the target assets from the base date for valuation to completion date, employees, compensation scheme for earnings forecast, validity period of the resolutions; Resolution on entering into the agreements relevant to the significant transaction; Resolution on the Report on the Material Acquisition of Assets of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and its summary; Resolution on granting full authority to the Board to deal with matters concerning the significant transaction.	Passed	Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報)	30 March 2018

Corporate Governance

2. SHAREHOLDERS AND GENERAL MEETINGS OF SHAREHOLDERS (Continued)

Session and number of meeting	Date of meeting	Resolutions	Resolutions passed or not	Newspapers in which the resolutions were published	Disclosure date
The annual general meeting in 2017	22 June 2018	(1) By ordinary resolutions: Report of the Board for year 2017; Report of the supervisory committee of the Company for year 2017; Financial report of the Company for year 2017; Auditors' report of the Company for year 2017; Proposal on profit distribution and dividend payment of the Company for year 2017; Proposal on the financial and operational targets and annual budget of the Company for year 2018; Resolutions on the emoluments to be paid to the directors of the Company for year 2018 (all directors); Resolutions on the emoluments to be paid to the supervisors of the Company for year 2018 (all supervisors); Resolution on the amounts of guarantees to be provided by the Company to secure bank loans for some of its subsidiaries; Resolution on the application by the Company for general banking facilities not exceeding RMB4 billion; Resolution on the entrusted borrowing and entrusted loans business between the Company and its subsidiaries; Resolution on the anticipated amounts of the ordinary and usual connected transactions for year 2018; Shareholders' Return Plan of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited for the three years from 2018 to 2020; Resolution on changing the usage of land on which the project of the construction of the Great Southern TCM research and development platform will be implemented; Resolution on the proposed cash management of part of the temporary idle proceeds from fund raising of the Company; Resolution on the proposed cash management of part of the temporary internal idle funds of the Company and its subsidiaries; Resolution on the appointment of Ruihua Certified Public Accountants as the auditor of the Company for year 2018; Resolution on the appointment of Ruihua Certified Public Accountants as the auditor for the internal control of the Company for year 2018; Resolution on amendments to the rules of procedures of the Board of Directors of the Company; Resolution on amendments to the rules of procedures of the Supervisory Committee of the Company; (2) By special resolutions: Resolution on granting general mandate to the Board for issuing new shares of the Company; Resolution on amendments to Articles of Association; Resolution on the election of Mr. Li Hong as an executive director of the Company and the emoluments to be paid to him for year 2018.	Passed	Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報)	23 June 2018

Corporate Governance

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

Relationship between the Controlling Shareholder and the Company

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

3. BOARD OF DIRECTORS

(1) Composition

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

The present Board is the seventh session since the establishment of the Company, and is comprised of 11 members, including Mr. Li Chuyuan(chairperson), Mr. Chen Mao (vice chairperson), Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong, Mr. Li Hong and Mr. Wu Changhai as executive directors, and Mr. Chu Xiaoping, Mr. Jiang Wenqi, Mr. WONG Hin Wing and Ms. Wang Weihong as independent non-executive directors. Mr. Li Hong has a term of office commenced from 22 June 2018 up to the date on which members of the new session of the Board are elected, each of other directors has a term of office commenced from 23 June 2017 up to the date on which the new session of the Board is elected.

The Board shall exercise the following powers:

- (A) convention of general meetings of shareholders, and report to the general meetings;
- (B) implementation of the resolutions of the general meeting;
- (C) formulation of the business plan and investment scheme of the Company;
- (D) formulation of the annual financial budget and financial accounting policy of the Company;
- (E) formulation of the profit distribution policy and loss recovery policy of the Company;
- (F) formulation of the policy of increase or reduction of registered capital and the policy of issue of corporate bonds of the Company;
- (G) drafting of the policies of material corporate acquisition, repurchase of the shares of the Company, or the proposals on merger, separation or dissolution of the Company;
- (H) making decision on the establishment of internal management system in the Company;
- (I) employment or dismissal of the general manager of the Company; based on the nominations given by the general manager, employ or dismiss the vice general managers, financial controller, other senior management personnel and secretary to the Board of the Company; and decide on their remuneration;

Corporate Governance

3. BOARD OF DIRECTORS *(Continued)*

(1) Composition *(Continued)*

- (J) formulation of the basic management system of the Company;
- (K) formulation of the proposal on amendments to the Articles of Association;
- (L) making decision on external guarantee which involves an amount of more than 10% (or 10%) of the net assets in the consolidated financial statements of the most recent fiscal year of the Company;
- (M) making decisions on matters such as external investment, acquisition and sale of assets, mortgaged assets, external guarantee, entrusted financial management and connected transaction, within the scope of authorization by the general meeting of shareholders;
- (N) management of disclosure of information of the Company;
- (O) proposing to the general meeting of shareholders on appointment or replacement of accounting firm responsible for auditing for the Company;
- (P) receiving the work report of the managers of the Company and checking the work of the managers;
- (Q) other powers granted by the Articles of Association and the general meetings of shareholders.

The Board shall exercise the above powers by holding meetings of the Board to consider the relevant matters and can implement only after the passing of the Board resolutions.

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

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

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

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

Corporate Governance

3. BOARD OF DIRECTORS *(Continued)*

(1) Composition *(Continued)*

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

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

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

(2) Board Meetings

In 2018, 13 Board meetings were held (of which 5 were physical meetings and 8 were meetings by way of written resolutions) to discuss the matters related to the transfer of GPLH's "Wang Lao Ji" series of trademarks to the Company as well as the investment projects, connected transactions and financial matters of the Group. The Board meetings had effective discussion and can make decisions which are serious and cautious.

Corporate Governance

3. BOARD OF DIRECTORS (Continued)

(2) Board Meetings (Continued)

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

Directors	Whether an independent director	Number of meetings that should attend	Participation of directors at Board meetings				Attendance of directors at Shareholders' meetings		
			Number of meetings participated in person	Number of meetings participated by way of communication (note)	Number of meetings participated by appointing a representative	Number of absence	Failure to participate two meetings in person consecutively	Number of general meetings that should have participated	Number of general meetings participated
Li Chuyuan	No	13	13	8	0	0	No	2	2
Chen Mao	No	13	12	8	1	0	No	2	1
Liu Juyan	No	13	13	8	0	0	No	2	1
Cheng Ning	No	13	13	8	0	0	No	2	2
Ni Yidong	No	13	12	8	1	0	No	2	0
Li Hong	No	8	8	5	0	0	No	1	1
Wu Changhai	No	13	13	9	0	0	No	1	1
Chu Xiaoping	Yes	13	12	11	1	0	No	2	1
Jiang Wenqi	Yes	13	12	10	1	0	No	2	2
WONG Hin Wing	Yes	13	13	10	0	0	No	2	1
Wang Weihong	Yes	13	13	10	0	0	No	2	1

Notes:

- A. Participation by way of communication deemed participation in person.
- B. Mr. Li Hong was elected as an executive director of the seventh session of the Board on 22 June 2018.

Corporate Governance

3. BOARD OF DIRECTORS *(Continued)*

(3) Independent non-executive directors

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

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

During the Reporting Period, the independent non-executive directors of the Company expressed no dissenting views to the Board resolutions and other matters not subject to the consideration of the Board.

The Board confirmed the receipt from each of the independent non-executive directors a confirmation letter in regards to his independence pursuant to Rule 3.13 of the Listing Rules of HKEx. The Board considered that the existing independent non-executive directors complied with the relevant guidance set out in Rule 3.13 of the Listing Rules of HKEx and still considered the existing independent non-executive directors to be independent.

Pursuant to the "Notice on preparation of the 2018 Annual Report by Listed Companies" issued by SSE on 28 December 2018, the independent non-executive directors studied the relevant requirements set out in the Notice seriously. The Company reported to the independent non-executive directors on production and operation issues and the progress of major events, and submitted an action plan in relation to the preparation of the 2018 annual report and auditing work and relevant information. After completion of the preliminary auditing work by the Company's accountants, the independent non-executive directors communicated with the auditors on issues related to the auditing process.

(4) Loan or guarantee for loan granted to Directors

During the Reporting Period, the Group had not made any loan or provided any guarantee for any loan, directly or indirectly, to the directors, supervisors and senior management of the Company, the Company's controlling shareholder or their respective connected persons.

Corporate Governance

4. COMMITTEES OF THE BOARD

(1) Audit Committee

In August 1999, the Company established the Audit Committee. Its principal responsibilities include: to review and monitor the quality and procedure of the Group's financial reporting; to review the completeness and effectiveness of the Company's internal control system; to consider the appointment of independent auditors and to co-ordinate and to review the efficiency and quality of their work.

The members of the Audit Committee of the seventh session of the Board comprised Mr. WONG Hin Wing (chairman of the Audit Committee), Mr. Chu Xiaoping, Mr. Jiang Wenqi and Ms. Wang Weihong. All four of them are independent non-executive Directors and are qualified under the relevant requirements. The term of office of each member commenced from 23 June 2017 up to the date on which members of the new session of the Board are elected.

Major tasks accomplished by the Audit Committee in year 2018 including:

- (A) held four meetings in 2018 and each of the members of the committee attended all the meetings, in which the members reviewed the 2017 Annual Report, 2018 Interim Report and financial reports of the Group as well as the recommendations on management issued by external auditors and the respective response by the Company's management.
- (B) reviewed the accounting policies adopted by the Group and the relevant issues regarding accounting practice;
- (C) reviewed the Company's internal control evaluation report for 2017 and audit risk control work plan for 2018.;
- (D) advised the Board regarding the re-appointment of auditing firm for the Year;
- (E) advised the Company on major events of the Company or reminding the management of relevant risks and reviewed the effectiveness of risk management and internal monitoring system.

Corporate Governance

4. COMMITTEES OF THE BOARD *(Continued)*

(1) Audit Committee *(Continued)*

The work on the annual audit for 2018 and relevant jobs regarding the preparation of the Annual Report are as follows:

In accordance with “the Notice on preparation of the 2018 Annual Report in an orderly manner by Listed Companies” issued by the SSE on 28 December 2018, all members of the Audit Committee reviewed the relevant requirements seriously. The Audit Committee actively coordinate with the Company in respect of the audit for 2018 and the preparation of the annual report for 2018 in accordance with the Rules on the Annual Report of the Audit Committee, including:

- 1) The Committee negotiated with the auditors of the Company and the Company’s Finance Department regarding the time line for audit and the relevant arrangements and set out the “Action plan for the Preparation of 2018 Annual Report” and reviewed the audit plan submitted by the auditors.
- 2) On 5 March 2019, the Audit Committee reviewed the draft of the financial reports prepared by the Company and issued written recommendations thereon.
- 3) After the auditors’ completion of the preliminary auditing work, the Audit Committee reviewed the financial reports again and issued written recommendations regarding the audit work. The Audit Committee believed that the 2018 financial reports of the Company reflected the state of affairs of the Company truly, accurately and fairly, and agreed to submit the reports to the Board for approval.
- 4) On 15 March 2019, the Audit Committee convened the second meeting in 2019 and considered and passed the 2018 Annual Report and its summary and the Company’s 2018 Financial Report. At the same time, the Audit Committee finalized its evaluation on the audit work of the auditor and believes that the auditor has carried out the audit work for the Company with cautious, independent and objective standards, and managed to abide by their professional work ethics, adhering the auditing regulations, fulfilled their auditing responsibilities and submitted the auditors’ report in time, as well as having issued fair and unbiased management recommendations to the management of the Company, and completed the audit work with satisfactory performance.

(2) Strategic Development and Investment Committee

In February 2001, the Company established the investment management committee, which was renamed as strategic development and investment committee as approved at the fourth Board meeting of the fourth session of the Board. Its principal responsibilities are to research and issue recommendations on the long-term strategic development and significant investment decisions of the Company and, with authorization from the Board, to examine and approve investment projects intended to be implemented by the Company.

The strategic development and investment committee of the seventh session of the Board comprised Mr. Li Chuyuan (chairperson of the committee), Mr. Chen Mao, Ms. Liu Juyan, Mr. Chu Xiaoping and Ms. Wang Weihong. The term of office of the aforementioned committee members commenced from the date of their appointments on 23 June 2017 up to the date on which members of the new session of the Board are elected.

During the Reporting Period, the strategic development and investment committee had held 7 meetings at which, among other things, acquisitions and establishments of subsidiaries by the Company’s subsidiaries, contribution of capital to the subsidiaries, the entering into trademarks license agreement(s) and trademarks custody supplemental agreement(s) among the Company, GPLH and the subsidiaries of the Company were considered and approved.

Corporate Governance

4. COMMITTEES OF THE BOARD *(Continued)*

(3) Nomination and Remuneration Committee

In February 2002, the Company established the Remuneration Committee, which was renamed as Nomination and Remuneration Committee as approved at the fourth Board meeting of the fourth session of the Board. Its principal responsibilities are to study and examine the remuneration policies and proposals of directors and senior management, to research on the selection standards and procedures of directors, general managers and other senior management and to provide recommendations, and to extensively look for qualified persons to be directors and senior management, to conduct examination on them and to provide recommendations, review the remuneration of directors and senior management and make recommendations to the Board.

The Nomination and Remuneration Committee of the seventh session of the Board comprised Mr. Chu Xiaoping (chairperson of the committee), Mr. Ni Yidong, Mr. Wu Changhai, Mr. Jiang Wenqi and Mr. WONG Hin Wing. The term of office of the aforementioned committee members commenced from the date of their appointments on 23 June 2017 up to the date on which members of the new session of the Board are elected.

During the Reporting Period, the Nomination and Remuneration Committee held four meetings to review the proposals on the emoluments of directors, supervisors and senior management of the Company for year 2017, the proposals for the emoluments of the directors of the Company for year 2018, the proposal for the nomination of director candidates for the seventh session of the Board, the administrative measures for the emoluments and performance appraisal of senior management of the Company and the cashing proposal for the senior management's emoluments in 2018. All of the committee members had attended the meetings.

The Company has adopted the CG Code and the Nomination and Remuneration Committee has been appointed to make recommendations regarding remunerations of executive directors and senior management of the Company to the Board.

The Company has formulated the Diversified Policy for the Board Members, which was approved at the Board meeting held on 26 September 2013 and has been implemented. Pursuant to the Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service. The Board will consider to set measurable objectives to implement the Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

Corporate Governance

4. COMMITTEES OF THE BOARD *(Continued)*

(4) Budget Committee

In October 2007, the Company established the Budget Committee as approved at the 4th meeting of the fourth session of the Board. Its principal responsibilities are to provide guidance on the formulation of the budgeting plans and business objectives of the Company for the year and to supervise and inspect their implementations.

The Budget Committee of the seventh session of the Board comprised Ms. Wang Weihong (the chairperson of the Committee), Ms. Cheng Ning, Mr. Wu Changhai, Mr. Jiang Wenqi and Mr. WONG Hin Wing. The term of office of the aforementioned committee members commenced from the date of their appointments on 23 June 2017 up to the date on which members of the new session of the Board are elected.

During the Reporting Period, the Budget Committee held one meeting. The proposals on the annual business objectives and budget for year 2018 were approved at the meeting. All of the committee members had attended the meetings.

(5) **The special committees of the board did not give important opinions or suggestions during the Reporting Period when performing their duties.**

5. SUPERVISORY COMMITTEE

(1) During the Reporting Period, the Supervisory Committee monitored the procedures for convening shareholders' meetings and Board meetings and the resolutions proposed to be considered thereat, as well as the implementation by the Board of the resolutions passed at the shareholders' meetings and has no dissenting view on any reports and proposals submitted by the Board at shareholders' meetings. The Supervisory Committee considered that during the Reporting Period the operations conducted by the Company were in compliance with the Companies Law, the Securities Law, the respective Listing Rules governing the securities exchanges in the PRC and in Hong Kong, the Articles of Association and other relevant laws and regulations, and the Company has implemented the resolutions of the shareholders' meetings of the Company diligently, continued to enhance the internal management and internal control systems of the Company and has established a good internal management system. The Company's directors and senior management have not committed any acts in breach of the rules and regulations, the Articles of Association, nor have they engaged in any acts involving the infringement of the Company's interest or infringement of shareholder's interests.

(2) During the Reporting Period, the Supervisory Committee held seven meetings, all supervisors had attended the meetings.

(3) The Supervisory Committee has carefully reviewed the financial statements and other financial information of the Company during the Reporting Period, and considered that the Company's financial statements were fairly presented, the auditing and financial management were in line with the relevant regulations and had not discovered any issues. The auditor issued their standard and unqualified auditor's reports after auditing the accounts of the Group and the Company for year 2018, which reflected an objective, true and fair view of the financial status and the operations results of the Company.

(4) The Supervisory Committee monitored and inspected the connected transactions of the Company, and was of the opinion that: the connected transactions of the Company satisfied the development strategy and actual needs of the Company; the connected transactions were reasonable and necessary; the decision-making procedures in respect of connected transactions complied with the relevant laws and regulations and the provisions of the Articles of Association; and the interests of the Company and its minority shareholders were not prejudiced.

Corporate Governance

5. SUPERVISORY COMMITTEE *(Continued)*

- (5) The Supervisory Committee expressed no dissent to the matters subject to their supervision during the Reporting Period.

6. SEPARATION OF BUSINESS, HUMAN RESOURCES, ASSETS, ORGANIZATION AND FINANCIAL ARRANGEMENT FROM THE CONTROLLING SHAREHOLDER

- (1) Separation of business: the Company operates with its own autonomy and integrated business structure and is independent from its controlling shareholder.
- (2) Human resources: the Company maintains independence in the areas of staffing, personnel and payroll management.
- (3) Assets: the Group has an independent production system, a supplementary production system and related facilities. It also has its own independent purchases and sales systems. The Company itself owned 1,260 registered trademarks which are all within validity periods.
- (4) Independence of organization: there was no combustion of operation return the Company and its controller shareholder. The Company has its own independent and comprehensive organizational structure. The Board, the Supervisory Committee and other departments operate independently. Further, the Company has independent decision-making mechanisms and complete production units. No supervisory or reporting relationships existed between the functional departments of the Company and the controlling shareholder of the Company.
- (5) Finance: the Company has established an independent finance department, an independent accounting system and an independent financial management policy. The Company has maintained separate bank accounts and paid tax independently.

7. THE ESTABLISHMENT AND IMPLEMENTATION OF ASSESSMENT MECHANISM AND INCENTIVE MECHANISM FOR THE SENIOR MANAGEMENT OFFICERS DURING THE REPORTING PERIOD

The Company has established the performance assessment mechanism in respect of the senior management officers and thus can assess the performance of the senior management officers according to the formulated assessment scheme on an annual basis. At present, the Company is actively exploring relevant proposals regarding the incentive mechanisms, and will facilitate share incentive plans at the appropriate time so as to improve and complete the mechanism and to mobilize the enthusiasm and initiatives of the management officers at the medium and senior levels and business backbones to the greatest extent, and to arouse their creativity for purposes of generating greater return to the Company and its shareholders.

Corporate Governance

8. WHETHER TO DISCLOSE THE SELF-ASSESSMENT ON INTERNAL CONTROL

Applicable Not applicable

The Board performed a self-assessment on internal control for the Year and formulated the Self-assessment Report on Internal Control (full version is available on the website of the SSE) in accordance with the requirements of the “Notice on preparation of the 2018 Annual Report in an orderly manner by Listed Companies” issued by SSE on 28 December 2018.

Explanation on significant defects in internal control that were found during the Reporting Period

Applicable Not applicable

9. AUDIT REPORT ON THE INTERNAL CONTROL

- (1) The assessment opinion of the audit firm: Ruihua Certified Public Accountants LLP considered that as at 31 December 2018, the Group has maintained effective internal control in its financial reporting in all material aspects pursuant to the “Guidelines for Internal Control Standards” and relevant regulations.
- (2) Ruihua Certified Public Accountants LLP has verified and evaluated the Group’s internal control for the Year (full version is available on the website of the SSE).

Whether to disclose the audit report on internal control: Yes

10. DIRECTORS’ RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibilities to prepare the financial statements which give a true and fair view of the state of affairs of the Group and of the loss and cash flows position of the Group for the Year and which are in compliance with statutory requirements and other regulatory requirements. As at 31 December 2018, the Board was not aware of any material misstatement or uncertainties that might cast doubt on the Group’s financial position or ability to continue as a going concern. The Board endeavors to ensure a balanced, clear and understandable assessment of the Group’s performance, position and prospects in financial reporting. The statement of the Auditors regarding their reporting responsibility for the financial statements is set out in the Independent Auditors’ Report on pages 177 to 184 of this annual report. There are no material uncertainties relating to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern.

Corporate Governance

11. OTHERS

(1) Other stakeholders

The Company respected and safeguarded the interests of the stakeholders and realized the balance of interests among the shareholders, employees and the society. At the same time, the Company also pays attention on, among other things environmental protection, public welfare and to mutually promote the sustainable and sound development of the Company in economic activities.

(2) Information on the disclosure and management of relationship with investors

The Company delegated the secretary to the Board to be responsible for handling the Company's information disclosure, receive shareholders and investors and answering enquiries from shareholders and investors and responding to correspondence from shareholders in a timely manner. The Company has designated Shanghai Securities News, Securities Times, China Securities Journal and China Securities News in the PRC as newspapers for publishing the Company's information and disclose such at the websites designated by the SSE and the HKEx and the Company's website. The Company continues to disclose information in a truthful, accurate, comprehensive and timely manner in strict compliance with the relevant rules and regulations and the Code of Information Disclosure of the Company, and make preserve confidentiality before disclosure. The Company also ensures that all shareholders have fair and equitable access to information relating to the Company.

Relevant Information of Company's Bonds

THE COMPANY DID NOT HAVE ANY BONDS DURING THE REPORTING PERIOD.

Auditor's Report



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RHSZ [2019] No. 44010002

To the Shareholders of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd., :

1. OPINION

We have audited the financial statements of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (hereafter, the "Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated and the company's balance sheets as at 31 December 2018, the consolidated and the company's income statements, the consolidated and the company's statements of cash flows and the consolidated and the company's statements of changes in shareholders' equity for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises in all material aspects and present fairly the consolidated and the Company's financial position as at 31 December 2018 and the consolidated and the Company's financial performance and cash flows for the year then ended.

2. BASIS FOR OPINION

We conducted our audit in accordance with *China Standards on Auditing for Certified Public Accountants*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with China Code of Ethics for Certified Public Accountants ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the following matters as key audit matters that need to be communicated in the audit report.

Auditor's Report



通讯地址：北京市东城区永定门西滨河路 8 号院 7 号楼中海地产广场西塔 9 层

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RHSZ [2019] No. 44010002

3. KEY AUDIT MATTERS *(Continued)*

(1) Business combination not involving enterprise under the common control

a. Description

Please refer to Notes IV. 4 Accounting measurements for business combination under or not under common control and Notes VII. 1 Business combination not involving enterprise under the common control for further information.

As on 31 May 2018, the equity-holding ratio of Baiyunshan in Guangzhou Pharmaceuticals Corporation (hereinafter, the "GP Corp."), which was a joint venture originally, reached 80.00% and gained the right to control after purchasing 30% equity interests of GP Corp. This transaction forms business combination not involving enterprise under the common control. As at the acquisition date, the difference between the cost paid by Baiyunshan for the business combination and the fair value of the net identifiable assets of the GP Corp. acquired in the business combination was recognized as goodwill of RMB932 million. The 50% equity interests of GP Corp. originally held by Baiyunshan was re-measured according to the fair value at the acquisition date and was recognized as income from investment of RMB826 million.

As on 11 September 2018, Baiyunshan acquired 48.0465% equity interests of Guangzhou Wanglaoji Pharmaceutical Co., Ltd. (hereinafter referred to as "Wang Lao Ji"), the original joint venture, according to the arbitration institution's and the court's rulings. After the acquisition, the equity-holding ratio of Baiyunshan in Wang Lao Ji reached 96.093%. Baiyunshan gained the right to control, which formed a business combination not under the common control. As at the acquisition date, the difference between the business combination cost of Baiyunshan and the fair value of the net identifiable assets of Wang Lao Ji acquired in the business combination was recognized as non-operating income of RMB126 million. The 48.0465% equity interests of Wang Lao Ji originally held by Baiyunshan was re-measured according to the fair value at the acquisition date and was recognized as income from investment of RMB45 million.

The two transactions concerning business combination not involving enterprise under the common control mentioned above have significant impacts on the profit in the financial statements for the current year. Due to the fact that the identification of the acquisition date, the determination of the combination cost, the income from investment through re-measurement in the equity originally held at fair value, the determination of the fair value on the acquisition date, the calculation of the goodwill, the analysis of the control rights and the accounting treatment for the combination all involve the management's estimation and judgment, the matter described above has been identified as a key audit matter.

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RHSZ [2019] No. 44010002

3. KEY AUDIT MATTERS *(Continued)*

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

b. How our audit addressed the key audit matter

- ① By checking the conditions for the entry into force of the investment agreement, the resolutions, relevant legal documents, and the payment conditions of the combination price, etc., we performed assessment on whether the judgement of Baiyunshan on the evaluation of the date from which Baiyunshan actually controls the acquirer's business decision and enjoys the corresponding gains and carries the corresponding risks is appropriate or not.
- ② We assessed the objectivity and professional competence of unrelated appraisal agencies engaged by the management.
- ③ We reviewed the rationality of the methods, assumptions and estimates adopted in the fair value assessment of the identifiable assets and liabilities of the acquirer on the acquisition date.
- ④ We performed reasonable test on the fair value of the equity at the acquisition date which the acquiree held before the acquisition date.
- ⑤ We reviewed whether the calculation of goodwill adopted by Baiyunshan and the accounting treatment of business combination are in compliance with the requirements of the Accounting Standards for Business Enterprises.
- ⑥ We reviewed the adequacy of the above business combination disclosed in the financial statements.

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3. KEY AUDIT MATTERS (Continued)

(2) Goodwill Impairment

a. Description

Please refer to Notes IV. 21 Long-term Assets Impairment and Notes VI. 15 Goodwill for further information.

As at 31 May 2018, Baiyunshan acquired 30.00% shareholding of Guangzhou Pharmaceuticals Corporation (hereinafter, the "GP Corp."), which forms business combination not involving enterprise under the common control. As at the acquisition date, the difference between the cost paid by Baiyunshan for the business combination and the fair value of the net identifiable assets of the acquiree acquired in the business combination was recognized as goodwill of RMB932 million.

In recent years, due to the operating environment for the pharmaceutical companies and the changes in national medical policies, the growth rate of the sales of pharmaceutical companies is declining, and the goodwill mentioned above has risks of impairment.

The management considers the GP Corp. as an independent cash-generating unit and engaged an independent appraiser to evaluate the fair value of the GP Corp. in order to assist the management in the impairment test of the goodwill of GP Corp. The impairment assessment involves the determination of valuation parameters such as the discount rate and the assumptions about the operating and financial conditions for the coming years, including the revenue growth rates and gross profit rates for the coming years.

Due to that the goodwill impairment of GP Corp. has significant impacts on the financial statements, and the reasonableness of the above judgments and assumptions has significant impacts on the results of the goodwill impairment test, the matter described above has been identified as a key audit matter.

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3. KEY AUDIT MATTERS *(Continued)*

(2) Goodwill Impairment *(Continued)*

b. How our audit addressed the Key Audit Matter

- ① We gained an understanding of, and assessed the design and operational effectiveness of key internal controls over goodwill.
- ② We gained an understanding of the completion of the acquiree's performance forecast for the goodwill forming through business combination under common control.
- ③ We discussed with the management on the method of goodwill impairment test, including the asset group or asset group portfolio related to goodwill, the rationality of the assumptions adopted in the future income forecast and cash flow discount rate for each asset group or asset group portfolio, and the judgment and evaluation of the profitability of each asset group or asset group portfolio.
- ④ We assessed the objectivity, independence and professional competence of valuation experts engaged by the management.
- ⑤ We obtained the valuation report on goodwill impairment testing, communicated with the valuation experts and assessed the reasonableness of the valuation method and underlying assumptions adopted in the impairment test of goodwill as well as the appropriateness of the valuation method.
- ⑥ With the assistance of our internal valuation experts, we assessed the appropriateness of the valuation method adopted by the management as well as the reasonableness of the key assumptions and judgements used in the valuation of goodwill. We also reviewed the calculation and the results.

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4. OTHER INFORMATION

The Management of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. is responsible for the other information. The other information comprises the information included in the 2018 annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

5. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Management of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (hereinafter referred to as "the Management") is responsible for the preparation of the financial statements that give a true and fair view in accordance with *Accounting Standard for Business Enterprises*, and designing, implementing and maintaining internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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6. AUDITOR'S RESPONSIBILITY

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- 1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- 3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 4) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- 5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 6) Obtain adequate and appropriate audit evidence on the financial information of entities or business activities of the company to express an opinion on it. We are responsible for guiding, supervising and executing group audits. We take full responsibility for the audit opinion.

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6. AUDITOR'S RESPONSIBILITY *(Continued)*

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ruihua Certified Public Accountants
(Special General Partnership)

Beijing, China

Chinese Certified Public Accountant
(The engagement partner on the audit):
Xiaojuan He

Chinese Certified Public Accountant:
Jing Wen

15 March 2019

English translation for reference only. Should there be any inconsistency between the Chinese and English versions, the Chinese version shall prevail.

Consolidated Balance Sheet

For the year ended 31 December 2018
(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Item	Notes	31 December 2018	1 January 2018	31 December 2017
Current assets:				
Cash at bank and on hand	VI.1	16,114,883,673.51	11,697,218,882.84	11,697,218,882.84
Financial assets held for trading				
Financial assets measured at fair value through profit or loss for the current period				4,875,057.73
Derivative financial assets				
Notes receivable and accounts receivable	VI.2	13,653,056,156.35	2,816,424,481.59	2,816,424,481.59
Including: Notes receivable		2,780,597,684.01	1,702,655,475.08	1,702,655,475.08
Accounts receivable		10,872,458,472.34	1,113,769,006.51	1,113,769,006.51
Advances to suppliers	VI.3	837,808,116.68	256,571,758.01	256,571,758.01
Other receivables	VI.4	1,056,551,186.68	762,257,361.98	762,257,361.98
Including: Interests receivable		1,367,876.63		
Dividends receivable		40,036,044.47	552,938,523.45	552,938,523.45
Inventories	VI.5	9,231,739,097.84	3,700,222,896.01	3,700,222,896.01
Contract assets				
Assets held for sale				
Current portion of non-current assets				
Other current assets	VI.6	2,137,248,054.33	2,266,983,406.82	2,266,983,406.82
Total current assets		43,031,286,285.39	21,499,678,787.25	21,504,553,844.98
Non-current assets:				
Debt investments				
Available-for-sale financial assets				1,038,859,674.96
Other debt investments				
Hold-to-maturity investments				
Long-term receivables				
Long-term equity investments	VI.7	1,759,958,035.39	2,008,481,257.05	2,008,481,257.05
Other equity instrument investments	VI.8	84,897,870.89	62,686,231.77	
Other non-current financial assets	VI.9	226,938,456.16	975,856,856.18	
Investment properties	VI.10	228,084,499.83	217,675,779.38	217,675,779.38
Fixed assets	VI.11	3,165,746,536.73	2,082,244,551.64	2,082,244,551.64
Construction in progress	VI.12	480,305,723.50	284,672,127.45	284,672,127.45
Bearer biological assets				
Oil and gas assets				
Intangible assets	VI.13	1,013,353,424.62	728,009,270.29	728,009,270.29
Development expenditure	VI.14		800,000.00	800,000.00
Goodwill	VI.15	825,573,066.90	11,499,562.74	11,499,562.74
Long-term prepaid expenses	VI.16	94,315,140.82	49,066,645.52	49,066,645.52
Deferred tax assets	VI.17	569,144,829.25	389,629,486.02	388,850,739.31
Other non-current assets	VI.18	2,580,000.00		
Total non-current assets		8,450,897,584.09	6,810,621,768.04	6,810,159,608.34
Total Assets		51,482,183,869.48	28,310,300,555.29	28,314,713,453.32

Consolidated Balance Sheet

For the year ended 31 December 2018
(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Item	Notes	31 December 2018	1 January 2018	31 December 2017
Current liabilities:				
Short-term borrowings	VI.20	5,905,703,286.10	11,500,000.00	11,500,000.00
Financial liabilities held for trading				
Financial liabilities measured at fair value through profit or loss for the current period				
Derivative financial liabilities				
Notes payable and accounts payable	VI.21	11,969,454,162.81	3,054,427,081.10	3,054,427,081.10
Advances from customers				1,888,892,476.97
Employee benefits payable	VI.22	753,034,630.86	631,170,810.62	631,170,810.62
Taxes payable	VI.23	963,543,253.64	480,916,539.41	206,462,076.94
Other payables	VI.24	3,466,357,353.39	2,445,094,461.69	2,445,094,461.69
Including: Interests payable		41,637,538.72	253,966.40	253,966.40
Dividends payable		65,917,238.98	45,446,017.79	45,446,017.79
Contract liabilities	VI.25	3,686,647,223.24	1,614,438,014.50	
Liabilities held for sale				
Current portion of non-current liabilities	VI.26	204,024,196.93	31,307,337.23	31,307,337.23
Other current liabilities				
Total current liabilities		26,948,764,106.97	8,268,854,244.55	8,268,854,244.55
Non-current liabilities:				
Long-term borrowings	VI.27	413,553,706.06		
Bonds payable				
Including: Preferred stock				
Perpetual bond				
Long-term payables	VI.28	135,795,848.74	35,126,665.12	35,126,665.12
Long-term employee benefits payable	VI.29	325,325.54	326,532.02	326,532.02
Provisions	VI.30	49,601,312.48	55,348,585.32	55,348,585.32
Deferred income	VI.31	490,423,604.73	526,890,368.97	526,890,368.97
Deferred tax liabilities		249,762,210.96	114,788,264.17	114,788,264.17
Other non-current liabilities	VI.32	50,225,000.00	50,225,000.00	50,225,000.00
Total non-current liabilities		1,389,687,008.51	782,705,415.60	782,705,415.60
Total Liabilities		28,338,451,115.48	9,051,559,660.15	9,051,559,660.15

Consolidated Balance Sheet

For the year ended 31 December 2018
(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Item	Notes	31 December 2018	1 January 2018	31 December 2017
Shareholders' equity:				
Share capital	VI.33	1,625,790,949.00	1,625,790,949.00	1,625,790,949.00
Other equity instruments Including: Preferred stock Perpetual bond				
Capital surplus	VI.34	9,865,084,049.39	9,875,177,958.43	9,875,177,958.43
Less: Treasury shares				
Other comprehensive income	VI.35	(477,139.10)	(6,818,831.78)	(70,206,938.27)
Special reserve				
Surplus reserve	VI.36	1,368,735,157.63	1,154,762,193.41	1,154,762,193.41
General risk provision				
Undistributed profits	VI.37	8,825,776,191.86	6,218,195,404.57	6,285,996,409.09
Total equity attributable to shareholders of the parent company		21,684,909,208.78	18,867,107,673.63	18,871,520,571.66
Minority interest	VI.38	1,458,823,545.22	391,633,221.51	391,633,221.51
Total Shareholders' Equity		23,143,732,754.00	19,258,740,895.14	19,263,153,793.17
Total Liabilities and Shareholders' Equity		51,482,183,869.48	28,310,300,555.29	28,314,713,453.32

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Consolidated Income Statement

For the year ended 31 December 2018
(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Item	Notes	2018	2017
I. Total operating income		42,233,838,051.12	20,954,225,189.53
Including: operating income	VI.39	42,233,838,051.12	20,954,225,189.53
II. Total operating costs		39,981,592,391.48	18,942,241,683.16
Including: Operating cost	VI.39	32,164,391,714.16	13,063,229,348.28
Taxes and surcharges	VI.40	262,959,874.17	204,088,804.03
Selling and distribution expenses	VI.41	5,056,820,914.13	4,285,949,353.46
General and administrative expenses	VI.42	1,699,062,484.22	1,206,294,987.22
R&D expenses	VI.43	585,497,705.00	373,287,521.71
Financial expenses	VI.44	(6,654,528.43)	(210,571,299.44)
Including: Interest expense		222,800,930.26	1,364,023.09
Interest income		262,003,043.18	218,821,732.64
Impairment losses in respect of assets	VI.45	180,187,389.00	19,962,967.90
Impairment losses in respect of credit	VI.46	39,326,839.23	
Add: Other income	VI.47	196,111,096.12	111,775,896.26
Investment income ("-" for loss)	VI.48	1,271,314,318.61	338,362,629.19
Including: Income from investments in associates and joint ventures		317,196,606.84	281,264,687.40
Gains on hedging of net exposure ("-" for loss)			
Gains from changes in fair value ("-" for loss)	VI.49	115,575,352.23	(1,151,066.21)
Gains on disposal of assets ("-" for loss)	VI.50	707,312.22	
III. Operating profit ("-" for loss)		3,835,953,738.82	2,460,970,965.61
Add: Non-operating income	VI.51	197,572,883.49	76,504,148.53
Less: Non-operating expenses	VI.52	14,796,366.69	44,498,977.44
IV. Total profit ("-" for loss)		4,018,730,255.62	2,492,976,136.70
Less: Income tax expenses	VI.53	485,014,019.72	374,220,515.80
V. Net profit ("-" for net loss)		3,533,716,235.90	2,118,755,620.90
(I) Classified by the continuity of operations			
1. Net profit from continuing operations ("-" for loss)		3,533,716,235.90	2,118,755,620.90
2. Net profit from discontinued operation ("-" for loss)			
(II) Classified by ownership of the equity			
1. Net profit attributable to the parent company's shareholders ("-" for loss)		3,440,980,103.08	2,061,651,929.01
2. Minority interest ("-" for loss)		92,736,132.82	57,103,691.89

Consolidated Income Statement

For the year ended 31 December 2018
(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Item	Notes	2018	2017
VI. Other comprehensive income, net of tax		6,341,692.68	(79,988,438.72)
Other comprehensive income, net of tax attributable to the parent company's shareholders		6,341,692.68	(79,995,005.24)
(1) Other comprehensive income that will not be reclassified to profit or loss		(2,452,981.75)	
1. Changes arising from the remeasurement of defined benefit obligation			
2. Other comprehensive income that will not be reclassified to profit or loss under equity method			
3. Change in fair value of other equity instrument investments	VI.54	(2,452,981.75)	
4. Change in fair value of the company's own credit risk			
5. Others			
(2) Other comprehensive income that may be reclassified into profit or loss		8,794,674.43	(79,995,005.24)
1. Other comprehensive income that may be reclassified to profit or loss under equity method	VI.54	(187,789.97)	20,429.81
2. Change in fair value of other debt investments			
3. Gains and losses arising from changes in fair value of available-for-sale financial assets			(75,775,613.41)
4. The amount of financial assets reclassified into other comprehensive income			
5. Gains and losses arising from reclassification of held-to-maturity investments to available-for-sale financial assets			
6. Provision for credit loss of other debt investments			
7. Cash flow hedge reserve			
8. Difference arising from the translation of foreign currency financial statements	VI.54	8,982,464.40	(4,239,821.64)
9. Others			
Other comprehensive income, net of tax attributable to minority shareholders			6,566.52
VII. Total comprehensive income		3,540,057,928.58	2,038,767,182.18
Total comprehensive income attributable to shareholders of the parent company		3,447,321,795.76	1,981,656,923.77
Total comprehensive income attributable to minority shareholders		92,736,132.82	57,110,258.41
VIII. Earnings per share (EPS):			
1. Basic earnings per share		2.116	1.268
2. Diluted earnings per share		2.116	1.268

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Consolidated Statement of Cash Flows

For the year ended 31 December 2018
(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Item	Notes	2018	2017
I. Cash flows from operating activities:			
Cash receipts from the sale of goods and the rendering of services		39,384,103,795.47	16,326,273,474.22
Receipts of taxes refunds		7,932,907.74	7,908,303.56
Other cash receipts relating to operating activities	VI.55	909,372,523.49	604,730,654.18
Subtotal of cash inflows from operating activities		40,301,409,226.70	16,938,912,431.96
Cash payments for goods purchased and services received		26,366,733,560.32	6,961,089,578.68
Cash payments to and on behalf of employees		4,022,127,065.94	3,232,065,014.82
Payments of all types of taxes		2,166,052,074.92	2,015,932,378.60
Other cash payments relating to operating activities	VI.55	2,529,608,039.65	2,896,134,734.29
Subtotal of cash outflows from operating activities		35,084,520,740.83	15,105,221,706.39
Net cash flows from operating activities		5,216,888,485.87	1,833,690,725.57
II. Cash flows from investing activities:			
Cash receipts from returns of investments		3,602,960,010.48	2,478,600,000.00
Cash receipts from returns on investments		211,867,530.96	124,472,745.99
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		1,496,785.04	849,586.97
Net cash receipts from the disposals of subsidiaries and other business units			
Other cash receipts relating to investing activities	VI.55	944,043,450.77	650,078.98
Subtotal of cash inflows from investment activities		4,760,367,777.25	2,604,572,411.94
Cash payments to acquire and construct fixed assets, intangible assets and other long-term assets		478,616,540.38	196,771,378.84
Cash payments to acquire investments		3,171,871,377.62	4,848,444,730.66
Net cash payments for acquisitions of subsidiaries and other business units	VI.56		
Other cash payments relating to investing activities	VI.55	161,611.03	
Subtotal of cash outflows from investment activities		3,650,649,529.03	5,045,216,109.50
Net cash flows from investing activities		1,109,718,248.22	(2,440,643,697.56)

Consolidated Statement of Cash Flows

For the year ended 31 December 2018
(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Item	Notes	2018	2017
III. Cash flows from financing activities:			
Cash receipts from investors making investment in the enterprise		257,980,000.00	14,220,000.00
Including: cash receipts from minorities making investment in subsidiaries		257,980,000.00	14,220,000.00
Cash receipts from borrowing		2,101,109,217.75	18,248,638.00
Cash receipts from issue of bonds			
Other cash receipts relating to financing activities	VI.55	958,871,915.99	
Subtotal of cash inflows from financing activities		3,317,961,133.74	32,468,638.00
Cash repayments of amounts borrowed		3,570,995,757.97	31,964,062.88
Cash payments for distribution of dividends, profits or interest expenses		1,352,569,070.75	484,778,265.87
Including: payments for distribution of dividends or profit to minorities of subsidiaries		482,010,418.40	21,138,212.43
Other cash payments relating to financing activities	VI.55	1,145,733,010.36	
Subtotal of cash outflows from financing activities		6,069,297,839.08	516,742,328.75
Net cash flows from financing activities		(2,751,336,705.34)	(484,273,690.75)
IV. Effect of foreign exchange rate changes on cash and cash equivalents		807,009.93	292,035.93
V. Net increase in cash and cash equivalents	VI.56	3,576,077,038.68	(1,090,934,626.81)
Add: opening balance of cash and cash equivalents	VI.56	11,495,535,159.70	12,586,469,786.51
VI. Closing balance of cash and cash equivalents	VI.56	15,071,612,198.38	11,495,535,159.70

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2018
(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Item	2018													
	Equity attributable to the Shareholders of Parent Company													Total shareholders' equity
	Other equity instruments				Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Subtotal	Minority interests	
Share Capital	Preferred stock	Perpetual bond	Others											
I. Balance at 31 December 2017	1,625,790,949.00				9,875,177,858.43		(70,206,938.27)		1,154,762,193.41		6,285,996,409.09	18,871,520,571.66	391,633,221.51	19,263,153,793.17
Add: Changes in accounting policies							63,389,106.49				(67,801,004.52)	(4,412,898.03)		(4,412,898.03)
Correction of prior year's errors														
Combination of businesses under common control														
Others														
II. Balance at 1 January 2018	1,625,790,949.00				9,875,177,858.43		(6,818,831.78)		1,154,762,193.41		6,218,195,404.57	18,867,107,673.63	391,633,221.51	19,258,740,895.14
III. Increase/(decrease) in the current year ("+" for losses)					(10,093,909.04)		6,341,692.68		213,972,964.22		2,607,580,787.29	2,817,801,535.15	1,067,190,323.71	3,894,991,858.86
(1) Total comprehensive income							6,341,692.68				3,440,980,103.08	3,447,321,795.76	92,736,152.82	3,540,057,928.58
(2) Shareholders' contributions and reduction in capital					(10,093,909.04)							(10,093,909.04)	1,028,886,989.92	1,018,793,080.88
1. Capital contribution from owners													17,050,000.00	17,050,000.00
2. Capital contribution from other equity instruments holders														
3. Share-based payment recognized in shareholders' equity														
4. Others					(10,093,909.04)							(10,093,909.04)	1,011,836,989.92	1,001,743,080.88
(3) Profit distribution									213,972,964.22		(833,399,315.79)	(619,426,351.57)	(54,432,799.03)	(673,859,150.60)
1. Appropriation to surplus reserve									213,972,964.22		(213,972,964.22)			
2. Appropriation to general risk reserve														
3. Profit distribution to shareholders												(619,426,351.57)	(619,426,351.57)	(673,859,150.60)
4. Others														
(4) Internal carry-forward of shareholders' equity														
1. Transfer from capital reserve to capital (or share capital)														
2. Transfer from surplus reserve to capital (or share capital)														
3. Surplus reserve used to offset accumulated losses														
4. Transfer from changes in defined benefit obligation to retained earnings														
5. Transfer from other comprehensive income to retained earnings														
6. Others														
(5) Special reserve														
1. Current appropriation														
2. Current utilization														
(6) Others														
IV. Balance at 31 December 2018	1,625,790,949.00				9,865,084,049.39		(477,139.10)		1,368,735,157.63		8,825,776,191.86	21,694,909,208.78	1,458,823,545.22	23,143,732,754.00

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2018
(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Item	2017												Total shareholders' equity	
	Equity attributable to the Shareholders of Parent Company											Minority interests		
	Other equity instruments				Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profit			Subtotal
Share Capital	Preferred stock	Perpetual bond	Others											
I. Balance at 31 December 2016	1,625,790,949.00				9,875,172,584.68		9,788,066.97		1,052,034,418.97		4,782,293,720.24	17,345,079,739.86	308,710,708.41	17,653,790,448.27
Add: Changes in accounting policies														
Correction of prior year's errors														
Combination of businesses under common control														
Others														
II. Balance at 1 January 2017	1,625,790,949.00				9,875,172,584.68		9,788,066.97		1,052,034,418.97		4,782,293,720.24	17,345,079,739.86	308,710,708.41	17,653,790,448.27
III. Increase/(decrease) in the current year (* for losses)					5,373.75		(79,995,005.24)		102,727,774.44		1,503,702,688.85	1,526,440,831.80	82,922,513.10	1,619,363,344.90
(1) Total comprehensive income							(79,995,005.24)				2,061,651,929.01	1,981,656,923.77	57,110,258.41	2,038,767,182.18
(2) Shareholders' contributions and reduction in capital					5,373.75							5,373.75	34,841,791.25	34,847,165.00
1. Capital contribution from owners													34,841,791.25	34,841,791.25
2. Capital contribution from other equity instruments holders														
3. Share-based payment recognized in shareholders' equity														
4. Others					5,373.75							5,373.75		5,373.75
(3) Profit distribution									102,727,774.44		(557,949,240.16)	(455,221,465.72)	(9,029,536.56)	(464,251,002.28)
1. Appropriation to surplus reserve									102,727,774.44					
2. Appropriation to general risk reserve											(102,727,774.44)			
3. Profit distribution to shareholders												(455,221,465.72)	(9,029,536.56)	(464,251,002.28)
4. Others														
(4) Internal carry-forward of shareholders' equity														
1. Transfer from capital reserve to capital (or share capital)														
2. Transfer from surplus reserve to capital (or share capital)														
3. Surplus reserve used to offset accumulated losses														
4. Transfer from changes in defined benefit obligation to retained earnings														
5. Transfer from other comprehensive income to retained earnings														
6. Others														
(5) Special reserve														
1. Current appropriation														
2. Current utilization														
(6) Others														
IV. Balance at 31 December 2017	1,625,790,949.00				9,875,177,958.43		(70,206,938.27)		1,154,762,193.41		6,285,996,409.09	18,871,520,571.66	391,633,221.51	19,263,153,793.17

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Balance Sheet

For the year ended 31 December 2018
(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Item	Notes	31 December 2018	1 January 2018	31 December 2017
Current assets:				
Cash at bank and on hand		6,806,911,762.32	6,148,845,583.90	6,148,845,583.90
Financial assets held for trading				
Financial assets measured at fair value through profit or loss for the current period				4,875,057.73
Derivative financial assets				
Notes receivable and accounts receivable	XIV.1	876,847,449.96	944,740,489.99	944,740,489.99
Including: Notes receivable		615,391,740.80	679,046,805.63	679,046,805.63
Accounts receivable		261,455,709.16	265,693,684.36	265,693,684.36
Advances to suppliers		12,525,525.66	8,408,955.59	8,408,955.59
Other receivables	XIV.2	1,877,892,798.80	2,183,912,954.36	2,183,912,954.36
Including: Interests receivable				
Dividends receivable		382,928,791.41	656,897,700.00	656,897,700.00
Inventories		946,856,781.67	579,702,447.36	579,702,447.36
Contract assets				
Assets held for sale				
Current portion of non-current assets				
Other current assets		1,507,451,931.22	1,503,465,702.19	1,503,465,702.19
Total current assets		12,028,486,249.63	11,369,076,133.39	11,373,951,191.12
Non-current assets:				
Debt investments				
Available-for-sale financial assets				1,035,180,994.75
Other debt investments				
Hold-to-maturity investments				
Long-term receivables				
Long-term equity investments	XIV.3	8,440,656,099.18	4,764,674,279.23	4,764,674,279.23
Other equity instrument investments		84,897,870.89	62,686,231.77	
Other non-current financial assets		223,325,494.09	972,178,175.97	
Investment properties		214,466,738.50	208,498,363.23	208,498,363.23
Fixed assets		491,135,835.97	483,033,235.07	483,033,235.07
Construction in progress		38,386,309.01	37,984,793.35	37,984,793.35
Bearer biological assets				
Oil and gas assets				
Intangible assets		366,396,141.82	370,192,435.37	370,192,435.37
Development expenditure				
Goodwill				
Long-term prepaid expenses		1,725,586.63	2,384,650.49	2,384,650.49
Deferred tax assets		126,072,489.93	109,147,594.90	108,368,848.19
Other non-current assets				
Total non-current assets		9,987,062,566.02	7,010,779,759.38	7,010,317,599.68
Total Assets		22,015,548,815.65	18,379,855,892.77	18,384,268,790.80

Balance Sheet

For the year ended 31 December 2018
(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Item	Notes	31 December 2018	1 January 2018	31 December 2017
Current liabilities:				
Short-term borrowings		954,431,644.92	154,431,644.92	154,431,644.92
Financial liabilities held for trading				
Financial liabilities measured at fair value through profit or loss for the current period				
Derivative financial liabilities				
Notes payable and accounts payable		322,318,804.97	332,648,649.94	332,648,649.94
Advances from customers				116,889,039.40
Contract liabilities		299,102,767.07	99,905,161.88	
Employee benefits payable		86,313,055.87	78,032,160.23	78,032,160.23
Taxes payable		185,050,078.44	141,902,377.07	124,918,499.55
Other payables		2,116,999,352.64	1,123,393,572.36	1,123,393,572.36
Including: Interests payable				
Dividends payable		567,433.79	477,452.11	477,452.11
Liabilities held for sale				
Current portion of non-current liabilities				
Other current liabilities				
Total current liabilities		3,964,215,703.91	1,930,313,566.40	1,930,313,566.40
Non-current liabilities:				
Long-term borrowings				
Bonds payable				
Including: Preferred stock				
Perpetual bond		7,802,224.39	7,802,224.39	7,802,224.39
Long-term payables				
Long-term employee benefits payable				
Provisions		252,971,219.19	170,214,675.19	170,214,675.19
Deferred income		76,572,361.85	69,548,966.56	69,548,966.56
Deferred tax liabilities		12,940,147.39	18,591,820.19	18,591,820.19
Other non-current liabilities				
Total non-current liabilities		350,285,952.82	266,157,686.33	266,157,686.33
Total Liabilities		4,314,501,656.73	2,196,471,252.73	2,196,471,252.73

Balance Sheet

For the year ended 31 December 2018
(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Item	Notes	31 December 2018	1 January 2018	31 December 2017
Shareholders' equity:				
Share capital		1,625,790,949.00	1,625,790,949.00	1,625,790,949.00
Other equity instruments				
Including: Preferred stock				
Perpetual bond				
Capital surplus		9,820,175,495.89	9,820,175,495.89	9,820,175,495.89
Less: Treasury shares				
Other comprehensive income		(2,423,845.18)	216,926.54	(64,737,939.47)
Special reserve				
Surplus reserve		996,126,723.03	782,153,758.81	782,153,758.81
General risk provision				
Undistributed profits		5,261,377,836.18	3,955,047,509.80	4,024,415,273.84
Total Shareholders' Equity		17,701,047,158.92	16,183,384,640.04	16,187,797,538.07
Total Liabilities and Shareholders' Equity		22,015,548,815.65	18,379,855,892.77	18,384,268,790.80

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Income Statement

For the year ended 31 December 2018
(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Item	Notes	2018	2017
I. Operating income	XIV.4	4,332,044,453.05	3,147,499,142.41
Less: Operating cost	XIV.4	2,115,819,770.26	1,445,191,393.37
Taxes and surcharges		49,130,665.99	45,573,066.44
Selling and distribution expenses		497,673,650.54	537,781,498.11
General and administrative expenses		464,710,730.77	314,275,116.93
R&D expenses		283,921,217.29	130,836,506.00
Financial expenses		(86,941,065.75)	(126,045,833.40)
Including: Interest expense		21,351,287.90	5,276,994.77
Interest income		112,832,290.45	130,843,670.22
Impairment losses in respect of assets		19,366,231.79	4,019,821.89
Impairment losses in respect of credit		3,809,858.85	
Add: Other income		14,831,714.51	35,944,618.96
Investment income ("-" for loss)	XIV.5	1,183,707,198.51	320,671,360.92
Including: Income from investments in associates and joint ventures		241,342,102.95	214,633,349.87
Gains on hedging of net exposure ("-" for loss)			
Gains from changes in fair value ("-" for loss)		115,717,545.14	(1,151,066.21)
Gains on disposal of assets ("-" for loss)			
II. Operating profit ("-" for loss)		2,298,809,851.47	1,151,332,486.74
Add: Non-operating income		11,227,625.26	8,040,488.33
Less: Non-operating expenses		1,459,323.96	2,200,109.31
III. Total profit ("-" for loss)		2,308,578,152.77	1,157,172,865.76
Less: Income tax expenses		168,848,510.60	129,895,121.40
IV. Net profit ("-" for net loss)		2,139,729,642.17	1,027,277,744.36
1. Net profit from continuing operations ("-" for loss)		2,139,729,642.17	1,027,277,744.36
2. Net profit from discontinued operation ("-" for loss)			

Income Statement

For the year ended 31 December 2018
(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Item	Notes	2018	2017
V. Other comprehensive income, net of tax		(2,640,771.72)	(75,925,361.20)
(1) Other comprehensive income that will not be reclassified to profit or loss		(2,452,981.75)	
1. Changes arising from the remeasurement of defined benefit obligation			
2. Other comprehensive income that will not be reclassified to profit or loss under equity method			
3. Change in fair value of other equity instrument investments		(2,452,981.75)	
4. Change in fair value of the company's own credit risk			
5. Others			
(2) Other comprehensive income that may be reclassified into profit or loss		(187,789.97)	(75,925,361.20)
1. Other comprehensive income that may be reclassified to profit or loss under equity method		(187,789.97)	20,429.81
2. Change in fair value of other debt investments			
3. Gains and losses arising from changes in fair value of available-for-sale financial assets			(75,945,791.01)
4. The amount of financial assets reclassified into other comprehensive income			
5. Gains and losses arising from reclassification of held-to-maturity investments to available-for-sale financial assets			
6. Provision for credit loss of other debt investments			
7. Cash flow hedge reserve			
8. Difference arising from the translation of foreign currency financial statements			
9. Others			
VI. Total comprehensive income		2,137,088,870.45	951,352,383.16

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Statement of Cash Flows

For the year ended 31 December 2018
(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Item	Notes	2018	2017
I. Cash flows arising from operating activities:			
Cash receipts from the sale of goods and the rendering of services		3,661,338,559.82	2,001,998,256.72
Receipts of taxes refunds			
Other cash receipts relating to operating activities		4,167,305,158.72	361,574,393.15
Subtotal of cash inflows from operating activities		7,828,643,718.54	2,363,572,649.87
Cash payments for goods purchased and services received		1,658,621,823.66	411,707,007.31
Cash payments to and on behalf of employees		476,058,815.04	427,668,653.99
Payments of all types of taxes		495,658,325.75	411,148,256.26
Other cash payments relating to operating activities		4,148,830,831.51	135,758,442.80
Subtotal of cash outflows from operating activities		6,779,169,795.96	1,386,282,360.36
Net cash flows from operating activities		1,049,473,922.58	977,290,289.51
II. Cash flows from investing activities:			
Cash receipts from returns of investments		3,000,000,000.00	1,500,000,000.00
Cash receipts from returns on investments		1,949,416,660.44	649,938,153.79
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		3,630.00	679,300.00
Other cash receipts relating to investing activities		1,437,478,578.43	1,307,864,538.86
Subtotal of cash inflows from investment activities		6,386,898,868.87	3,458,481,992.65
Cash payments to acquire and construct fixed assets, intangible assets and other long-term assets		60,479,213.08	45,299,850.39
Cash payments to acquire investments		5,600,489,331.81	4,804,425,230.66
Net cash receipts from the disposals of subsidiaries and other business units			
Other cash payments relating to investing activities		1,287,733,486.36	1,271,830,986.36
Subtotal of cash outflows from investment activities		6,948,702,031.25	6,121,556,067.41
Net cash flows from investing activities		(561,803,162.38)	(2,663,074,074.76)

Statement of Cash Flows

For the year ended 31 December 2018
(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Item	Notes	2018	2017
III. Cash flows from financing activities:			
Cash receipts from investors making investment in the enterprise			
Cash receipts from borrowing		1,104,431,644.92	154,431,644.92
Cash receipts from issue of bonds			
Other cash receipts relating to financing activities		908,082.74	
Subtotal of cash inflows from financing activities		1,105,339,727.66	154,431,644.92
Cash repayments of amounts borrowed		304,431,644.92	184,431,644.92
Cash payments for distribution of dividends, profits or interest expenses		649,604,581.78	463,196,446.63
Other cash payments relating to financing activities		26,994,238.54	
Subtotal of cash outflows from financing activities		981,030,465.24	647,628,091.55
Net cash flows from financing activities		124,309,262.42	(493,196,446.63)
IV. Effect of foreign exchange rate changes on cash and cash equivalents			(5,658.03)
V. Net increase in cash and cash equivalents		611,980,022.62	(2,178,985,889.91)
Add: opening balance of cash and cash equivalents		6,147,937,501.16	8,326,923,391.07
VI. Closing balance of cash and cash equivalents		6,759,917,523.78	6,147,937,501.16

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Statement of Changes in Shareholders' Equity

For the year ended 31 December 2018
(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Item	2018											Total shareholders' equity
	Other equity instruments				Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profit	
	Share capital	Preferred stock	Perpetual bond	Others								
I. 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				(68,367,764.04)	(4,412,898.03)
Correction of prior year's errors												
Others												
II. 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
III. Increase(decrease) in the current year												
(*: for losses)							(2,640,771.72)		213,972,964.22		1,306,330,326.38	1,517,662,518.88
(1) Total comprehensive income							(2,640,771.72)				2,139,728,642.17	2,137,088,870.45
(2) Shareholders' contributions and reduction in capital												
1. Capital contribution from owners												
2. Capital contribution from other equity instruments holders												
3. Share-based payment recognized in shareholders' equity												
4. Others												
(3) Profit distribution									213,972,964.22		(833,399,315.79)	(619,426,351.57)
1. Appropriation to surplus reserve									213,972,964.22		(213,972,964.22)	
2. Appropriation to general risk reserve												
3. Profit distribution to shareholders											(619,426,351.57)	(619,426,351.57)
4. Others												
(4) Internal carry-forward of shareholders' equity												
1. Transfer from capital reserve to capital (or share capital)												
2. Transfer from surplus reserve to capital (or share capital)												
3. Surplus reserve used to offset accumulated losses												
4. Transfer from changes in defined benefit obligation to retained earnings												
5. Transfer from other comprehensive income to retained earnings												
6. Others												
(5) Special reserve												
1. Current appropriation												
2. Current utilization												
(6) Others												
IV. Balance at 31 December 2018	1,625,790,949.00				9,820,175,495.89		(2,423,845.18)		996,126,723.03		5,261,377,836.18	17,701,047,158.92

Statement of Changes in Shareholders' Equity

For the year ended 31 December 2018
(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

Item	2017										Total shareholders' equity	
	Share capital	Preferred stock	Other equity instruments		Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk provision		Undistributed profit
I. 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												
Correction of prior year's errors												
Others												
II. 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
III. Increase/(decrease) in the current year												
(* for losses)							(75,925,361.20)		102,727,774.44		469,328,504.20	496,130,917.44
(1) Total comprehensive income							(75,925,361.20)				1,027,277,744.36	951,352,383.16
(2) Shareholders' contributions and reduction in capital												
1. Capital contribution from owners												
2. Capital contribution from other equity instruments holders												
3. Share-based payment recognized in shareholders' equity												
4. Others												
(3) Profit distribution									102,727,774.44		(557,949,240.16)	(455,221,465.72)
1. Appropriation to surplus reserve									102,727,774.44		(102,727,774.44)	
2. Appropriation to general risk reserve												
3. Profit distribution to shareholders											(455,221,465.72)	(455,221,465.72)
4. Others												
(4) Internal carry-forward of shareholders' equity												
1. Transfer from capital reserve to capital (or share capital)												
2. Transfer from surplus reserve to capital (or share capital)												
3. Surplus reserve used to offset accumulated losses												
4. Transfer from changes in defined benefit obligation to retained earnings												
5. Transfer from other comprehensive income to retained earnings												
6. Others												
(5) Special reserve												
1. Current appropriation												
2. Current utilization												
(6) Others												
IV. 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

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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 on 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 the 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. (hereinafter referred to as “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 (hereinafter referred to as “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. (hereinafter referred to as “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 Company repurchased 261,400 shares of A shares held by GPHL for a total of RMB1, which was cancelled 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 334,711,699 RMB common shares (A share) non-publicly 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 the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

I. GENERAL INFORMATION (Continued)

1. Company overview (Continued)

The approved business scope of the Company and its subsidiaries as included in the consolidated financial statements 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 financial statements were authorized for issue by the Board on 15 March 2019.

2. Scope of consolidation

The Group has 93 subsidiaries included in the scope of consolidation in 2018. For more details, please refer to Note VIII “Equity in Other Entities”. The companies in the scope of consolidation of the Group for the current year increased by 36 and decreased by 1 comparing with the prior year. For more details, please refer to Note VII “Changes in the Scope of Consolidation”.

Name of subsidiary	Control
Guangzhou Baiyunshan Xing Qun Pharmaceutical Holdings Co., Ltd. (hereinafter referred to as “Xing Qun”)	Direct holding
Guangzhou Baiyunshan Xing Qun Health Technology Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. (hereinafter referred to as “Zhong Yi”)	Direct holding
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd. (hereinafter referred to as “Chen Li Ji”)	Direct holding
Guangzhou Chen Li Ji Great Health Industry Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Han Fang Contemporary Pharmaceutical Co., Ltd. (hereinafter referred to as “Guangzhou Han Fang”)	Direct holding
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. (hereinafter referred to as “Qi Xing”)	Indirect holding
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. (hereinafter referred to as “Jing Xiu Tang”)	Direct holding
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (hereinafter referred to as “Pan Gao Shou”)	Direct holding

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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I. GENERAL INFORMATION *(Continued)*

2. Scope of consolidation *(Continued)*

Name of subsidiary	Control
Guangzhou Pan Gao Shou Natural Healthcare Products Co., Ltd.	Indirect holding
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. (hereinafter referred to as "Wang Lao Ji")	Direct holding
Guangzhou Wang Lao Ji Food Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical Co., Ltd. (hereinafter referred to as "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
Guangzhou Wan Kang Orthopedics 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
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
Guangyao Sichuan 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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

I. GENERAL INFORMATION (Continued)

2. Scope of consolidation (Continued)

Name of subsidiary	Control
Zhuhai Guangyao Kang Ming Pharmaceutical Co., Ltd.	Indirect holding
Foshan Guangyao Feng Kang Pharmaceutical Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical Pharmacy Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical Information Technology Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical Nanpi Pharmacy Co., Ltd.	Indirect holding
Zhongshan Guangyao Gui Kang Pharmaceutical Co., Ltd.	Indirect holding
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (hereinafter referred to as "Cai Zhi Lin")	Direct holding
Jingyu Guangyao Dong'e Chinese Raw Medicine Development Co., Ltd.	Indirect holding
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	Indirect holding
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	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
Heilongjiang Sengong Guangyao Raw Medicine 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
Meizhou Guangyao Cai Zhi Lin Pharmaceutical Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical Import & Export Co., Ltd. (hereinafter referred to as "Pharmaceutical Import & Export")	Direct holding
Guangzhou Baiyunshan Bai Di Bio-Technology Co., Ltd. (hereinafter referred to as "Guangzhou Bai Di")	Direct holding
Guangzhou Baiyunshan Wei Yi Industries Co., Ltd.	Indirect holding
Tibet Linzhi Guangyao Development Co., Ltd.	Indirect holding
Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. (hereinafter referred to as "WLJ Great Health")	Direct holding

Notes to the Financial Statements

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

I. GENERAL INFORMATION *(Continued)*

2. Scope of consolidation *(Continued)*

Name of subsidiary	Control
Wang Lao Ji Great Health Industry (Ya'an) 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
Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd.	Indirect holding
Guangzhou Wang Lao Ji Great Health E-Commerce Co., Ltd.	Indirect holding
Guangxi Baiyunshan Ying Kang Pharmaceutical Co., Ltd. (hereinafter referred to as "Guangxi Ying Kang")	Direct holding
Guangzhou Guangyao Yi Gan Biological Product Co., Ltd. (hereinafter referred to as "Yi Gan")	Direct holding
Guangzhou Baiyunshan Medical and Healthcare Industry Investment Co., Ltd. (hereinafter referred to as "Baiyunshan Medical and Healthcare Industry Company")	Direct holding
Tibet Linzhi Baiyunshan Tibetan Health Castle Management Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Hospital Co., Ltd. (hereinafter referred to as "Guangzhou Baiyunshan Hospital")	Indirect holding
Guangzhou Baiyunshan Run Kang Confinement Service Center Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Xing Zhu Pharmaceutical Co., Ltd. (hereinafter referred to as "Xing Zhu")	Direct holding
Guangzhou Wang Lao Ji Investment Co., Ltd. (hereinafter referred to as "Wang Lao Ji Investment")	Direct holding
Guangzhou WLJ Catering Management Development Co., Ltd. (hereinafter referred to as "WLJ Catering")	Indirect holding
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. (hereinafter referred to as "Tian Xin")	Direct holding
Guangzhou Baiyunshan Tian Xin Pharmaceutical Technology Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd. (hereinafter referred to as "Guang Hua")	Direct holding
Guangzhou Baiyunshan Guang Hua Health Products Co., Ltd. (hereinafter referred to as "Guang Hua Health")	Indirect holding

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

I. GENERAL INFORMATION *(Continued)*

2. Scope of consolidation *(Continued)*

Name of subsidiary	Control
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. (hereinafter referred to as "Ming Xing")	Direct holding
Guangzhou Xing Ji Industries Co., Ltd.	Indirect holding
Baiyunshan Weiling Pharmaceutical Co., Ltd. (hereinafter referred to as "Weiling")	Direct holding
Guangzhou Baiyunshan Pharmaceutical Technological Development Co., Ltd. (hereinafter referred to as "Pharmaceutical Technological")	Direct holding
Wang Lao Ji Da Zhai Beverages Co., Ltd.	Indirect holding
Guangzhou Wang Lao Ji Da Zhai Beverages Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited (hereinafter referred to as "Guangyao Baiyunshan Hong Kong Company")	Direct holding
Guangzhou Baiyunshan Macao Co., Ltd.	Direct holding
Guangzhou Baiyunshan Chemical Pharmaceutical Co., Ltd.	Direct holding
Zhejiang Guang Kang Pharmaceutical Co., Ltd.	Indirect holding
Guangyao Baiyunshan Chemical Pharmaceutical (Zhuhai) Co., Ltd.	Indirect holding
Guangzhou Haima Pharmaceutical Advertising Co., Ltd. (hereinafter referred to as "Guangyao Haima")	Direct holding
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd. (hereinafter referred to as "Baiyunshan Pharmaceutical Marketing")	Direct holding
Guangzhou Baiyunshan Jin Ge Male Health Consulting Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical Research Institute ("Guangyao General Institute")	Direct holding
Guangzhou Baiyunshan Medical Instruments investment Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Chemical Pharmaceutical Technology Co., Ltd.	Direct holding

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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 and Amendment to No.76 Order of the Ministry of Finance), 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 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 31 December 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.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Company and its subsidiaries are engaged in pharmaceutical operations. Based on the characteristics of the Company’s actual productions and operations, the Company 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. 24 “Revenue”. For description of significant accounting judgments and estimates made by the management, please refer to Note IV. 30 “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 Company has adopted the calendar year as its accounting year, i.e. from 1 January to 31 December.

2. Operating Cycle

A normal operating cycle refers to the time period between the acquisition of assets for processing and their realization in cash or cash equivalents. The group’s operating cycle is of 12 months’ duration, which is used as the classification standard for liquidity of assets and liabilities.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

3. Functional Currency

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

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 book values as recorded by the party being absorbed on the combination date. The difference between the book value of the net assets obtained and the book value 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.

(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.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

4. Business Combination *(Continued)*

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

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 year.

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 year; 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 year.

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.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

4. Business Combination *(Continued)*

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

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 year, 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 year 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).

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 Company 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 Company and all subsidiaries. A subsidiary is a corporate body controlled by the Company.

The Company 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 Company obtains the actual control over a subsidiary's net assets and production operation decision-making power the Company includes the subsidiary into the consolidated scope; from the date the Company 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 year, 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.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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)*

When preparing the consolidated financial statements, if a subsidiary and the Company adopt the inconsistent accounting policies or accounting periods, the Company 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.

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 Company 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 year 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 Company 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 year when control is lost. Other comprehensive income related to the original subsidiary will be transferred into the current profit and loss in investment at the date the Company 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 year.) 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 the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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 Company loses control over a subsidiary in multiple transactions in which it disposes equity investments in the subsidiary in stages, the Company 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:

① These transactions are carried out simultaneously or in the condition that each part will be impacted; ② These transactions as a whole will achieve a complete business results; ③ The occurrence of one transaction are dependent on at least one transaction; ④ One 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 of equity investments in a subsidiary at other each transaction belonged to a package transaction until the 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.

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.

The Company's investments in joint ventures are measured under equity method. Please refer to Note IV. 13. (2) ② “Long-term equity investments measured under equity method” for accounting policies for joint venture investment.

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

Notes to the Financial Statements

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

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

6. Classification and Accounting Treatment of Joint Arrangements and Joint Operation *(Continued)*

When the Company 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 Company 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 Company will recognize losses in full amount for investment or sales of assets from the Company to joint operation. For assets purchased by the Company from joint operation, the Company will recognize these losses according to its shareholding proportion.

7. Recognition Criteria for Cash and Cash Equivalents

The Company's cash and cash equivalents comprise cash on hand, deposits that can be readily withdrawn on demand, short-term (generally due within three months after the purchase date) 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.

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

(1) Methods for Translation of Foreign Currency Transactions

For the foreign currency transaction incurred in the Company, the amount in foreign currency shall be translated into the amount in functional currency at initial recognition as per the spot rate on the transaction date (usually refers to the central parity rate published by the People's Bank of China on that day. The same below); 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 Monetary Items and Non-Monetary Items in Foreign Currency

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 year, 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 difference shall be transferred to the profit or loss for the current year.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

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

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

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.

(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 overseas operations are disposed, the difference shall be transferred to the profit or loss for the current year.

The foreign currency adopted in the foreign currency financial 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 year. The opening balance of undistributed profits are the closing balance of undistributed profits translated at the prior year; for closing balance of 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 year 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 on the transaction date. 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 balance and prior year’s actual amount are presented in line with the amount after the translation of prior year financial statements.

For the preparation of consolidated financial statements, when the disposal of all shareholders’ equities with respect to the overseas operations by the Company, as well as parts of equity investments, results in a lost in control over the overseas operations, the Company 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.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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)*

When overseas operational control is retained but the proportion of overseas operational equity held by the Company 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

The Company shall recognize a financial asset or financial liability at the date the Company enters into a contract concerning about financial instruments.

(1) Classification, recognition and measurement of financial assets

Based on the business model of the Company's management on the financial asset and the features of the cash flows of the financial asset, the Company classifies financial assets into the following categories: 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.

Financial assets are initially recognized at fair value. Relevant transaction cost of financial assets at fair value through profit and loss for the current period, shall be recognized into profit and loss for the current period. Relevant transaction cost of financial assets listed in other categories shall be included in the amount recognized initially. For accounts receivable or notes receivable arising from the sale of products or rendering of services, exclusive of or without consideration of material financing elements, the initial recognition shall be the amount of consideration to which the company is expected to be entitled.

① *Financial assets measured at amortized cost*

The business model that the company adopts to manage the financial assets measured at amortized cost is to collect the contractual cash flows, and the contractual cash flow characteristics of such financial assets are consistent with the basic debit, credit arrangements. The cash flow generated on a specific date is only the payment of principal and interest based on the amount of principal outstanding. For such financial assets, the company adopts the effective interest rate method and carries out subsequent measurement according to the amortized cost. The profit or loss generated by the amortization or impairment shall be recognized in the current profit and loss.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

9. Financial Instruments *(Continued)*

(1) Classification, recognition and measurement of financial assets *(Continued)*

② *Financial assets at fair value through other comprehensive income*

The company's business model for managing such financial assets is to take the receipt of contract cash flow and sell, and the contract cash flow characteristics of such financial assets are consistent with the basic debit, credit arrangements. The company measures such financial assets according to the fair value and the changes are recognized in other comprehensive income, but the impairment loss or gain, exchange profit and loss and the interest income calculated according to the real interest rate method are recognized in the current profit and loss.

In addition, the company designated some non-tradable equity instruments as financial assets measured at fair value through other comprehensive income. The company shall recognize the relevant dividend income of such financial assets into the current profit and loss, and recognize the change of fair value in other comprehensive income. When the recognition of the financial asset is terminated, the accumulated gains or losses previously recognized in other comprehensive income shall be transferred from other comprehensive income to retained earnings and shall not be recognized in current profit and loss.

③ *Financial assets at fair value through profit or loss for the current period*

The company classifies the financial assets, except for financial assets measured at amortized cost or at fair value through other comprehensive income as mentioned above, into the financial assets measured at fair value through profit or loss for the current period. In addition, the company shall designate some financial assets as financial assets measured at fair value through profit or loss for the current period upon the initial recognition to eliminate or significantly reduce accounting mismatch. For such financial assets, the company adopts the fair value for subsequent measurement, and changes in fair value are recognized in the profit or loss for the current period.

(2) Classification, recognition and measurement of financial liabilities

Financial liabilities shall be classified into other financial liabilities and financial liabilities measured at fair value through profit or loss for the current period upon initial recognition. For financial liabilities measured at fair value through profit or loss for the current period, relevant transaction costs are directly recognized in the current profit and loss, and the relevant transaction costs of other financial liabilities are recognized in the initial recognition amount.

① *Financial liabilities measured at fair value through profit or loss for the current period*

Financial liabilities measured at fair value through profit or loss for the current period comprise financial liabilities held for trading (including derivatives belonging to financial liabilities) and financial liabilities measured at fair value through profit or loss for the current period upon initial recognition.

Notes to the Financial Statements

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

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

9. Financial Instruments *(Continued)*

(2) Classification, recognition and measurement of financial liabilities *(Continued)*

① *Financial liabilities measured at fair value through profit or loss for the current period (Continued)*

Financial liabilities held for trading (including derivatives belonging to financial liabilities) shall be subsequently measured at the fair value. Except for those related to hedge accounting, changes in the fair value shall be recognized in the profit or loss of the current period.

For financial liabilities designated to be measured at fair value through profit or loss for the current period, liabilities caused by changes in the company's own credit risk of the changes in fair value recognized in other comprehensive income, when the liability is terminated for recognition, the accumulated change in its fair value caused by the change in its own credit risk recognized in other comprehensive income is transferred to retained earnings. If the above treatment of the impact of the change in the credit risk of such financial liabilities will cause or expand the accounting mismatch in the profit and loss, the company will record all the gains or losses of such financial liabilities (including the amount affected by the change in the credit risk of the enterprise) into the current profit and loss.

② *Other financial liabilities*

In addition to financial liabilities whose transfer of financial assets does not meet the conditions for termination of recognition or arising from the continuing involvement in the transfer of financial assets and other financial liabilities other than the financial security contract are classified as financial liabilities measured by amortized cost, carry out subsequent measurement according to the amortized cost, and record the profits or losses generated by the termination of recognition or amortization into the current profit and loss.

(3) The confirmation basis and measurement method of financial assets transfer

Financial assets that meet one of the following conditions shall be terminated for recognition: ① the contract right of receiving the cash flow of the financial asset is terminated; ② the financial assets have been transferred, and the ownership of financial assets almost all the risks and rewards transferred to the transferee; ③ the financial asset has been transferred, although the enterprise has neither transferred nor retained almost all risks and rewards in the ownership of the financial asset, it has given up its control over the financial asset.

If the enterprise neither transfers nor retains nearly all the risks and rewards in the ownership of the financial assets and does not give up its control over the financial assets, the relevant financial assets shall be recognized according to the degree of continuing involvement in the transferred financial assets, and the relevant liabilities shall be recognized accordingly. The degree of continuing involvement in the transferred financial assets refers to the level of risk faced by the enterprise due to the change in the value of the financial assets.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

9. Financial Instruments *(Continued)*

(3) The confirmation basis and measurement method of financial assets transfer *(Continued)*

If the overall transfer of financial assets meets the conditions for the termination of recognition, the balance between the book value of the transferred financial assets and the consideration received due to the transfer and the accumulative amount of changes in the fair value originally recognized in other comprehensive income shall be recognized into the current profit and loss.

If the partial transfer of financial assets meets the conditions for the termination of recognition, the book value of the transferred financial assets shall be apportioned according to its relative fair value between the terminated recognition and the non-terminated recognition, and the difference between the consideration received as a result of the transfer and the accumulative amount of changes in the fair value originally recognized in other comprehensive income and the apportioned book amount shall be recognized in the current profit and loss.

The company shall determine whether almost all risks and rewards in the ownership of the financial assets sold by means of recourse or transferred by endorsement of the financial assets held by the company have been transferred. Where almost all risks and rewards in the ownership of the financial asset have been transferred to the transferee, the recognition of the financial asset shall be terminated; If almost all risks and rewards in the ownership of the financial asset are retained, the recognition of the financial asset shall not be terminated; If there is no transfer or retention of nearly all risks and rewards in the ownership of the financial asset, the enterprise shall continue to judge whether it has retained control of the asset and conduct accounting treatment according to the principles described in the preceding paragraphs.

(4) Derecognition of financial liabilities

If the current obligation of the financial liability (or part thereof) has been discharged, the company shall terminate the recognition of such financial liability (or part thereof). The company (borrower) signs an agreement with the lender to replace the original financial liability by assuming the new financial liability. If the contract terms of the new financial liability and the original financial liability are substantially different, the company shall terminate the confirmation of the original financial liability and simultaneously confirm a new financial liability. If the company materially modifies the contract terms of the original financial liabilities (or part thereof), the original financial liabilities shall be terminated, and a new financial liability shall be recognized according to the revised terms.

Where the recognition of financial liabilities (or part thereof) is terminated, the company shall recognize the difference between its book value and the consideration paid (including the transferred non-cash assets or liabilities) into the current profit and loss.

(5) Offsetting of financial assets and liabilities

When the company has offset the confirmed amount of legal rights of financial assets and financial liabilities, and this kind of legal rights is the executable, at the same time, the company plans to net or cash at the same time when the financial assets and liquidation of the financial liability, financial assets and financial liabilities to offset each other after amount listed in the balance sheet. In addition, financial assets and financial liabilities shall be shown separately in the balance sheet and shall not be offset against each other.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

9. Financial Instruments *(Continued)*

(6) Method for determining the fair value of financial assets and financial liabilities

Fair value refers to the price that market participants can receive or transfer a liability to pay for the sale of an asset in an orderly transaction on the measurement date. Where there is an active market for a financial instrument, the company shall determine its fair value by quoting in the active market. A quote in an active market is a price that is readily available on a regular basis from an exchange, broker, trade association, pricing service, etc., and represents the market price traded in a fair trade. Where there is no active market for the financial instrument, the company shall determine its fair value by means of valuation technology. Valuation techniques include reference to the prices used in recent market transactions by parties familiar with and willing to trade, reference to the current fair value of other financial instruments that are substantially the same, cash flow discounting and option pricing models, etc. In valuation, the company uses valuation techniques applicable in the current situation and supported by sufficient available data and other information to select input values consistent with the characteristics of assets or liabilities considered by market participants in transactions of related assets or liabilities, and gives priority to relevant observable input values as far as possible. Use non-input values where relevant observable input values are not available or are not feasible to obtain.

(7) Equity instruments

Equity instruments are contracts that prove ownership of the residual interest in the company's assets after deducting all liabilities. The issuance (including refinancing), repurchase, sale or cancellation of the equity instruments of the company shall be treated as changes in the equity and the transaction fees related to the equity transactions shall be deducted from the equity. The company does not recognize changes in the fair value of equity instruments.

Where the equity instrument of the company distributes dividends (including "interest" generated by the instrument classified as equity instrument) during the term of its existence, it shall be treated as profit distribution.

10. Impairment of Financial Assets

The financial asset that the Company needs to confirm the impairment loss are financial assets measured at amortized cost, debt instrument investment measured at fair value and recognized in other comprehensive income and the leasing receivables, mainly includes notes receivables, accounts receivables, other receivables, creditor's rights investment, other creditor's rights investment, long-term receivables, etc. In addition, for the contract assets and part of the financial security contracts, the provisions for impairment and the recognition of credit impairment losses shall be made in accordance with the accounting policies described in this part.

(1) The recognition method of provision for impairment

Based on the expected credit loss, the Company shall calculate the provision for impairment and confirm the credit impairment loss in accordance with its applicable expected credit loss measurement method for the above-mentioned items.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

10. Impairment of Financial Assets *(Continued)*

(1) The recognition method of provision for impairment *(Continued)*

Credit loss refers to the difference between all contract cash flows receivable under the contract discounted at the effective interest rate and all cash flows expected to be collected, which is the present value of the entire cash shortage. The financial assets purchased or produced by the Company with credit impairment shall be discounted according to the effective interest rate of the financial assets after credit adjustment.

The general method of measuring the expected credit loss refers to whether the credit risk of financial assets (including contract assets and other applicable items, the same below) evaluated by the Company on each balance sheet date has increased significantly since the initial recognition. If the credit risk has increased significantly since the initial recognition, the Company shall measure the loss provision according to the amount equivalent to the expected credit loss in the whole duration; If the credit risk has not increased significantly since the initial recognition, the Company shall measure the loss provision according to the amount equivalent to the expected credit loss in the next 12 months. The company shall take into account all reasonable and substantiated information, including forward-looking information, in the evaluation of expected credit losses.

For financial instruments with low credit risk on the balance sheet date, the Company assumes that the credit risk has not increased significantly since the initial recognition and chooses to measure the loss provision according to the expected credit loss in the next 12 months.

(2) Criteria for determining whether credit risk has increased significantly subsequent to the initial recognition

If the probability of default of a financial asset within the expected duration as determined on the balance sheet date is significantly higher than the probability of default within the expected duration as determined at the initial recognition, the credit risk of the financial asset increases significantly. Except in special cases, the Company shall use the change of default risk in the next 12 months as a reasonable estimate of the change of default risk in the whole duration to determine whether the credit risk has increased significantly subsequent to the initial recognition.

(3) Portfolio approach to assessing expected credit risk on a portfolio basis

The company evaluates credit risk separately for the credit risk of significantly different notes receivables, accounts receivables and other receivables with the following characteristics. Such as: related party accounts receivable; accounts receivables in dispute with the other party or involving litigation or arbitration; notes receivables, accounts receivables that have shown clear signs that the debtor is likely to be unable to meet repayment obligations.

In addition to the financial assets that assess credit risks individually, the Company divides financial assets into different groups based on common risk characteristics and evaluates credit risks on the basis of combination.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

10. Impairment of Financial Assets *(Continued)*

(4) Accounting treatment of the impairment of financial assets

At the end of the year, the Company calculates the expected credit loss of various financial assets. If the expected credit loss is greater than the book value of the current provision for impairment, the difference shall be recognized as impairment loss. If the expected credit loss is less than the book value of the current provision for impairment, the difference shall be recognized as an impairment gain.

(5) Method for determining the credit loss of financial assets

The Company conducts credit risk evaluation individually for notes receivable, accounts receivable and other receivables with significantly different credit risks and the following characteristics: amounts due from related parties; receivables that are in dispute with the other party or involve litigation or arbitration; notes receivable and accounts receivable with indications that the debtor is likely to be unable to perform the repayment obligations, etc.

Based on the credit risk characteristics of the financial assets without credit impairment in the single evaluation, the Company divides them into different portfolios:

① *The determination basis of credit risk characteristic combination*

Project	Basis for determining the combination
Portfolio 1 (aging portfolio)	Except for accounts receivable and other receivables which have been separately measured for losses, the Company shall consider the forward-looking information and determine the loss reserve based on the expected credit losses of accounts receivable portfolios with similar credit risk characteristics according to the same or similar age segments in previous years.
Portfolio 2 (portfolio of financial assets with extremely low credit risk)	Calculating notes receivable and other receivables with minimal credit risk based on expected credit losses
Portfolio 3 (related party portfolio)	Other receivables of related parties
Portfolio 4 (deposit portfolio)	Deposits, advances, quality guarantee deposit, employee loans and other receivables that should be collected in daily regular activities

Age analysis was based on the posting date.

② The company shall calculate its expected credit loss based on the expected duration and recognize the loss reserve of financial assets according to the combination in credit risk evaluation, the financial assets structure and similar credit risk characteristics (the ability of the debtor according to the terms of the contract to repay the arrears), combined with historical default loss experience, the current economic situation and forward-looking information.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

10. Impairment of Financial Assets *(Continued)*

(5) Method for determining the credit loss of financial assets *(Continued)*

Methods of different combinations for measuring loss provision:

Project	Methods of measurement
Portfolio 1 (aging portfolio)	Expected duration
Portfolio 2 (portfolio of financial assets with extremely low credit risk)	Expected duration
Portfolio 3 (related party portfolio)	Expected duration
Portfolio 4 (deposit portfolio)	Expected duration

③ The expected credit loss rate of each portfolio is shown below

Portfolio 1 (aging portfolio): expected credit loss rate

Aging	Accounts receivable expected credit loss rate(%)	Other receivables expected credit loss rate(%)
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
More than 5 years	100.00	100.00

Portfolio 2 (portfolio of financial assets with extremely low credit risk): Considering the historical default loss experience, current economic conditions and forward-looking information, the expected credit loss rate is 0.

Portfolio 3 (related party portfolio): Considering the historical default loss experience, current economic conditions and forward-looking information, the expected credit loss rate is 0.

Portfolio 4 (deposit portfolio): Considering the historical default loss experience, current economic conditions and forward-looking information, the expected credit loss rate is 0.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

12. Assets Held for Sale and Disposal Company

If the Company 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 Company 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 Companies 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 Company 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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(All amounts in Renminbi yuan unless otherwise stated)

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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 Company can exercise control, joint control or significant influence over the investee. When the Company can no longer exercise control, joint control or significant influence over the investee, the long-term equity investment shall be treated as financial asset measured at fair value through profit or loss for the current year, and for non-transactional long-term equity investment among which, the Company can designate it to be financial asset measured at fair value through other comprehensive income upon initial recognition. Please refer to Note IV. 9. Financial instrument for accounting policies.

Joint control refers to joint control owned by the Company 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 shareholder's 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 book value 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 shareholder's 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 shareholder's equity 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 or recognized as financial assets measured at fair value through profit or loss for the current year, 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 book value 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.

(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.

Notes to the Financial Statements

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(English Translation for Reference Only)

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

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.

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 shareholder's 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.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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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 shareholder'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.

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 shareholder's equity originally shall be conducted as per proportion on the same base as investee disposes of relevant assets and liabilities directly. Other shareholder's equity, which is recognized for changes of other shareholder's 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.

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(All amounts in Renminbi yuan unless otherwise stated)

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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)*

④ *Disposal of Long-term Equity Investment (Continued)*

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 shareholder's 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 Company 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 shareholder's 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 shareholder'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 shareholder's equity shall be transferred.

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 shareholder's equity recognized by other changes on shareholder'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.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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)*

④ Disposal of Long-term Equity Investment *(Continued)*

If the Company's disposal of equity investments in a subsidiaries leading to losing control, the foregoing transaction is package deal, accounting treatment shall be conducted for each transaction as the transaction that the disposal of the 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 Company 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. 21 "Long-term Asset Impairment" for the methods of impairment test and preparing provisions for the impairment of investment property.

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 book value 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 book value prior to the transfer as the book value after the transfer; for investment property transferred to be measured under fair value model, the fair value at the transfer date shall be recognized as the book value after transfer.

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 book value of the asset and shall be recognized in profit or loss in the period of the retirement or disposal.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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.

(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 Company 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. 21 "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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(English Translation for Reference Only)

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

15. Fixed Assets *(Continued)*

(5) Others

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 Company 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 Company'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. 21 "Long-term Asset Impairment" for the impairment test method and impairment provision method of construction in progress.

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.

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

17. Borrowing Costs *(Continued)*

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.

Qualifying assets 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.

18. Intangible Assets

(1) Intangible Assets

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

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.

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

18. Intangible Assets *(Continued)*

(1) Intangible Assets *(Continued)*

The Company owns the trademarks of Baiyunshan, Dashen products and series of Xing Qun, Zhong Yi, Pan Gao Shou, 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 the foreseeable future. Therefore, these trademarks are recognized as intangible assets with uncertain useful life.

(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 year:

- 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.

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

18. Intangible Assets *(Continued)*

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

Please refer to Note IV. 21 “Long-term Asset Impairment” for the impairment test method and impairment provision method of intangible asset.

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 year and in the subsequent periods with amortization term of over one year. Amortization is carried out over the expected beneficial period, and disclosed as the net value of the actual expenditures minus accumulated amortization.

20. Contract Liability

Contract liabilities refer to the Company’s obligation to transfer goods to customers for consideration received or receivable from customer. If the customer has paid contract consideration or the Company has obtained unconditional right to receive payment prior to the Company transferring goods to the customer, the Company shall recognize payment received or receivable into contract liabilities at the earlier date between the date when the customer makes payment or the due date of payment. Contract assets and contract liabilities under the same contract shall be disclosed in net value. Contract assets and contract liabilities under different contracts cannot be offset.

21. 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.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

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

When conducting impairment test for goodwill separately listed in financial statements, the book value of the goodwill shall be apportioned to asset groups or asset group portfolios which are expected to benefit from the synergistic effect of business combination. When the test result indicates that the recoverable amount of asset groups or asset group portfolios containing goodwill apportioned is less than its book value, relevant impairment loss of goodwill shall be recognized. The impairment loss of goodwill shall offset the book value of the portion of goodwill apportioned to the asset groups or asset group portfolios, and then offset the book value of other assets according to the proportion of the book value of other asset in asset groups or asset group portfolios after deducting the goodwill.

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.

22. Employee Benefits

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

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 year or in the cost of relevant asset. Where, the non-monetary benefits shall be measured at its fair value.

The domestic enterprises of the Company 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 Company'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 Company 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 Company'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 rendering of services to the Company as of the settlement date.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

22. Employee Benefits *(Continued)*

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 treated by the same principle as the above 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.

23. 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 book value of the provision.

24. Revenue

If the following conditions are met by the contract between the Company 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.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

24. Revenue *(Continued)*

At the starting date of contract, the Company 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.

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.

(1) Sale of goods

Revenue from the sale of goods shall be recognized when the Company 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.

(3) Transfer of asset use rights

Income from transfer of asset use rights include:

- ① License fee income is recognized when the right to receive payment is established over the grand period;
- ② Income from an operating lease is recognized on a straight-line basis over the period of the lease.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

25. 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 year.

The specific standard that the Company 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 Company 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 Company shall be charged into other income; those not related to ordinary business of the Company shall be charged into non-operating income)

The income-related government grants for compensation to the related expenses or loss of the Company in the 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 Company shall be charged into other income; those not related to ordinary business of the Company 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 Company shall be recognized as current profit or loss (government grants related to ordinary business of the Company shall be charged into other income; those not related to ordinary business of the Company 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.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

25. Government Grants *(Continued)*

The government subsidies pertinent to the daily activities of the Company 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 Company 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.

26. 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 year or prior years 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 current year by tax law.

(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 in a 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.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

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

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

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 book value 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 book value 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.

(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 book value 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.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

27. 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 year 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 year in which they actually arise.

(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 year. Contingent rents are recorded into profit or loss for the current year in which they are actually incurred.

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(All amounts in Renminbi yuan unless otherwise stated)
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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

28. 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 Company 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 Company".

29. 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 financial instrument standards.*

On 31 March 2017, the Ministry of Finance 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"); 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 the new financial instrument 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 Company began implementing the above-mentioned new financial instrument standards at the time required by the Ministry of Finance.

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 Company'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 year. For investments in equity instruments recognized at fair value through other comprehensive income, accumulated profit or loss recognized into other comprehensive income in previous periods shall be transferred to retained earnings when the financial assets are derecognized, but not profit or loss for the current year.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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

29. 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 financial instrument standards. (Continued)*

Under the new financial instrument standards, the Company shall accrue provision for impairment loss and recognize the impairment loss of credit for financial assets measured at amortized cost, investment in debt instrument recognized at fair value through other comprehensive income, lease receivables, contract assets and guarantee contracts based on expected credit loss.

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

- A. 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 year, 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.
- B. 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 evaluation and testing, the adoption of the new financial instrument criteria has no significant impact on the presentation of the Company's receivables.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

29. 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 financial instrument standards. (Continued)*

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

Consolidated balance sheet

Item	Book balance prior to changes in accounting policies as at 31 December 2017	Effect of the new financial instrument standards	Book balance after changes in accounting policies as at 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 investments in equity instruments	-	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

The Company's balance sheet

Item	Book balance prior to changes in accounting policies as at 31 December 2017	Effect of the new financial instrument standards	Book balance after changes in accounting policies as at 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 investments in equity instruments	-	62,686,231.77	62,686,231.77
Other non-current financial assets	-	972,178,175.97	972,178,175.97
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 the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

(1) Changes in accounting policies (Continued)

② Changes in accounting policies due to the implementation of the new revenue standards

On 5 July 2017, the Ministry of Finance issued the *Accounting Standards for Business Enterprises No. 14 – Revenue* (Revised in 2017) (Caikuai [2017] No. 22) (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 the new revenue 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 new revenue standards at the time required by the Ministry of Finance.

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.

The impact of the implementation of the new revenue standards by the Group on items of the consolidated balance sheet and balance sheet of the Company as of 1 January 2018 are summarized as follows:

Consolidated balance sheet

Item	Book balance prior to changes in accounting policies as at 31 December 2017	Effect of the new financial instrument standards	Book balance after changes in accounting policies as at 1 January 2018
Liabilities			
Advance from customers	1,888,892,476.97	(1,888,892,476.97)	–
Contract liabilities	–	1,614,438,014.50	1,614,438,014.50
Taxes payable	206,462,076.94	274,454,462.47	480,916,539.41

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

(1) Changes in accounting policies (Continued)

- ② Changes in accounting policies due to the implementation of the new revenue standards. (Continued)

The Company's balance sheet

Item	Book balance prior to changes in accounting policies as at 31 December 2017	Effect of the new financial instrument standards	Book balance after changes in accounting policies as at 1 January 2018
Liabilities			
Advance from customers	116,889,039.40	(116,889,039.40)	-
Contract liabilities	-	99,905,161.88	99,905,161.88
Taxes payable	124,918,499.55	16,983,877.52	141,902,377.07

- ③ Adjustments on the presentation of financial statements

The financial statements for the year ended 31 December 2018 are prepared by the Group 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	Before 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 the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

(1) Changes in accounting policies (Continued)

③ Adjustments on the presentation of financial statements (Continued)

The Company's balance sheet

Item	Before 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	<u>4,584,695,666.65</u>	<u>-</u>	<u>4,584,695,666.65</u>

- B. Affected items in the consolidated income statement and the income statement of the Company for the year ended 31 December 2017:

Consolidated income statement

Item	Before adjustment	Amount adjusted	After adjustment
Administrative expenses	1,579,582,508.93	(373,287,521.71)	1,206,294,987.22
Research and development expenditures	-	373,287,521.71	373,287,521.71
Total	<u>1,579,582,508.93</u>	<u>-</u>	<u>1,579,582,508.93</u>

The Company's income statement

Item	Before adjustment	Amount adjusted	After adjustment
Administrative expenses	445,111,622.93	(130,836,506.00)	314,275,116.93
Research and development expenditures	-	130,836,506.00	130,836,506.00
Total	<u>445,111,622.93</u>	<u>-</u>	<u>445,111,622.93</u>

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

30. Significant Accounting Judgments and Estimates

In the application of the accounting policies, due to the intrinsic uncertainty of business operations, the Company 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 Company 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 Company's management, and then lead to significant adjustments to the book value of assets or liabilities influenced in future.

The Company 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.

The following are the critical judgments that the Company has made in the process of judging, evaluating and assuming as at balance sheet date:

(1) Revenue recognition

As stated in Note IV. 24 – 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 Company 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 Company has assumed all risks and rewards incident upon the ownership of the leased assets.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

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

(3) Impairment of financial assets

Expected credit loss model is adopted by the Company to evaluate the impairment of financial assets. Adopting expected credit loss model requires making significant judgment and evaluation, considering all the reasonable and supportable information, including forward-looking information. To conclude the expected change in of credit risk of the debtor, the Company shall make such judgment and evaluation based on historical data with factors such as change in economy policies, macroeconomic indicators, industry risk, external market environment, technology environment, customer condition, etc.

(4) Provision for decline in value

The Company 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. The 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.

(5) Fair value of financial instruments

The Company 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 Company 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 investment in equity instruments or contract has a public offer, the Company does not use the cost as the best estimate of its fair value.

(6) Provision for the impairment of long-term assets

The Company 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 Company finds evidence that book value is unrecoverable.

When the book value of assets or asset group is higher than recoverable amount, which is the net amount of the fair value of the asset minus the disposal expenses and the present value of the expected future cash flow of the asset, it indicates that the impairment incurs.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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

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

(6) Provision for the impairment of long-term assets *(Continued)*

Net amount of the fair value minus disposal expense should be determined by reference to sales agreement price or observable market price of similar assets in fair transaction minus incremental cost directly attributable to such assets disposed.

Upon estimation of current value of future cash flow, significant judgment on production, sale price, related operation cost and discount rate for current value calculation is required. The Company may use all attainable relevant information upon estimation of the recoverable amounts, including estimation on the capacity, sale price and relevant operation cost made based on reasonable and supportable hypothesis.

The Company 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 Company 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.

(7) Depreciation and Amortization

The Company 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 Company 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 Company 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.

(8) Deferred tax assets

If it is highly possible that there is enough taxable profit to offset losses, the Company recognizes deferred income assets for all unused taxation losses. It requires huge judgment of the management of the Company to estimate the time and amount of future taxable profit together with tax payment planning strategy to decide the amount of deferred income tax assets to recognized.

(9) Income Taxes

During regular business activities of the Company, 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 year during final recognition.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

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

(10) Provisions

Based on the contract terms, existing knowledge and historical experience, the Company 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 Company, the Company 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 Company needs to assess factors such as risks, uncertainties and time value of money related to such contingent events.

Among them, the Company will provide provisions for after-sales warranty to customers for the sale, repair and modification of the products sold. The Company'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.

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 year.
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).

Notes to the Financial Statements

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

V. TAXES (Continued)

1. Main Tax Types and Tax Rate (Continued)

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), Wang Lao ji	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

2. Tax Preferential Treatments and Approval Documents

According to the state's relevant tax preferential policies for High/New enterprises, qualified High/New technology 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 High/New Technology Enterprises, can enjoy preferential tax rate of 15% for current year, 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), Wang Lao Ji (No. GR201744001303).

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

3. Others

Nil.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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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, the closing balance refers to 31 December 2018, and the closing balance of the prior year refers to 31 December 2017; the current year refers to the year ended 31 December 2018 and the prior year refers to the year ended 31 December 2017.

1. Cash at Bank and on Hand

Item	Closing balance	Opening balance
Cash on hand	981,910.86	908,829.96
Cash at bank	15,049,107,347.81	11,572,752,736.19
Other currency balance	1,064,794,414.84	123,557,316.69
Total	16,114,883,673.51	11,697,218,882.84
Including: Total amount of cash kept in foreign countries	37,505,038.18	7,793,845.14

Notes: (1) Other currency balance RMB1,064,794 thousand (31 December 2017: RMB123,557 thousand) is comprised of the Group's the third-party payment account, agreement deposit, deposit for notes payable, deposit for borrowings, factoring deposit for accounts receivable, term deposit, and deposit in fiscal and tax special card.

(2) As at 31 December 2018, the amount of the Group's cash at bank and on hand with restrictions on ownership was RMB1,043,271 thousand (31 December 2017: RMB201,684 thousand). Breakdown of cash at bank and on hand with restrictions on use is as follows:

Item	Closing balance	Opening balance
Deposit for notes payable	838,954,099.58	73,825,106.18
Factoring deposit for accounts receivable	100,438,849.65	–
Frozen account funds	78,283,834.37	84,995,913.79
Term deposit	20,000,000.00	–
Deposit for borrowings	3,794,247.96	–
Housing funds	1,212,244.60	1,973,540.00
Guarantee deposits	588,198.97	585,303.08
Pledge funds	–	40,303,860.09
Total	1,043,271,475.13	201,683,723.14

Notes to the Financial Statements

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

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Notes Receivable and Accounts Receivable

Item	Closing balance	Opening balance
Notes receivable	2,780,597,684.01	1,702,655,475.08
Accounts receivable	10,872,458,472.34	1,113,769,006.51
Total	13,653,056,156.35	2,816,424,481.59

(1) Notes receivable

① Category of notes receivable

Item	Closing balance	Opening balance
Bank acceptance notes	2,175,757,870.03	1,650,289,946.92
Commercial acceptance notes	604,839,813.98	52,365,528.16
Total	2,780,597,684.01	1,702,655,475.08

② Notes receivable pledged at the year end

Item	Amount pledged at the year end
Bank acceptance notes	25,050,000.00
Commercial acceptance notes	2,160,000.00
Total	27,210,000.00

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. 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 year end

Item	Amount derecognized at the year end	Amount not derecognized at the year end
Bank acceptance notes	2,538,901,253.79	—
Commercial acceptance notes	—	52,760,469.00
Total	2,538,901,253.79	52,760,469.00

- 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. Consequently, 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 RMB2,538,901 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 31 December 2018 which shall be matured by 31 December 2019.
- (e) For the year ended 31 December 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 the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Notes Receivable and Accounts Receivable (Continued)

(1) Notes receivable (Continued)

- ④ As at 31 December 2018, the bank acceptance notes endorsed by the Group to other parties but not matured was RMB2,332,235 thousand (31 December 2017: RMB1,787,530 thousand). The top five drawers by balances are as follows:

Drawers	Billing date	Maturity date	Closing balance
Customer 1	05 Jul 2018	04 Jan 2019	15,913,278.42
Customer 2	30 Aug 2018	28 Feb 2019	15,000,000.00
Customer 3	30 Aug 2018	28 Feb 2019	15,000,000.00
Customer 4	03 Oct 2018	30 Apr 2019	15,000,000.00
Customer 5	15 Oct 2018	15 Jan 2019	13,300,000.00

- ⑤ As at 31 December 2018, commercial acceptance notes endorsed by the Group but not matured was RMB52,760 thousand (31 December 2017: RMB11,379 thousand). The top five drawers by balances are as follows:

Drawers	Billing date	Maturity date	Closing balance
Customer 1	28 Jun 2018	27 Jun 2019	15,476,072.00
Customer 2	28 Jun 2018	27 Jun 2019	14,535,829.00
Customer 3	28 Jun 2018	27 Jun 2019	11,594,968.00
Customer 4	28 Jun 2018	27 Jun 2019	11,000,000.00
Customer 5	18 Oct 2018	18 Apr 2019	93,600.00

- ⑥ As at 31 December 2018, bank acceptance notes discounted by the Group but not matured was RMB206,666 thousand (31 December 2017: RMB217,465 thousand). The top five drawers by balances are as follows:

Drawers	Billing date	Maturity date	Closing balance
Customer 1	02 Aug 2018	02 Feb 2019	10,000,000.00
Customer 2	10 Dec 2018	10 Mar 2019	9,957,698.86
Customer 3	14 Dec 2018	14 Mar 2019	6,000,000.00
Customer 4	17 Dec 2018	19 Mar 2019	5,904,463.74
Customer 5	18 Dec 2018	18 Mar 2019	5,258,317.03

Notes to the Financial Statements

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Notes Receivable and Accounts Receivable (Continued)

(1) Notes receivable (Continued)

- ⑦ As at 31 December 2018 and 31 December 2017, the Group had no commercial acceptance notes discounted by the Group but not matured.
- ⑧ As at 31 December 2018 and 31 December 2017, the Group had no accounts receivable transferred from notes receivable due to the inability of performance by the drawer.
- ⑨ *Notes receivable disclosed by methods of accruing provision for bad debts*

Category	Book balance		Closing balance Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss (%)	
Notes receivable subject to separate provision	-	-	-	-	-
Notes receivable subject to provision by portfolio Including: portfolio 2	2,780,597,684.01	100.00	-	-	2,780,597,684.01
Total	2,780,597,684.01	100.00	-	-	2,780,597,684.01

Cont.

Category	Book balance		Opening balance Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss (%)	
Notes receivable subject to separate provision	-	-	-	-	-
Notes receivable subject to provision by portfolio Including: portfolio 2	1,702,655,475.08	100.00	-	-	1,702,655,475.08
Total	1,702,655,475.08	100.00	-	-	1,702,655,475.08

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Notes Receivable and Accounts Receivable (Continued)

(1) Notes receivable (Continued)

⑨ *Notes receivable disclosed by methods of accruing provision for bad debts (Continued)*

- A. The Group had no notes receivable which are subject to separate provision for the current year.
- B. Notes receivable which are subject to provision by financial asset portfolio with extremely low credit risk

Item	Closing balance		Expected credit loss (%)
	Notes receivable	Provision for bad debts	
Notes receivable with extremely low credit risk	2,780,597,684.01	-	-
Total	2,780,597,684.01	-	-

⑩ *The Group had no provision for bad debts for the current year.*

⑪ *The Group had no notes receivable written off for the current year.*

(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	10,608,071,266.73	1,025,013,019.97
1 to 2 years	296,900,276.44	16,408,005.59
2 to 3 years	21,494,905.55	14,051,869.29
3 to 4 years	24,379,618.72	118,686,993.67
4 to 5 years	149,135,708.99	6,469,782.39
Over 5 years	60,509,283.89	14,464,938.08
Total book balance of accounts receivable	11,160,491,060.32	1,195,094,608.99
Less: Provision for bad debts	288,032,587.98	81,325,602.48
Total book value of accounts receivable	10,872,458,472.34	1,113,769,006.51

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Notes Receivable and Accounts Receivable (Continued)

(2) Accounts receivable (Continued)

② Accounts receivable disclosed by method of accruing provision for bad debts

Category	Book balance		Closing balance Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss (%)	
Accounts receivable subject to separate provision	190,638,700.65	1.71	94,158,214.38	49.39	96,480,486.27
Accounts receivable subject to provision by portfolio of features of credit risk Including: portfolio 1	10,969,852,359.67	98.29	193,874,373.60	1.77	10,775,977,986.07
Total	<u>11,160,491,060.32</u>	<u>100.00</u>	<u>288,032,587.98</u>	<u>2.58</u>	<u>10,872,458,472.34</u>

(Cont.)

Category	Book balance		Opening balance Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss (%)	
Accounts receivable subject to separate provision	159,667,196.46	13.36	60,944,927.63	38.17	98,722,268.83
Accounts receivable subject to provision by portfolio of features of credit risk Including: portfolio 1	1,035,427,412.53	86.64	20,380,674.85	1.97	1,015,046,737.68
Total	<u>1,195,094,608.99</u>	<u>100.00</u>	<u>81,325,602.48</u>	<u>6.80</u>	<u>1,113,769,006.51</u>

Notes to the Financial Statements

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Notes Receivable and Accounts Receivable (Continued)

(2) Accounts receivable (Continued)

A. Accounts receivable subject to separate provision at the year end

Accounts receivable (by debtor)	Book balance	Closing balance		Reason
		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 XIV. 1. (1) ①.
Customer 2	37,710,221.64	3,771,022.16	10.00	Litigation is involved. Please refer to Note XIV. 1. (1) ①.
Customer 3	27,725,115.90	23,725,115.90	85.57	Amount is expected to be unrecoverable. RMB4 million has been recovered as the Company won the case and collected the amount. Provision for bad debts amounted to RMB4 million has been reversed. Please refer to Note XIV. 1. (1) ①.
Customer 4	10,541,832.00	10,541,832.00	100.00	Litigation is involved. Please refer to Note XIV. 1. (1) ①.
Customer 5	5,191,200.00	5,191,200.00	100.00	Litigation is involved. Please refer to Note XIV. 1. (2).
Customer 6	4,971,878.60	4,971,878.60	100.00	The lawsuit is won and under implementation. Recoverability is expected to be low.
Customer 7	4,112,133.79	4,112,133.79	100.00	The court has declared the bankruptcy of the customer. Recoverability is expected to be low.
Customer 8	3,190,387.50	3,190,387.50	100.00	Amount is expected to be unrecoverable.
Customer 9	3,120,000.00	3,120,000.00	100.00	Litigation is involved. Please refer to Note XIV. 1. (1) ⑤.
Customer 10	3,085,425.87	3,085,425.87	100.00	Amount is expected to be unrecoverable.
Others	39,991,845.95	27,349,352.62	68.39	Amount is expected to be unrecoverable.
Total	190,638,700.65	94,158,214.38		

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(All amounts in Renminbi yuan unless otherwise stated)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Notes Receivable and Accounts Receivable (Continued)

(2) Accounts receivable (Continued)

B. Accounts receivable subject to provision by aging portfolio

Aging	Book balance	Closing balance Provision for bad debts	Expected credit loss (%)
Within 1 year	10,595,318,494.61	105,939,311.19	1.00
1 to 2 years	292,704,339.66	29,270,433.98	10.00
2 to 3 years	22,461,434.74	6,738,430.45	30.00
3 to 4 years	11,636,777.53	5,818,388.78	50.00
4 to 5 years	8,117,519.60	6,494,015.67	80.00
Over 5 years	39,613,793.53	39,613,793.53	100.00
Total	<u>10,969,852,359.67</u>	<u>193,874,373.60</u>	<u>-</u>

Cont.

Aging	Book balance	Opening balance Provision for bad debts	Expected credit loss (%)
Within 1 year	1,003,178,081.54	10,031,780.80	1.00
1 to 2 years	14,628,836.14	1,462,883.62	10.00
2 to 3 years	10,741,835.97	3,222,550.80	30.00
3 to 4 years	2,140,130.72	1,070,065.38	50.00
4 to 5 years	725,669.59	580,535.68	80.00
Over 5 years	4,012,858.57	4,012,858.57	100.00
Total	<u>1,035,427,412.53</u>	<u>20,380,674.85</u>	<u>-</u>

Notes to the Financial Statements

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Notes Receivable and Accounts Receivable (Continued)

(2) Accounts receivable (Continued)

③ Provision for bad debts

Provision for bad debts provided in the current year was RMB25,718 thousand. Provision for bad debts recovered or reversed in the current year was RMB7,200 thousand.

Including: Significant provision for bad debts recovered or reversed in the current year

Company name	Amount recovered or reversed	Method
Customer 1	4,000,000.00	RMB4 million has been recovered as the Company won the case. Provision for bad debts amounted to RMB4 million has been reversed.
Customer 2	1,224,549.96	Litigation closed. Offset balance due from customer with balance due to supplier.
Customer 3	916,179.96	The Company improved the collection of accounts receivable and received balance due.
Customer 4	711,965.81	Litigation closed. Offset balance due from customer with balance due to supplier.
Customer 5	160,000.00	After negotiation with the customer, the amount is recovered.
Others	186,944.01	The Company improved the collection of accounts receivable and has collected the amount.
Total	<u>7,199,639.74</u>	–

④ Accounts receivable written off in the current year:

Item	Amount written off
Accounts receivable written off	5,361,866.04

Including: significant accounts receivable written off

Debtor	Nature	Amount written off	Reason	Procedure performed	Whether arising from related transactions
Customer 1	Sale of goods	1,716,000.00	Unrecoverable	Approved by the management	No

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Notes Receivable and Accounts Receivable (Continued)

(2) Accounts receivable (Continued)

⑤ The top five customers by balances at the year end 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	300,108,771.42	Within 1 year, 1 to 2 years Within 1 year, 1 to 2 years, 2 to 3 years	2.69	4,675,811.31
Customer 2	Sale of goods	281,183,629.40	3 years	2.52	3,078,031.50
Customer 3	Sale of goods	242,760,569.91	Within 1 year, 1 to 2 years	2.18	2,444,162.55
Customer 4	Sale of goods	174,301,568.72	Within 1 year, 1 to 2 years	1.56	4,412,308.70
Customer 5	Sale of goods	170,167,149.20	Within 1 year	1.52	1,701,671.49
Total		<u>1,168,521,688.65</u>		10.47	<u>16,311,985.55</u>

⑥ Accounts receivables derecognized due to transfer of financial assets in the current year.

Transfer method of financial assets	Accounts receivables derecognized	Profit or loss from the derecognition
Factoring of accounts receivable	<u>595,240,352.12</u>	<u>(11,416,025.80)</u>
Total	<u>595,240,352.12</u>	<u>(11,416,025.80)</u>

⑦ The Group had no assets or liabilities arising from the transfer of the accounts receivable with the continuing involvement for the current year.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Prepayments

(1) The aging analysis of prepayments is as follows:

Aging	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	787,644,850.07	94.01	234,892,970.44	91.54
1 to 2 years	20,097,405.33	2.40	15,846,896.39	6.18
2 to 3 years	21,941,790.90	2.62	3,094,700.49	1.21
Over 3 years	8,124,070.38	0.97	2,737,190.69	1.07
Total	837,808,116.68	100.00	256,571,758.01	100.00

(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	212,263,734.45	Within 1 year, 4 to 5 years	25.34
Supplier 2	Advance payment	59,559,870.37	Within 1 year, 4 to 5 years	7.11
Supplier 3	Advance payment	44,969,750.67	Within 1 year	5.37
Supplier 4	Advance payment	35,957,211.35	Within 1 year	4.29
Supplier 5	Advance payment	32,044,624.58	Within 1 year	3.82
Total		384,795,191.42		45.93

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Other Receivables

Item	Closing balance	Opening balance
Interest receivable	1,367,876.63	–
Dividends receivable	40,036,044.47	552,938,523.45
Other receivables	1,015,147,265.58	209,318,838.53
Total	1,056,551,186.68	762,257,361.98

(1) Interest receivable

① Interest receivable by category

Item	Closing balance	Opening balance
Term deposit	1,367,876.63	–
Total	1,367,876.63	–

(2) Dividends receivable

① Dividends receivable are as follows

Item (or investee)	Closing balance	Opening balance
Guangzhou Promise Biological Products Co., Ltd. (hereinafter referred to as "Nuo Cheng")	37,938,523.45	47,938,523.45
Chuangmei Medicines Co., Ltd. (hereinafter referred to as "Chuangmei Medicines")	2,097,521.02	–
GP Corp.	–	455,000,000.00
Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Co., Ltd. (hereinafter referred to as "HWBYS")	–	50,000,000.00
Total	40,036,044.47	552,938,523.45

② The Group had no significant dividends receivable with aging over 1 year for the current year.

③ The Group had no provision for bad debts for dividends receivable for the current year.

Notes to the Financial Statements

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Other Receivables (Continued)

(3) Other receivables

① Other receivables disclosed per aging:

Aging	Closing balance	Opening balance
Within 1 year	952,725,652.85	182,107,335.49
1 to 2 years	41,084,695.46	18,485,632.66
2 to 3 years	22,885,932.40	7,959,823.28
3 to 4 years	6,697,006.37	4,942,069.18
4 to 5 years	4,582,548.11	2,932,681.53
Over 5 years	31,682,275.57	24,249,096.47
Total book balance of other receivables	1,059,658,110.76	240,676,638.61
Less: Provision for bad debts	44,510,845.18	31,357,800.08
Total book value of other receivables	1,015,147,265.58	209,318,838.53

② Other receivables disclosed by categories are as follows:

Category	Book balance		Closing balance Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss (%)	
Other receivables subject to separate provision	34,132,453.39	3.22	33,951,273.39	99.47	181,180.00
Other receivables subject to provision by portfolio of features of credit risk					
Including: Portfolio 1	734,557,615.59	69.32	10,559,571.79	1.44	723,998,043.80
Portfolio 2	57,419,635.84	5.42	-	-	57,419,635.84
Portfolio 3	8,625,988.82	0.81	-	-	8,625,988.82
Portfolio 4	224,922,417.12	21.23	-	-	224,922,417.12
Total	1,059,658,110.76	100.00	44,510,845.18	4.20	1,015,147,265.58

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Other Receivables (Continued)

(3) Other receivables (Continued)

② Other receivables disclosed by categories are as follows: (Continued)

Category	Book balance		Opening balance Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss (%)	
Other receivables subject to separate provision	29,452,580.84	12.24	29,005,580.84	98.48	447,000.00
Other receivables subject to provision by portfolio of features of credit risk					
Including: 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
Total	240,676,638.61	100.00	31,357,800.08	13.03	209,318,838.53

A. Other receivables which are subject to separate provision at the year end

Other receivables	Book balance	Provision for bad debts	Closing balance	
			Expected credit loss (%)	Reason
Other receivables 1	10,315,700.00	10,315,700.00	100.00	Litigation is involved. Please refer to Note XIV. 1. (1) ①.
Other receivables 2	2,868,759.75	2,868,759.75	100.00	The debtor ceased operation. Amount is expected to be unrecoverable.
Other receivables 3	2,000,000.00	2,000,000.00	100.00	The aging of prepayments is too long. Research didn't achieve expected progress.
Other receivables 4	1,800,957.60	1,800,957.60	100.00	The debtor ceased operation. Amount is expected to be unrecoverable.
Other receivables 5	1,582,097.34	1,582,097.34	100.00	Amount is expected to be unrecoverable.
Other receivables 6	1,520,000.00	1,520,000.00	100.00	The debtor ceased operation. Amount is expected to be unrecoverable.
Other receivables 7	1,284,052.25	1,284,052.25	100.00	Amount is expected to be unrecoverable.
Other receivables 8	855,814.96	855,814.96	100.00	Litigation is involved. Please refer to Note XIV. 1. (1) ②.
Other receivables 9	832,092.29	832,092.29	100.00	Amount is expected to be unrecoverable.
Other receivables 10	502,043.54	502,043.54	100.00	Amount is expected to be unrecoverable.
Others	10,570,935.66	10,389,755.66	98.29	Amount is expected to be unrecoverable.
Total	34,132,453.39	33,951,273.39		

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Other Receivables (Continued)

(3) Other receivables (Continued)

② Other receivables disclosed by categories are as follows (Continued)

B. Other receivables which are subject to provision by aging portfolio

Aging	Closing balance			Expected credit loss (%)
	Book balance	Proportion in portfolio (%)	Provision for bad debts	
Within 1 year	724,064,797.25	98.58	7,240,646.02	1.00
1 to 2 years	4,980,351.57	0.68	498,035.17	10.00
2 to 3 years	3,266,217.50	0.44	979,865.25	30.00
3 to 4 years	651,336.78	0.09	325,668.39	50.00
4 to 5 years	397,777.67	0.05	318,222.14	80.00
Over 5 years	1,197,134.82	0.16	1,197,134.82	100.00
Total	734,557,615.59	100.00	10,559,571.79	-

(Cont.)

Aging	Opening balance			Expected credit loss (%)
	Book balance	Proportion in portfolio (%)	Provision for bad debts	
Within 1 year	11,173,666.97	75.92	111,736.68	1.00
1 to 2 years	500,085.07	3.40	50,008.51	10.00
2 to 3 years	1,079,531.94	7.34	323,859.58	30.00
3 to 4 years	131,476.81	0.89	65,738.41	50.00
4 to 5 years	157,593.82	1.07	126,075.06	80.00
Over 5 years	1,674,801.00	11.38	1,674,801.00	100.00
Total	14,717,155.61	100.00	2,352,219.24	-

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Other Receivables (Continued)

(3) Other receivables (Continued)

② Other receivables disclosed by categories are as follows: (Continued)

C. Other receivables which are subject to provision by other portfolio methods

Item	Closing balance			Expected credit loss (%)
	Book balance	Proportion (%)	Provision for bad debts	
Other receivables for which provision for bad debts is accrued by financial asset portfolio with extremely low credit risk	57,419,635.84	5.42	-	-
Other receivables for which provision for bad debts is accrued by related party portfolio	8,625,988.82	0.81	-	-
Other receivables for which provision for bad debts is accrued by margins, deposit portfolio	224,922,417.12	21.23	-	-
Total	290,968,041.78	27.46	-	-

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Other Receivables (Continued)

(3) Other receivables (Continued)

③ Category of other receivables as per nature

Nature	Closing book balance	Opening book balance
Petty cash	8,362,855.17	6,021,769.47
Margin, deposit and down payment	175,353,366.04	42,162,681.50
Advances to employees	68,329,344.32	38,494,782.86
Receivables due from external parties	754,837,110.46	95,045,525.40
Receivables due from related parties	9,178,773.24	28,469,898.59
Tax refund for exports	715,195.60	2,217,254.24
Others	42,881,465.93	28,264,726.55
Total book balance of other receivables	1,059,658,110.76	240,676,638.61
Less: Provision for bad debts	44,510,845.18	31,357,800.08
Total book value of other receivables	1,015,147,265.58	209,318,838.53

④ Provision for bad debts

Provision for bad debts provided in the current year was RMB13,609 thousand. The Group had no provision for bad debts recovered or reversed for the current year.

⑤ Other receivables written off in the current year.

Item	Amount written off
Other receivables written off	447,000.00

The Group had no significant other receivables written off.

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Other Receivables (Continued)

(3) Other receivables (Continued)

⑥ 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	33,273,274.01	Within 1 year	3.14	332,732.74
Other receivables 2	Receivables due from external parties	28,024,506.69	Within 1 year	2.64	280,245.07
Other receivables 3	Receivables due from external parties	21,229,647.42	Within 1 year	2.00	212,296.47
Other receivables 4	Receivables due from external parties	18,949,506.26	Within 1 year	1.79	189,495.06
Other receivables 5	Receivables due from external parties	17,674,135.64	Within 1 year	1.67	176,741.36
Total		<u>119,151,070.02</u>	—	11.24	<u>1,191,510.70</u>

⑦ The Group had no receivables related to government grants.

⑧ The Group had no other receivables that had been derecognized due to transfer of financial assets.

⑨ The Group had no assets or liabilities arising from the transfer accounts receivable with the continuing involvement for the current year.

Notes to the Financial Statements

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Inventories

(1) Disclosure of inventories by categories is as follows:

Item	Closing balance		Book value
	Book balance	Provision for decline in value	
Raw materials	1,307,647,020.59	9,294,225.68	1,298,352,794.91
Work in progress	465,859,362.21	3,763,902.17	462,095,460.04
Semi-finished goods	237,818,255.05	891,968.80	236,926,286.25
Low-value consumables	7,865,474.43	–	7,865,474.43
Packaging materials	148,227,367.49	–	148,227,367.49
Consignment processing material	3,012,285.84	–	3,012,285.84
Commodity stocks	7,173,857,957.53	98,598,528.65	7,075,259,428.88
Others	–	–	–
Total	9,344,287,723.14	112,548,625.30	9,231,739,097.84

Cont.

Item	Opening balance		Book value
	Book balance	Provision for decline in 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
Low-value consumables	7,216,360.33	3,273.00	7,213,087.33
Packaging materials	105,084,792.23	–	105,084,792.23
Consignment processing material	20,184,055.77	–	20,184,055.77
Commodity stocks	2,408,128,777.44	22,709,553.07	2,385,419,224.37
Others	503,032.44	–	503,032.44
Total	3,726,944,527.86	26,721,631.85	3,700,222,896.01

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Inventories (Continued)

(2) Provision for decline in value of inventories and contract performance cost

Item	Opening balance	Increase		Decrease		Closing balance
		Provided	Others	Transferred or written-off	Others	
Raw materials	3,116,836.98	6,268,168.78	-	20,348.08	70,432.00	9,294,225.68
Work in progress	-	3,763,902.17	-	-	-	3,763,902.17
Semi-finished goods	891,968.80	-	-	-	-	891,968.80
Low-value consumables	3,273.00	-	-	-	3,273.00	-
Commodity stocks	22,709,553.07	71,257,550.17	34,531,427.38	29,900,001.97	-	98,598,528.65
Total	26,721,631.85	81,289,621.12	34,531,427.38	29,920,350.05	73,705.00	112,548,625.30

(3) Basis of provision for decline in value of inventories and reason for reversing or writing off in the current year

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	-
Commodity stocks	Book value is higher than net realizable value	-	Sold

(4) As of 31 December 2018, there is no capitalization of borrowing costs in the inventory.

6. Other Current Assets

Item	Closing balance	Opening balance
Structured deposits	1,530,000,000.00	1,850,000,000.00
Deductible Input VAT	519,056,234.63	193,977,863.61
Prepaid enterprise income tax	50,985,240.99	180,427,954.70
Undisposed assets for whole relocation (Note)	24,438,333.74	35,799,561.27
Bank financial products	12,035,289.38	6,300,000.00
Others	732,955.59	478,027.24
Total	2,137,248,054.33	2,266,983,406.82

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 Qi xing 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. In November 2018, under the supervision of government department and valuation company, damaged inventory due to relocation amounted to RMB11,429 thousand. As at 31 December 2018, the report is not yet issued.

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Long-term Equity Investments

Investee	Investment costs	Opening balance	Increase	Decrease	Change in the current year				Closing balance	Closing balance of provision for impairment	
					Investment gains and losses recognized under equity method	Adjustment to other comprehensive income	Declaration of cash dividends or profits	Provision for impairment provided			Others
I. Joint ventures											
GP Corp.	396,589,139.78	934,856,877.59	-	-	62,877,104.25	(8,821.96)	-	-	(997,725,159.88)	-	-
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. (hereinafter referred to as "Wang Lao Ji") (Note 1)	102,035,124.44	391,297,621.18	-	-	94,214,740.74	-	-	-	(485,512,361.92)	-	-
Nuo Cheng	42,000,000.00	141,227,391.87	-	-	87,648,818.38	-	-	-	-	228,876,210.25	-
HWBYS	100,000,000.00	333,889,342.40	-	-	55,828,461.73	-	-	-	-	389,717,804.13	-
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. (hereinafter referred to as "Baxter Qiao Guang")	37,000,000.00	39,447,376.09	-	-	3,253,734.50	-	-	-	-	42,701,110.59	-
Subtotal	677,624,264.22	1,840,718,609.13	-	-	303,822,859.60	(8,821.96)	-	-	(1,483,237,521.80)	661,295,124.97	-
II. Associates											
Guangzhou Jinshen Pharmaceutical Technology Co., Ltd.	765,000.00	-	-	-	-	-	-	-	-	-	-
Hangzhou 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	-	-	6,128,824.20	29,136.57	-	-	-	60,823,876.62	-
Guangzhou Baiyunshan Weiji Medical Investment Management Co., Ltd.	2,020,000.00	2,014,035.94	-	-	18,020.27	-	-	-	-	2,032,056.21	-
Chuangmei Medicines Co., Ltd.	60,823,012.51	58,238,389.70	-	-	-	-	-	-	4,753,574.98	62,991,964.68	-
Guangzhou Baiyunshan Southern Anti-tumor Biological Products Co., Ltd.	50,225,000.00	49,475,363.28	-	-	(1,930,215.13)	-	-	-	-	47,545,148.15	-
Guangzhou Zhongcheng Medical Instruments Industry Development Co., Ltd.	3,400,000.00	3,368,943.15	-	-	(592,910.01)	-	-	-	-	2,776,033.14	-
Guangzhou Baiyunshan Yi Xin Tang Pharmaceutical Investment Development Co., Ltd. (hereinafter referred to as "Baiyunshan Yi Xin Tang")	45,000,000.00	-	45,000,000.00	-	(37,480.99)	-	-	-	-	44,962,519.01	-
Guangdong Guangyao Jinshen Equity Investment Fund Management Co., Ltd.	4,000,000.00	-	4,000,000.00	-	(929,752.84)	-	-	-	-	3,070,247.16	-
Yunnan Hongqiang Yi Xin Tang Pharmaceutical (Group) Co., Ltd. (hereinafter referred to as "Yi Xin Tang")	864,570,227.02	-	864,570,227.02	-	22,469,454.73	-	12,578,616.30	-	-	874,461,065.45	-
Subtotal	1,081,249,239.53	167,762,647.92	913,570,227.02	-	25,125,940.23	29,136.57	12,578,616.30	-	4,753,574.98	1,098,662,910.42	-
Total	1,758,867,503.75	2,008,481,257.05	913,570,227.02	-	328,948,799.83	20,314.61	12,578,616.30	-	(1,478,483,946.82)	1,759,958,035.39	-

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(All amounts in Renminbi yuan unless otherwise stated)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Investments in Other Equity Instruments

(1) Investments in other equity instruments

Item	Closing balance	Opening balance
South China Center for Innovative Pharmaceuticals Co., Ltd.	10,000,000.00	10,000,000.00
Yilin Bio-industry Co., Ltd	303,733.73	200,000.00
Sino-Israel Bio-industry Investment Fund	66,916,260.65	44,808,355.26
Guangzhou Nanxin Pharmaceutical Co., Ltd.	7,677,876.51	7,677,876.51
Total	84,897,870.89	62,686,231.77

(2) Investments in non-transactional equity instruments

Item	Dividend income recognized in the current year	Accumulated profit	Accumulated loss	Amount transferred from other comprehensive income to retained earnings	Reason for designated to be measured at FVTOCI	Reason for transferred from other comprehensive income to retained earnings
South China Center for Innovative Pharmaceuticals Co., Ltd.	-	-	-	-	Long-held based on strategic purpose	-
Yilin Bio-industry Co., Ltd	-	-	-	-	Long-held based on strategic purpose	-
Sino-Israel Bio-industry Investment Fund	-	-	-	-	Long-held based on strategic purpose	-
Guangzhou Nanxin Pharmaceutical Co., Ltd.	-	-	-	-	Long-held based on strategic purpose	-
Total	-	-	-	-	-	-

9. Other Non-Current Financial Assets

Item	Closing balance	Opening balance
Financial assets classified at FVTPL	226,938,456.16	975,856,856.18
Including: Equity instrument investments	226,938,456.16	975,856,856.18
Total	226,938,456.16	975,856,856.18

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. 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	21,696,786.05	–	21,696,786.05
(1) Purchase	14,582,518.30	–	14,582,518.30
(2) Increase arising from business combinations	6,789,425.25	–	6,789,425.25
(3) Changes in foreign exchange rate	324,842.50	–	324,842.50
3. Decrease	–	–	–
4. Closing balance	401,011,186.32	18,344,900.69	419,356,087.01
II. Accumulated depreciation and amortization			
1. Opening balance	170,871,848.04	9,111,673.54	179,983,521.58
2. Increase	10,875,699.21	412,366.39	11,288,065.60
(1) Provision or amortization	10,571,291.04	412,366.39	10,983,657.43
(2) Increase arising from business combinations	286,925.25	–	286,925.25
(3) Changes in foreign exchange rate	17,482.92	–	17,482.92
3. Decrease	–	–	–
4. Closing balance	181,747,547.25	9,524,039.93	191,271,587.18
III. Provision for impairment			
1. Opening balance	–	–	–
2. Increase	–	–	–
3. Decrease	–	–	–
4. Closing balance	–	–	–
IV. Book value			
1. Closing balance of book value	219,263,639.07	8,820,860.76	228,084,499.83
2. Opening balance of book value	<u>208,442,552.23</u>	<u>9,233,227.15</u>	<u>217,675,779.38</u>

(2) Depreciation for the current year is RMB10,571 thousand (2017: RMB10,199 thousand). Amortization for the current year is RMB412 thousand (2017: RMB375 thousand).

(3) Increase in original value and accumulated depreciation of investment property due to change in foreign exchange rate is RMB325 thousand and RMB17 thousand respectively in 2018 (2017: decreased RMB472 thousand and RMB190 thousand respectively).

(4) All of the investment properties with land use right are located in Mainland China with useful life vary from 10 to 50 years.

(5) The Group had no transfer of properties for the current year.

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Fixed Assets

Item	Closing balance	Opening balance
Fixed assets	3,165,746,536.73	2,082,244,551.64
Disposal of fixed assets	—	—
Total	3,165,746,536.73	2,082,244,551.64

(1) Fixed assets

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	942,088,359.70	624,040,545.46	55,129,716.32	25,920,104.30	138,766,390.74	11,231,395.55	1,797,176,512.07
(1) Purchases	966,755.46	41,674,259.40	2,906,692.99	8,359,836.19	12,635,710.81	20,571.99	66,563,826.84
(2) Transferred from construction in progress	29,220,868.08	143,675,669.57	1,089,040.28	10,236,295.29	16,815,919.85	11,210,823.56	212,248,616.63
(3) Increase arising from business combination	911,900,736.16	438,690,616.49	51,133,983.05	7,323,972.82	109,314,760.08	—	1,518,364,068.60
3. Decrease	1,037,112.74	30,288,133.37	11,180,476.57	6,710,665.50	7,918,358.42	663,310.62	57,798,057.22
(1) Disposal or scrap	338,139.55	30,288,133.37	11,180,476.57	6,710,665.50	7,918,358.42	663,310.62	57,099,084.03
(2) Others	698,973.19	—	—	—	—	—	698,973.19
4. Closing balance	3,055,207,838.62	2,484,850,814.25	130,039,950.40	169,360,341.86	256,890,169.03	51,191,286.66	6,147,540,400.82
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	248,446,870.69	297,759,545.29	39,443,571.00	21,009,289.79	82,550,398.55	4,407,599.52	693,617,274.84
(1) Provision	66,064,876.42	142,054,744.88	7,027,227.55	15,471,171.94	14,906,470.85	4,407,599.52	249,932,091.16
(2) Increase arising from business combinations	182,381,994.27	155,704,800.41	32,416,343.45	5,538,117.85	67,643,927.70	—	443,685,183.68
3. Decrease	531,643.36	24,386,344.21	9,984,801.89	5,727,741.36	4,814,050.37	458,726.20	45,903,307.39
(1) Disposal or scrap	316,123.71	24,386,344.21	9,984,801.89	5,727,741.36	4,814,050.37	458,726.20	45,687,787.74
(2) Others	215,519.65	—	—	—	—	—	215,519.65
4. Closing balance	1,119,898,654.08	1,445,087,116.53	90,689,173.64	109,783,882.78	164,007,622.26	32,717,447.50	2,962,183,896.79
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	1,225,225.35	—	—	—	—	8,790,022.47
(1) Provision	—	910,238.91	—	—	—	—	910,238.91
(2) Increase arising from business combinations	7,564,797.12	314,986.44	—	—	—	—	7,879,783.56
3. Decrease	—	514,176.70	—	113,343.46	—	—	627,520.16
(1) Disposal or scrap	—	514,176.70	—	113,343.46	—	—	627,520.16
4. Closing balance	11,767,229.72	6,238,300.93	158,224.47	1,443,365.80	2,846.38	—	19,609,967.30
IV. Book value							
1. Closing balance of book value	1,923,541,954.82	1,033,525,396.79	39,192,552.29	58,133,093.28	92,879,700.39	18,473,839.16	3,165,746,536.73
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

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(All amounts in Renminbi yuan unless otherwise stated)
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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Fixed Assets (Continued)

(1) Fixed assets (Continued)

① Fixed assets (Continued)

Notes:

- (a) Original value of fixed assets transferred from construction in progress is RMB212,249 thousand in 2018 (2017: RMB129,053 thousand).
- (b) Decrease in original value and accumulated depreciation of fixed assets due to the fluctuation in foreign exchange rate are RMB699 thousand and RMB216 thousand respectively in 2018 (2017: decreased RMB560 thousand and RMB117 thousand respectively).
- (c) Fixed assets depreciation accrued in 2018 is RMB249,932 thousand (2017: RMB210,556 thousand), which is comprised of depreciation in operating cost RMB107,956 thousand, depreciation in selling expenses RMB42,398 thousand, depreciation in G&A expenses RMB76,639 thousand and depreciation in R&D expenditure RMB22,939 thousand (2017: depreciation in operating cost RMB138,501 thousand, depreciation in selling expenses RMB2,874 thousand, depreciation in G&A expenses RMB51,532 thousand and depreciation in R&D expenditure RMB17,649 thousand).

② Temporary idle fixed assets

Item	Original cost	Accumulated depreciation	Provision for impairment	Book value	Note
Buildings	667,112.26	430,613.36	236,498.90	861,226.72	
Machinery and equipment	332,553.88	444,068.69	166,276.94	610,345.63	
Total	<u>999,666.14</u>	<u>874,682.05</u>	<u>402,775.84</u>	<u>1,471,572.35</u>	

③ Fixed assets leased in under finance lease

Item	Original cost	Accumulated depreciation	Provision for impairment	Book value
Machinery and equipment	306,431,189.53	259,605,015.68	46,826,173.85	519,210,031.36
Total	<u>306,431,189.53</u>	<u>259,605,015.68</u>	<u>46,826,173.85</u>	<u>519,210,031.36</u>

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Fixed Assets (Continued)

(1) Fixed assets (Continued)

④ Fixed assets leased out under operating lease

Item	Closing balance of book value	Opening balance of book value
Buildings	11,793,975.54	7,769,341.36
Total	11,793,975.54	7,769,341.36

⑤ Fixed assets which do not have a certificate of property right

Item	Book value	Reason for do not have certificate of property right	Estimated time for acquiring certificate of property right
Buildings	49,859,572.54	Not handled yet as necessary procedures were not complete	Unknown
Total	49,859,572.54	–	–

Note:

As at 31 December 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\$6,293 thousand, and investment property with the original costs of HK\$6,843 thousand and the net value of HK\$3,647 thousand pledged as collateral, and obtained a 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 48 thousand and USD 412 thousand from the Bank of China (Hong Kong) Co., Ltd.

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Construction in Progress

(1) Construction in progress

Item	Closing balance			Opening balance		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Construction in progress	480,557,457.88	251,734.38	480,305,723.50	284,923,861.83	251,734.38	284,672,127.45
Total	480,557,457.88	251,734.38	480,305,723.50	284,923,861.83	251,734.38	284,672,127.45

(2) Changes of significant construction in progress in the current year

Project	Budget	Opening balance	Increase	Amount transferred into fixed assets in the current year	Other decrease	Closing balance	Proportion of construction investment	Project progress	Source of funds
Ming Xing relocation improvement	475,620,000.00	85,285,310.38	1,240,434.30	415,384.61	-	86,110,360.07	25.00	48.00	Self-raised funds
Base of Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd.	400,000,000.00	6,791,398.57	65,711,416.67	-	-	72,502,815.24	22.51	22.51	Self-raised funds
Extension project K of Hospital service	50,382,337.86	-	50,382,337.86	-	-	50,382,337.86	100.00	62.41	Self-raised funds
Cai Zhi Lin Meizhou TCM Industrialized production and service base	130,000,000.00	17,215,842.20	28,462,982.18	-	17,215,842.20	28,462,982.18	21.89	21.89	Self-raised funds
Extension project F of Hospital service	61,857,364.24	-	26,755,917.72	293,651.21	-	26,462,266.51	100.00	29.49	Self-raised funds
Project of special medical use formula food production line	42,400,000.00	9,558,497.00	7,665,092.42	-	-	17,223,589.42	41.34	41.34	Self-raised funds
Zhongluotan Wulonggang AB08070981 block	159,750,000.00	3,257,118.81	12,344,436.65	-	-	15,601,555.46	26.12	26.12	Self-raised funds
Extension project G of Hospital service	14,716,224.85	-	14,188,592.78	141,517.03	1,293,731.82	12,753,343.93	99.90	43.36	Self-raised funds
New warehouse	17,056,000.00	4,206,139.40	6,451,685.33	-	-	10,657,824.73	75.64	95.00	Self-raised funds
Baiyun project	503,382,480.00	-	8,381,430.76	-	-	8,381,430.76	1.67	11.25	Self-raised funds
Extension project D of Hospital service	30,363,514.26	-	7,963,422.26	153,547.21	129,693.96	7,680,181.09	87.33	25.47	Self-raised funds
Chinese medicine treatment before extraction of the modernization of products of stage 1 of GMP improvement	97,564,100.00	14,370,345.91	28,407,527.97	5,613,381.03	29,805,829.42	7,358,663.43	102.68	43.85	Self-raised funds
VOCs waste gas pollution control project	15,781,360.00	-	5,958,676.29	-	-	5,958,676.29	37.76	37.76	Self-raised funds
Compliance preparation equipment modification project	15,400,000.00	-	5,841,475.00	-	-	5,841,475.00	37.93	37.93	Self-raised funds
Extension project B of Hospital service	25,590,695.09	-	24,086,036.38	2,036,842.13	16,266,276.91	5,782,917.34	99.87	64.95	Self-raised funds
Extension project L of Hospital service	4,967,586.16	-	4,967,586.16	-	-	4,967,586.16	100.00	12.37	Self-raised funds
Recover Building C	30,000,000.00	17,040,128.16	9,739,452.13	12,793,584.00	10,130,387.01	3,855,609.28	100.00	99.00	Self-raised funds

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Construction in Progress (Continued)

(2) Changes of significant construction in progress in the current year (Continued)

Project	Budget	Opening balance	Increase	Amount transferred into fixed assets in the current year	Other decrease	Closing balance	Proportion of construction investment	Project progress	Source of funds
3rd GMP construction of modernization of traditional Chinese medicine	82,894,600.00	1,135,547.17	1,550,688.70	-	-	2,686,235.87	3.24	3.24	Self-raised funds, loan
Extension project H of Hospital service	9,200,000.00	-	7,678,912.67	3,686,728.18	1,322,222.23	2,669,962.26	83.47	41.83	Self-raised funds
Chengdu new warehouse project: GP Corp.	5,178,047.95	-	5,178,047.95	1,554,258.57	1,065,949.38	2,557,840.00	50.60	50.60	Self-raised funds
Technology improvement for penicillin oral solid dosage forms workshop	3,000,000.00	2,092,756.49	101,860.00	-	34,600.00	2,160,016.49	73.15	72.00	Self-raised funds
Extension project I of Hospital service	3,570,679.57	-	3,210,963.98	197,436.89	1,043,603.33	1,969,923.76	99.98	39.49	Self-raised funds
Extension project A of Hospital service	2,919,577.64	-	2,680,574.34	1,314,090.91	-	1,366,483.43	99.96	73.64	Self-raised funds
Xinshi factory VI improvement	2,800,000.00	1,583,156.14	1,578,142.67	1,864,074.41	-	1,297,224.40	112.90	80.00	Self-raised funds
Project of rebuilding raw-food materials with characteristic function and product workshop	5,905,000.00	274,404.56	813,484.06	-	-	1,087,888.62	29.60	60.00	Self-raised funds
Ming Xing equipment improvement	67,430,000.00	596,563.98	4,270,529.75	3,805,004.57	115,107.06	946,982.10	92.00	93.00	Self-raised funds
Liwan oculentum GMP improvement (2017)	12,000,000.00	5,719,820.54	1,808,748.31	7,197,799.62	-	330,769.23	105.51	64.90	Self-raised funds
Productivity improvement for oral solid dosage forms workshop	5,130,000.00	371,200.00	-	64,529.91	10,324.78	296,345.31	7.24	7.24	Self-raised funds
HMPL-004 special production line	3,000,000.00	218,363.76	-	-	-	218,363.76	7.28	10.00	Self-raised funds
Extension project J of Hospital service	9,016,723.57	-	7,704,669.39	4,048,092.05	3,446,356.95	210,220.39	96.03	61.48	Self-raised funds
Extension project C of Hospital service	15,232,709.71	-	1,655,989.71	1,340,017.35	114,796.36	201,176.00	98.04	22.43	Self-raised funds
Program of a building with 6 floors	3,500,000.00	67,066.70	109,094.72	-	2,915.10	173,246.32	115.14	65.00	Self-raised funds
Factory project	62,950,000.00	-	65,716.98	-	-	65,716.98	0.10	0.10	Self-raised funds
New established warehouse project	69,000,000.00	-	43,867.92	-	-	43,867.92	0.07	0.07	Self-raised funds
Extension project E of Hospital service	15,009,745.94	-	12,638,655.38	12,616,485.57	-	22,169.81	84.20	11.50	Self-raised funds
Properties in Nansha district	10,000,000.00	19,475.60	-	-	-	19,475.60	79.47	100.00	Self-raised funds
GMP improvement project of 4 workshops	6,920,000.00	11,014.44	-	-	-	11,014.44	0.16	0.16	Self-raised funds
Pill line of water-honeyed pill	3,500,000.00	1,434,000.00	-	-	1,434,000.00	-	100.00	100.00	Self-raised funds
Project of No.5, No.36 Saiba Rd (iron warehouse)	10,442,701.89	712,629.88	296,929.12	1,009,559.00	-	-	9.67	9.67	Self-raised funds
Boiling Center	2,800,000.00	2,187,199.19	788,640.59	-	2,975,839.78	-	106.28	100.00	Self-raised funds
Si Ai Pu	15,000,000.00	9,019,892.95	933,962.26	2,109,401.70	7,844,453.51	-	66.36	100.00	Self-raised funds
Tongtai Building	8,000,000.00	170,690.29	-	-	170,690.29	-	100.00	100.00	Self-raised funds
Oral cephalosporins workshop GMP improvement	47,800,000.00	9,710,876.03	8,328,883.29	18,039,759.32	-	-	81.70	85.00	Self-raised funds

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Construction in Progress (Continued)

(2) Changes of significant construction in progress in the current year (Continued)

Project	Budget	Opening balance	Increase	Amount transferred into fixed assets in the current year	Other decrease	Closing balance	Proportion of construction investment	Project progress	Source of funds
Tian Xin Powder Injector & Screw Arbor Line	19,800,000.00	600,000.00	-	-	600,000.00	-	8.87	3.03	Self-raised funds
Ming Xing Decoration	17,200,000.00	189,611.10	-	189,611.10	-	-	100.00	100.00	Self-raised funds
Construction of Guangyao Baiyunshan Chemical Pharmaceutical (Zhuhai) Co., Ltd.	722,689,100.00	3,810,922.63	532,452.83	-	4,343,375.46	-	0.60	0.60	Self-raised funds
Sterile production line	103,540,000.00	50,104,127.86	10,699,414.64	60,803,542.50	-	-	100.00	100.00	Self-raised funds
Extension project M of Hospital service	15,797,009.00	-	35,323.25	35,323.25	-	-	0.22	8.72	Self-raised funds
Construction of Bio-island R&D Headquarters	800,000,000.00	100,084.09	51,947.56	-	152,031.65	-	0.02	0.02	Self-raised funds, issuing shares
Others	220,532,965.30	37,069,678.00	140,322,595.63	70,924,994.51	14,228,358.68	92,238,920.44			
Total	4,456,590,523.03	284,923,861.83	521,628,598.56	212,248,616.63	113,746,385.88	480,557,457.88			

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Construction in Progress (Continued)

(3) The Group had no impairment of construction in progress provided for the current year.

(4) Impairment of construction in progress

Item	31 December 2017	Increase	Decrease	31 December 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	Completed
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	Construction stage
Bai Yun project	Construction stage
3rd GMP construction of modernization of traditional Chinese medicine	Construction stage

Notes to the Financial Statements

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. 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	112,315,199.71	198,884.44	81,538.46	196,000.00	290,131,523.82	402,923,146.43
(1) Purchase	17,215,842.20	198,884.44	81,538.46	-	53,525,711.33	71,021,976.43
(2) Increase arising from business combinations	95,099,357.51	-	-	196,000.00	236,605,812.49	331,901,170.00
3. Decrease	-	-	-	-	43,760.69	43,760.69
(1) Disposal	-	-	-	-	43,760.69	43,760.69
4. Closing balance	762,176,406.45	16,960,074.83	64,674,260.40	172,487,280.74	314,480,766.75	1,330,778,789.17
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	37,328,469.86	497,222.40	5,330,855.18	196,000.00	74,207,139.88	117,559,687.32
(1) Provision	16,269,464.83	497,222.40	5,330,855.18	-	18,210,675.03	40,308,217.44
(2) Increase arising from business combinations	21,059,005.03	-	-	196,000.00	55,996,464.85	77,251,469.88
3. Decrease	-	-	-	-	24,455.91	24,455.91
(1) Disposal	-	-	-	-	24,455.91	24,455.91
4. Closing balance	157,293,394.51	9,957,389.28	25,759,859.98	32,791,688.44	90,586,116.30	316,388,448.51
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	604,883,011.94	6,549,342.51	38,914,400.42	139,112,019.30	223,894,650.45	1,013,353,424.62
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 RMB40,308 thousand for the current year (2017: RMB23,815 thousand) are recognized in the 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.

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(All amounts in Renminbi yuan unless otherwise stated)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. 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) The Group had no land use right which do not have certificate of title for the current year.
- (3) The Group had no intangible assets which do not have right of use or have restricted right of use.

14. Development Expenditure

Item	Opening balance	Increase		Decrease			Closing balance	Closing balance of provision for impairment
		Internal development expenditures	Others	Recognized as intangible assets	Transferred into profit or loss in the current year	Others		
Capitalized expenditures	800,000.00	-	-	-	-	-	800,000.00	800,000.00
Expensed expenditures	-	585,497,705.00	-	-	585,497,705.00	-	-	-
Total	800,000.00	585,497,705.00	-	-	585,497,705.00	-	800,000.00	800,000.00

Note: Development expenditure RMB800 thousand is a patent purchased by a subsidiary of the Group in 2005, which was recognized in development expenditure. No further research was conducted after purchase. As of the year end, the patent technology is not expected to have practical value. Consequently, provision for impairment is accrued in full amount.

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. 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	
Guangzhou Baiyunshan Hospital	9,216,610.56	-	-	-	-	9,216,610.56
Guangyao Haima	2,282,952.18	-	-	-	-	2,282,952.18
Guangxi Ying Kang GP Corp.	475,756.92	-	-	-	-	475,756.92
	-	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
GP Corp.	-	118,275,499.68	-	-	-	118,275,499.68
Total	475,756.92	118,275,499.68	-	-	-	118,751,256.60

The Company conducted impairment test on each asset group related to goodwill at the year end. The Company adjusted the book value of each asset group through adding goodwill and goodwill attributable to minority interest, and then compared the adjusted book value of each asset group with recoverable amount to determine whether the impairment loss has incurred.

Notes to the Financial Statements

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Goodwill (Continued)

(3) Related information of asset groups or asset group portfolio containing goodwill

- ① GP Corp.: GP Corp. is engaged in wholesale and retailing of medicine, biological product, healthy food, medical apparatus and instruments, etc., and providing transportation and storage services to domestic customers. The pharmaceutical circulation industry business entity of GP Corp. is comprised of the parent company, multiple wholly-owned subsidiaries and holding subsidiaries. The management of GP Corp. shall regularly evaluate the operating outcome of the above-mentioned activities in whole to allocate resources. Consequently, GP Corp. in whole is recognized as an asset group.
- ② Guangzhou Baiyunshan Hospital: As a single entity, Guangzhou Baiyunshan Hospital is specializing in medical treatment and is independent from other entities in the Group. Guangzhou Baiyunshan Hospital in whole generate cash flow and consequently is recognized as an asset group.
- ③ Guangyao Hai Ma: As a single entity, Guangyao Hai Ma is specializing in medicine advertisement and is independent from other entities in the Group. Guangyao Hai ma generates cash flow separately and consequently is recognized as an asset group.

(4) Procedures of goodwill impairment test, parameter and recognition method of impairment of goodwill

- ① *Significant hypothesis and supporting*
 - (a) Assuming the going-concern of the entity under evaluation, and no significant change occur in key aspects of manufacturing and operating activities such as business scope, sales mode, channel, and the management, etc.;
 - (b) Assuming no great change occur in social environment and economic environment of the entity under evaluation and no significant change occur in relevant laws and regulations in region and country in which the entity is located;
 - (c) Assuming the products provided by the entity under evaluation can adapt to market demand, objectives and measures set can be achieved on schedule and expected benefit can be received.
 - (d) Assuming no significant change occur in the interest rate, exchange rate, tax base and tax rate within normal range specified by the government.

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Goodwill (Continued)

(4) Procedures of goodwill impairment test, parameter and recognition method of impairment of goodwill (Continued)

② Key parameter

Company	Predictive period	Forecast growth rate	Key parameter		Discount rate (equity capital cost) (%)
			Stable growth period	Profit margin	
GP Corp.	2019-2023 (steady period hereafter)	Note 1	Flat	Calculate based on expected revenue, cost, expenses, etc.	14.44-15.19
Guangzhou Baiyunshan Hospital	2019-2023 (steady period hereafter)	Note 2	Flat	Calculate based on expected revenue, cost, expenses, etc.	12.12
Guangyao Hai Ma	2019-2023 (steady period hereafter)	Note 3	Flat	Calculate based on expected revenue, cost, expenses, etc.	13.63

Notes:

- According to the analysis conducted by the management of GP Corp., medicine sales revenue shall be the main source of operating revenue of GP Corp. subsequent to the valuation base date. The management of GP Corp. analyzed the key influencing indicators of operating revenue of the above-mentioned main businesses and their historical movement trend, such as brand, varieties, price, customer channel, network, etc. with comprehensive consideration of variable factors' influence on these indicators subsequent to the valuation base date, to estimate the operating revenue of each business of GP Corp. Estimated revenue growth rate shall be 8.44%, 8%, 7%, 6%, 5% respectively for the period from 2019 to 2023.
- According to the analysis conducted by the management of Guangzhou Baiyunshan Hospital, medical care and medicine sales revenue shall be the main source of operating revenue of Guangzhou Baiyunshan Hospital subsequent to the valuation base date. The management of Guangzhou Baiyunshan Hospital analyzed the key influencing indicators of operating revenue of the above-mentioned main businesses and their historical movement trend, such as service times, average price, etc. with comprehensive consideration of variable factors' influence on these indicators subsequent to the valuation base date, to estimate the operating revenue of each business of GP Corp. Estimated revenue growth rate shall be 7.10%, 6.18%, 3.98%, 3.29%, 2.08% respectively for the period from 2019 to 2023.
- Guangyao Hai Ma conducted analysis on development and change in advertising and other services revenue, which are the main influencing factors of operating revenue and their historical movement trend. In consideration of the fact that the businesses of Guangyao Baiyunshan, the main client of Guangyao Hai Ma, increased rapidly in recent years, and the fact that its advertising volume increased correspondingly, and the factors such as revival of advertising industry, etc., business revenue of Guangyao Hai Ma shall have increasing trend. According to forecast of revenue of each business activity for the period from 2019 to 2023 with comprehensive consideration of variable factors' influence on these indicators subsequent to the valuation base date, estimated revenue growth rate shall be 8.46%, 8.00%, 6.00%, 5.00%, 3.00% respectively for the period from 2019 to 2023.

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Goodwill (Continued)

(5) Effect of goodwill impairment test

The Company conducted goodwill impairment test in the current year. Goodwill impairment amounted to RMB118,275,499.68 of GP Corp. was recognized. No goodwill impairment of Baiyunshan Hospital and Guangyao Haima were recognized.

16. Long-term prepaid expenses

Item	Opening balance	Increase	Amortization	Other decrease	Closing balance
Decoration expenses	33,349,277.28	66,362,160.08	21,980,628.32	-	77,730,809.04
ABC Buildings certification service	5,169,667.75	2,252,035.54	4,244,601.91	-	3,177,101.38
GMP reconstruction expenses	3,760,161.64	205,410.81	1,164,044.64	-	2,801,527.81
Computer system expenses	661,984.09	1,863,930.02	646,286.49	-	1,879,627.62
Exterior wall repair of original supplementary warehouse and decoration	214,666.79	-	111,999.96	-	102,666.83
AAALAC certificate	146,875.79	-	45,192.60	-	101,683.19
Others	5,764,012.18	6,746,919.58	3,989,206.81	-	8,521,724.95
Total	49,066,645.52	77,430,456.03	32,181,960.73	-	94,315,140.82

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Deferred Tax Assets and Deferred Tax Liabilities

(1) Breakdown of deferred tax assets before offset

Item	Closing balance		Opening balance	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
Other payables	1,318,565,303.01	263,313,163.91	1,024,052,498.80	198,774,920.91
Provision for bad debts	333,782,001.29	80,641,616.34	107,888,189.11	24,860,987.73
Deferred income	340,717,498.52	72,167,584.19	113,573,052.60	17,555,957.88
Provisions	261,961,219.19	39,294,182.88	188,543,448.64	28,281,517.30
Impact on profit arising from elimination	198,755,669.97	33,956,188.85	130,409,689.36	31,854,782.14
Provision for decline in value of inventories	111,955,057.11	23,857,168.73	22,535,115.85	4,230,883.10
Fixed assets depreciation differences between accounting and tax law	67,105,717.89	15,830,597.29	10,818,921.31	1,622,838.20
Employee benefits payable	81,056,699.08	15,512,555.91	54,161,289.28	8,409,961.32
Deductible tax losses	58,687,497.80	14,671,874.44	210,484,213.33	41,207,417.36
Other non-current financial assets	40,820,289.39	6,123,043.41	188,774,953.48	28,362,263.51
Investments in other equity instruments	8,331,239.35	1,249,685.90	5,191,644.74	778,746.71
Provision for impairment of fixed assets	8,499,076.09	1,397,171.11	8,092,295.32	1,236,103.30
Long-term prepaid expenses	3,960,963.61	594,144.54	490,785.73	73,617.86
Intangible assets amortization differences between amounting and tax law	1,188,972.13	178,345.81	1,279,094.64	191,864.20
Provision for impairment of construction in progress	251,734.38	37,760.16	251,734.38	37,760.16
Financial assets held for trading	–	–	636,317.57	95,447.63
Others	1,278,983.09	319,745.78	8,504,466.68	1,275,670.00
Total	2,836,917,921.90	569,144,829.25	2,075,687,710.82	388,850,739.31

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Deferred Tax Assets and Deferred Tax Liabilities (Continued)

(2) Breakdown of deferred tax liabilities

Item	Closing balance		Opening balance	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Book value of the appreciated intangible assets and fixed assets in business combination	683,899,834.68	170,974,958.67	-	-
Other receivables-profit distribution	252,471,028.00	63,117,757.00	169,714,484.00	42,428,621.00
Other non-current financial assets	78,927,745.68	11,872,519.56	-	-
Fixed assets depreciation differences between accounting and tax law	15,629,549.80	2,344,432.47	738,829.02	110,824.35
Book value of amortization provided for intangible assets appreciation	7,901,296.00	1,185,194.40	8,133,688.00	1,220,053.20
Book value of depreciation provided for fixed assets appreciation	1,778,592.00	266,788.80	1,872,876.00	280,931.40
Other investments in equity instruments	3,733.73	560.06	115,864,206.59	17,416,047.68
Compensation for demolition and relocation	-	-	316,040,628.57	53,241,222.90
Others	-	-	603,757.57	90,563.64
Total	1,040,611,779.89	249,762,210.96	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	5,965,271.14	729,081.54
Deductible losses	157,357,832.42	158,967,809.87
Total	163,323,103.56	159,696,891.41

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. 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	–	13,108,321.95
2019	10,376,918.20	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	26,913,491.62	–
Total	157,357,832.42	158,967,809.87

18. Other Non-current Assets

Item	Closing balance	Opening balance
Advance payment of land transferring fee	2,480,000.00	–
Advance payment of accounting software	100,000.00	–
Total	2,580,000.00	–

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Provision for Assets Impairment

Category	Opening balance	Provided in the current year	Increase from business combination not under common control	Decrease			Closing balance
				Reversed	Written off	Other decrease	
Provision for bad debts	112,683,402.56	46,526,478.97	186,342,057.41	7,199,639.74	5,808,866.04	-	332,543,433.16
Provision for decline in value of inventories	26,721,631.85	81,289,621.12	34,531,427.38	21,087,970.71	8,832,379.34	73,705.00	112,548,625.30
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	910,238.91	7,879,783.56	-	627,520.16	-	19,609,967.30
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	118,275,499.68	-	-	-	-	118,751,256.60
Provision for impairment of development expenditure	-	800,000.00	-	-	-	-	800,000.00
Total	157,170,457.97	247,801,838.68	228,753,268.35	28,287,610.45	15,268,765.54	73,705.00	590,095,484.01

20. Short-term Borrowings

(1) Category of short-term borrowings

Item	Closing balance	Opening balance
Pledge borrowings	205,948,057.69	-
Guarantee borrowings	915,243,860.80	-
Credit borrowings	4,784,511,367.61	-
Discount of commercial acceptance notes	-	11,500,000.00
Total	5,905,703,286.10	11,500,000.00

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Short-term Borrowings (Continued)

(1) Category of short-term borrowings (Continued)

Note:

- ① Please refer to Note. VI. 57. Assets with Restricted Ownership or Use Right for details on category and amount of pledge borrowings.
- ② As at 31 December 2018, short-term borrowings of RMB847,800 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 31 December 2018, the weighted average annual interest rate of short-term borrowings is 4.5263% (there is no information of weighted average annual interest rate of short-term borrowings on 31 December 2017).

(2) The Group had no overdue short-term borrowings as at 31 December 2018.

21. Notes Payable and Accounts Payable

Category	Closing balance	Opening balance
Notes payable	2,656,176,505.09	252,226,384.82
Accounts payable	9,313,277,657.72	2,802,200,696.28
Total	11,969,454,162.81	3,054,427,081.10

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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	196,980,253.91	3,477,662.87
Bank acceptance notes	2,459,196,251.18	248,748,721.95
Total	2,656,176,505.09	252,226,384.82

Note: As at 31 December 2018, amount expected to be matured within a year is RMB2,656,177 thousand (31 December 2017: RMB252,226 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	8,973,120,088.71	96.35	2,625,069,157.32	93.68
Over 1 year	340,157,569.01	3.65	177,131,538.96	6.32
Total	9,313,277,657.72	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 XIV. 1. (1) ①.
Supplier 2	22,576,000.00	Litigation is involved. Please refer to Note XIV. 1. (2).
Supplier 3	21,366,337.47	Payment terms not satisfied.
Supplier 4	18,440,000.00	Litigation is involved. Please refer to Note XIV. 1. (3) ①.
Supplier 5	10,387,720.45	Payment terms not satisfied.
Total	120,175,147.52	

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. 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	3,797,386,006.61	3,663,953,748.53	751,834,592.42
II. Post-employment benefits-defined contribution plan	12,508,476.28	348,994,211.86	360,302,649.70	1,200,038.44
III. Termination benefits	260,000.00	1,484,996.22	1,744,996.22	-
IV. Other benefits due within 1 year	-	-	-	-
Total	631,170,810.62	4,147,865,214.69	4,026,001,394.45	753,034,630.86

(2) Presentation of short-term benefits

Item	Opening balance	Increase	Decrease	Closing balance
1. Wages, bonuses, allowances and subsidies	595,185,678.83	3,177,019,346.08	3,065,664,066.29	706,540,958.62
2. Employee welfare	-	161,598,437.63	156,610,234.50	4,988,203.13
3. Social Insurance premium Including: Medical insurance premium	264,270.32	162,963,022.39	163,182,959.83	44,332.88
Industrial injury insurance premium	271,097.26	144,209,520.39	144,434,708.66	45,908.99
Maternity insurance premium	2,480.59	6,909,557.81	6,909,630.91	2,407.49
4. Housing funds	(9,307.53)	11,843,944.19	11,838,620.26	(3,983.60)
5. Labor-union expenditure and employee education funds	(19,916.30)	198,958,362.05	198,840,131.34	98,314.41
6. Housing allowance	8,939,191.89	64,054,950.39	61,834,415.70	11,159,726.58
7. Staff and workers' bonus and welfare fund	13,817,006.93	27,038,087.12	12,531,347.96	28,323,746.09
8. Short-term paid absences	-	-	-	-
9. Short-term profits sharing plan	-	4,387,524.48	4,387,524.48	-
10. Other short-term benefits	-	-	-	-
Total	216,102.67	1,366,276.47	903,068.43	679,310.71
Total	618,402,334.34	3,797,386,006.61	3,663,953,748.53	751,834,592.42

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. 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	264,615,650.86	264,540,060.63	197,155.17
2. Unemployment insurance premiums	29,327.27	9,187,097.72	9,186,501.46	29,923.53
3. Enterprise annuity	11,384,891.24	56,040,097.25	67,293,025.58	131,962.91
4. Others	972,692.83	19,151,366.03	19,283,062.03	840,996.83
Total	<u>12,508,476.28</u>	<u>348,994,211.86</u>	<u>360,302,649.70</u>	<u>1,200,038.44</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 December 2018. There are no overdue employee benefits payable. The balance is expected to be paid and utilized in next year.

23. Tax Payable

Item	Closing balance	Opening balance
Value-added tax	592,600,257.89	319,356,251.79
Urban maintenance and construction tax	2,632,855.23	3,720,978.49
Educational surcharge	467,711.95	1,642,194.87
Local education surcharge	1,409,977.72	1,016,472.23
Enterprise income tax	338,480,579.95	125,580,026.87
Individual income tax	13,353,590.27	9,479,261.76
Property tax	9,433,165.90	11,057,545.06
Land use tax	2,086,653.07	7,468,053.71
Stamp duty	2,843,937.88	1,594,305.76
Others	234,523.78	1,448.87
Total	<u>963,543,253.64</u>	<u>480,916,539.41</u>

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. Other payables

Item	Closing balance	Opening balance
Interests payable	41,637,538.72	253,966.40
Dividends payable	65,917,238.98	45,446,017.79
Other payables	3,358,802,575.69	2,399,394,477.50
Total	3,466,357,353.39	2,445,094,461.69

(1) Interest payable

Item	Closing balance	Opening balance
Short-term borrowings interest payable	38,049,327.13	–
Long-term borrowings interest payable	3,588,211.59	253,966.40
Total	41,637,538.72	253,966.40

(2) Dividends payable

Item	Closing balance	Opening balance
Minority shareholders	65,349,805.19	44,968,565.68
Domestic public shares	567,388.78	477,407.10
BYS Group	45.01	45.01
Total	65,917,238.98	45,446,017.79

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. Other payables (Continued)

(3) Other payables

① Disclosures of other payables by nature

Nature of amount	Closing balance	Opening balance
Sales discounts	1,100,682,395.27	624,591,585.51
Accrued expenses	797,186,017.78	1,260,413,310.58
Factoring expense for accounts payable	503,835,176.79	–
Margin, deposit, and down payment received	479,319,837.30	164,129,875.02
Accounts payable to external entities	213,264,061.13	220,462,889.83
Current accounts to related parties	116,971,765.85	48,866,587.27
Accruals for fixed assets	25,201,992.65	26,776,270.31
Funds received temporarily from employees	16,424,381.22	10,189,611.56
Rental expenses	4,859,777.43	3,748,736.05
Technological development expenditures	944,129.25	450,896.78
Others	100,113,041.02	39,764,714.59
Total	<u>3,358,802,575.69</u>	<u>2,399,394,477.50</u>

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. Other payables (Continued)

(3) Other payables (Continued)

② Breakdown of accrued expenses

Item	Closing balance	Opening balance
Terminal expenses	272,705,084.32	809,551,481.82
Freight expenses	186,406,294.36	151,285,018.17
Advertisement and promotion expenses	96,861,750.25	169,831,180.97
Medicine service expenses	47,838,105.35	–
Research and development expenditures	41,310,583.56	17,287,664.24
Travel expenses	24,327,813.81	21,656,537.14
Trademark fee	12,018,735.48	3,900,000.00
Conference expenses	11,255,646.44	4,150,209.40
Utilities expenses	9,721,122.70	6,982,581.16
Agency fee	4,534,858.54	11,765,279.49
Rental expenses	4,470,691.66	10,084,679.88
Consulting fee	2,060,433.96	–
Others	83,674,897.35	53,918,678.31
Total	797,186,017.78	1,260,413,310.58

③ Disclosures of other payables by aging

Item	Closing balance	Proportion (%)	Opening balance	Proportion (%)
Within 1 year	3,017,948,976.26	89.85	2,213,377,523.13	92.25
Over 1 year	340,853,599.43	10.15	186,016,954.37	7.75
Total	3,358,802,575.69	100.00	2,399,394,477.50	100.00

④ The Group had no significant other payables with aging over 1 year as at 31 December 2018 and 31 December 2017.

Notes to the Financial Statements

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25. Contract Liabilities

(1) Contract liabilities are as follows:

Item	Closing balance	Opening balance
Product sales payment received in advance	3,685,541,240.09	1,614,438,014.50
Medical payment received in advance	1,105,983.15	–
Total	3,686,647,223.24	1,614,438,014.50

(2) Contract liabilities disclosed by aging

Item	Closing balance	Proportion (%)	Opening balance	Proportion (%)
Within 1 year	3,639,753,808.83	98.73	1,580,262,885.35	97.88
Over 1 year	46,893,414.41	1.27	34,175,129.15	2.12
Total	3,686,647,223.24	100.00	1,614,438,014.50	100.00

(3) The Group had no significant contract liabilities with aging over 1 year as at 31 December 2018 and 31 December 2017.

26. Current portion of non-current liabilities

Item	Closing balance	Opening balance
Long-term borrowings due within 1 year (Note VI. 27)	153,000,000.00	31,307,337.23
Long-term payables due within 1 year (Note VI. 28)	51,024,196.93	–
Total	204,024,196.93	31,307,337.23

Notes to the Financial Statements

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Long-term Borrowings

Item	Closing balance	Opening balance
Credit borrowings	539,553,706.06	–
Mortgage borrowings	27,000,000.00	–
Less: Long-term borrowings due within 1 year (Note VI. 26)	153,000,000.00	–
Total	413,553,706.06	–

Notes:

- ① Mortgage loans are guaranteed by minority shareholders of the Group's sub-subsidiaries with the property. Temporary value of the property is RMB43,190 thousand.
- ② Interest rate for long-term borrowings was 4.5751% as at 31 December 2018 (No interest rate for long-term borrowings available as at 31 December 2017).

(2) The Group had no overdue long-term borrowings as at 31 December 2018.

28. Long-term Payables

Item	Closing balance	Opening balance
Long-term payables	128,649,038.74	20,171,809.73
Special payables	7,146,810.00	14,954,855.39
Total	135,795,848.74	35,126,665.12

Notes to the Financial Statements

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28. Long-term Payables (Continued)

(1) Long-term payables

Item	Closing balance	Opening balance
Financing lease payable	159,208,733.67	–
State funds payable	17,486,188.17	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
Others	408,887.36	699,957.36
Less: Finance lease payables maturing within 1 year	51,024,196.93	–
Total	128,649,038.74	20,171,809.73

The minimum finance lease payables after 31 December 2018 are disclosed as follows:

Item	Closing balance
Within 1 year	58,546,285.03
1 to 2 years	47,391,004.21
2 to 3 years	36,323,437.66
Over 3 years	30,943,391.18
Subtotal	173,204,118.08
Less: Unrecognized finance expenses	13,995,384.41
Book value	159,208,733.67

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28. Long-term Payables (Continued)

(2) Special payables

Item	Opening balance	Increase	Decrease	Closing balance	Reason
Compensation for relocation due to policies	14,954,855.39	-	7,808,045.39	7,146,810.00	Government compensation for relocation due to policies
Total	14,954,855.39	-	7,808,045.39	7,146,810.00	

29. Long-term Employee Benefits Payable

Item	Closing balance	Opening balance
Post-employment benefits-provision for long service bonus	325,325.54	326,532.02
Total	325,325.54	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	47,491,349.60	Note (1)
Unemployed fee for relocation of Qi Xing	3,607,287.28	1,609,771.69	Note (2)
Total	55,348,585.32	49,601,312.48	

Notes:

- (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.

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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	151,643,949.00	4,743,232.08	96,315,842.68	-	6,060,000.00	-	175,332,823.35	
Including:									
Technology funds granted by the government	57,172,286.13	37,518,467.81	-	10,551,173.72	-	6,060,000.00	-	78,079,580.22	Government grant
Compensation for relocation	767,662.82	-	72,997.56	-	-	-	-	694,665.26	Government grant
Government subsidies on interests	-	-	-	-	-	-	-	-	Government grant
Special project funds for environmental protection	2,663,159.28	-	-	453,240.27	-	-	-	2,209,919.01	Government grant
Construction funds for innovation platform and laboratory	12,780,163.15	1,673,717.99	-	2,137,186.83	-	-	-	12,316,694.31	Government grant
Land support funds granted by the government	26,145,041.01	30,994,007.40	-	1,128,070.66	-	-	-	56,010,977.75	Government grant
Support funds for industrial development	17,034,413.88	79,340,000.00	-	79,957,142.84	-	-	-	16,417,271.04	Government grant
Others	14,245,222.84	2,117,755.80	4,670,234.52	2,089,028.36	-	-	-	9,603,715.76	Government grant
Government grants related to income	396,082,419.86	100,358,387.75	107,103,474.03	71,984,943.38	119,208.82	2,142,400.00	-	315,090,781.38	
Including:									
Technology funds granted by the government	76,948,942.86	71,148,251.77	-	46,916,635.18	119,208.82	2,142,400.00	-	98,918,950.63	Government grant
Special funds for technology exports	94,962.06	-	-	93,262.06	-	-	-	1,700.00	Government grant
Medical industrial research project funds	5,571,453.93	8,016,182.01	-	6,705,573.37	-	-	-	6,882,062.57	Government grant
Special funds for energy-saving project	683,550.00	215,259.00	-	227,859.00	-	-	-	670,950.00	Government grant
Special fund for innovative enterprises	-	758,607.74	-	758,607.74	-	-	-	-	Government grant
Compensation for relocation	311,389,731.98	-	42,127,961.18	-	64,975,512.85	-	-	204,286,257.95	Government grant
Support funds for industrial development	-	13,035,459.00	-	13,035,459.00	-	-	-	-	Government grant
Others	1,393,779.03	7,184,628.23	-	4,247,547.03	-	-	-	4,330,860.23	Government grant
Total	526,890,368.97	252,002,336.75	46,871,193.26	168,300,786.06	65,094,721.67	8,202,400.00	-	490,423,604.73	

32. Other non-current liabilities

Item	Closing balance	Opening balance
Commitment to the investment in Southern Antitumor Company	50,225,000.00	50,225,000.00
Total	50,225,000.00	50,225,000.00

Note: Performance obligation according to the agreement and the Article as the subsidiaries of the Group acquired 50% shares of Southern Antitumor company.

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33. Share capital

Item	Opening balance		Changes in the current year					Closing balance	
	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

34. Capital Surplus

Item	Opening balance	Increase	Decrease	Closing balance
Share premium	9,058,363,544.42	-	10,093,909.04	9,048,269,635.38
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	-	10,093,909.04	9,865,084,049.39

Note: In November 2018, the Company acquired 25.00% minority interest of Guangzhou Baiyunshan Xing Zhu Pharmaceutical Co., Ltd. for RMB34,410 thousand. The difference of RMB10,094 thousand between purchase price and shares of minority interest at purchase date is adjusted to share premium.

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35. Other Comprehensive Income

Item	Opening balance	Opening balance after adjustment	Current amount before tax	Less: profit or loss transferred from other comprehensive income in previous periods	Current year			Closing balance
					Less: Income tax expense	Attributable to the parent company, net of tax	Attributable to minority shareholders, net of tax	
I. Other comprehensive income that will not be reclassified to profit or loss	1,448,181.81	1,448,181.81	(2,885,860.88)	-	(432,879.13)	(2,452,981.75)	-	(1,004,799.94)
Including: Other comprehensive income that will not be reclassified to profit or loss under equity method	1,448,181.81	1,448,181.81	-	-	-	-	-	1,448,181.81
Change in fair value of investments in other equity instruments	-	-	(2,885,860.88)	-	(432,879.13)	(2,452,981.75)	-	(2,452,981.75)
II. Other comprehensive income that may be reclassified into profit or loss	(71,655,120.08)	(8,267,013.59)	9,002,779.01	208,104.58	-	8,794,674.43	-	527,660.84
Including: Other comprehensive income that may be reclassified to profit or loss under equity method	216,926.54	216,926.54	20,314.61	208,104.58	-	(187,789.97)	-	29,136.57
Gains and losses arising from changes in fair value of available-for-sale financial assets (original financial instrument standards)	63,388,106.49	-	-	-	-	-	-	-
Difference arising from the translation of foreign currency financial statements	(8,483,940.13)	(8,483,940.13)	8,982,464.40	-	-	8,982,464.40	-	498,524.27
Total other comprehensive income	(70,206,938.27)	(6,818,831.78)	6,116,918.13	208,104.58	(432,879.13)	6,341,692.68	-	(477,139.10)

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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	213,972,964.22	-	1,249,809,540.14
Discretionary surplus reserve	118,925,617.49	-	-	118,925,617.49
Total	1,154,762,193.41	213,972,964.22	-	1,368,735,157.63

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.

Discretionary surplus reserve can be drawn after the Group drawing statutory surplus reserve. 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 year	Last period
Closing balance of undistributed profits of prior year before adjustments	6,285,996,409.09	4,782,293,720.24
Adjustments to opening balance of undistributed profits at the current year (Add: +; Less:-)	(67,801,004.52)	-
Undistributed profits at the beginning of current year 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 year	3,440,980,103.08	2,061,651,929.01
Less: Appropriation of statutory surplus reserve	213,972,964.22	102,727,774.44
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	-	-
Closing balance of undistributed profits	8,825,776,191.86	6,285,996,409.09

Notes:

- (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. 29. (1) ①.
- (2) As at 31 December 2018, surplus reserve of subsidiaries comprised in undistributed profit, attributable to the parent company, was RMB1,040,761 thousand (31 December 2017: RMB753,467 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), RMB619,426 thousand in total, based on the 1,625,790,949 outstanding shares at the year end of 2017.

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38. Minority Interest

Investee	Relationship with the Company	31 December 2018	31 December 2017
Xing Qun	Holding subsidiary	23,993,154.53	25,526,996.16
Guangzhou Chen Li Ji Great Health Industry Co., Ltd.	Indirectly controlled subsidiary	5,106,805.98	4,488,081.92
Guangzhou Han Fang	Holding subsidiary	96,011.92	77,717.50
Jing Xiu Tang	Holding subsidiary	19,921,016.34	19,231,429.97
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd.	Indirectly controlled subsidiary	5,140,720.90	4,072,239.87
Pan Gao Shou	Holding subsidiary	26,604,841.88	26,819,776.09
Wang Lao Ji	Holding subsidiary	18,081,075.34	–
GP Corp.	Holding subsidiary	725,295,512.10	–
Fujian Guangyao Jie Da Pharmaceutical Co., Ltd.	Indirectly controlled subsidiary	10,423,238.97	–
Hubei Guangyao An Kang Pharmaceutical Co., Ltd.	Indirectly controlled subsidiary	8,931,329.64	–
Foshan Guangyao Jian Ze Pharmaceutical Co., Ltd.	Indirectly controlled subsidiary	28,015,764.55	–
Hainan Guangyao Chen Fei Pharmaceutical Co., Ltd.	Indirectly controlled subsidiary	103,163,300.77	–
Shanxi Guangyao Kang Jian Pharmaceutical Co., Ltd.	Indirectly controlled subsidiary	51,180,847.15	–
Guangdong Meixian Pharmaceutical Co., Ltd.	Indirectly controlled subsidiary	17,655,502.78	–
Guangyao Sichuan Pharmaceutical Co., Ltd.	Indirectly controlled subsidiary	54,586,160.49	–
Hubei Guangyao Ji Da Pharmaceutical Co., Ltd.	Indirectly controlled subsidiary	12,002,555.85	–
Guangxi Guangyao Xin Shi Dai Pharmaceutical Co., Ltd.	Indirectly controlled subsidiary	24,860,706.74	–
Jingyu Guangyao Dong'e Chinese Raw Medicine Development Co., Ltd.	Indirectly controlled subsidiary	1,757,778.81	2,396,617.91
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirectly controlled subsidiary	2,312,957.45	1,917,707.38
Heilongjiang Sen Gong Guangyao Raw Medicine Development Co., Ltd.	Indirectly controlled subsidiary	1,574,814.18	1,497,651.56
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirectly controlled subsidiary	191,649.74	195,877.25
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirectly controlled subsidiary	2,604,529.21	2,275,733.58
Guangzhou Baiyunshan Wei Yi Industries Co., Ltd.	Indirectly controlled subsidiary	4,898,526.70	–
Tibet Linzhi Guangyao Development Co., Ltd	Indirectly controlled subsidiary	322,547.12	168,374.96
Guangxi Ying Kang	Holding subsidiary	23,471,848.68	18,588,095.67
Yi Gan	Holding subsidiary	(563,224.28)	(682,790.11)
Guangzhou Baiyunshan Hospital	Indirectly controlled subsidiary	40,532,291.87	38,380,063.85
Guangzhou Baiyunshan Run Kang Confinement Service Center Co., Ltd.	Indirectly controlled subsidiary	4,886,633.07	–
Xing Zhu	Wholly owned subsidiary	–	23,424,278.65
Guangzhou WLJ Catering Management Development Co., Ltd.	Indirectly controlled subsidiary	319,557.41	1,474,378.45
Tian Xin	Holding subsidiary	38,060,738.01	43,732,326.89
Guang Hua	Holding subsidiary	25,608,777.44	29,865,897.41
Guang Hua Health	Indirectly controlled subsidiary	344,253.55	464,823.85
Pharmaceutical Technology	Holding subsidiary	139,444,227.55	108,917,961.61
Wang Lao Ji Da Zhai Beverages Co., Ltd.	Indirectly controlled subsidiary	16,242,879.48	15,789,387.84
Guangzhou Wang Lao Ji Da Zhai Co., Ltd.	Indirectly controlled subsidiary	(879,215.80)	–
Zhejiang Guang Kang Pharmaceutical Co., Ltd.	Indirectly controlled subsidiary	22,633,429.10	23,010,593.25
Total		1,458,823,545.22	391,633,221.51

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(English Translation for Reference Only)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39. Operating Income and Operating Costs

(1) Operating Income and Operating Costs

Category	Current year		Prior year	
	Income	Cost	Income	Cost
Main businesses	41,980,377,512.59	32,106,055,149.15	20,789,416,101.26	13,023,397,768.72
Other businesses	253,460,538.53	58,336,565.01	164,809,088.27	39,831,579.56
Total	42,233,838,051.12	32,164,391,714.16	20,954,225,189.53	13,063,229,348.28

(2) Disclosure by category

Item	Current year		Prior year	
	Income	Cost	Income	Cost
Great Southern TCM	9,635,377,047.64	5,479,358,848.94	7,795,967,320.80	4,256,274,924.46
Great Health	9,487,459,761.85	5,367,038,802.23	8,573,656,297.09	4,694,132,517.36
Great Commerce	22,743,867,015.42	21,171,258,480.56	4,328,826,261.87	4,002,443,482.09
Others	113,673,687.68	88,399,017.42	90,966,221.50	70,546,844.81
Total	41,980,377,512.59	32,106,055,149.15	20,789,416,101.26	13,023,397,768.72

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39. Operating Income and Operating Costs (Continued)

(3) Disclosure by primary operating region

Item	Current year		Prior year	
	Income	Cost	Income	Cost
Southern China Area	28,849,803,996.53	23,915,084,915.66	11,487,792,037.27	7,599,784,427.84
Eastern China Area	4,555,823,978.77	2,450,090,423.20	3,642,066,823.73	2,083,507,350.23
Northern China Area	2,368,824,210.30	1,346,550,783.78	2,098,027,979.04	1,132,840,394.01
Northeast Area	1,043,076,134.85	896,880,723.02	387,187,836.18	218,361,767.80
Southwest Area	3,603,000,081.66	2,331,392,607.64	2,468,998,109.64	1,598,859,047.48
Northwest Area	1,515,840,283.61	1,123,178,208.19	654,256,814.80	340,150,855.44
Export	44,008,826.87	42,877,487.66	51,086,500.60	49,893,925.92
Total	41,980,377,512.59	32,106,055,149.15	20,789,416,101.26	13,023,397,768.72

- (4) Total sales to the top five customers are RMB2,578,963 thousand (2017: RMB2,402,240 thousand), accounting for 6.14% of the Group's primary operating income for the current year (2017: 11.56%)

Item	Income	Proportion to total income (%)
Customer 1	756,277,570.48	1.80
Customer 2	534,799,691.76	1.27
Customer 3	451,354,161.51	1.08
Customer 4	425,591,085.19	1.01
Customer 5	410,940,424.05	0.98
Total	2,578,962,932.99	6.14

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39. Operating Income and Operating Costs (Continued)

(5) Other business income and other business cost

Category	Current year		Prior year	
	Income	Cost	Income	Cost
Leases of assets	111,730,449.92	32,711,108.33	79,540,199.79	16,969,230.36
Consulting fee	44,331,870.72	-	1,500,523.95	-
License fee for franchise	39,029,386.78	-	30,586,953.27	-
Property management fee	15,434,152.21	778,355.50	9,571,161.05	904,846.13
Trademark fee income	15,381,165.83	-	15,883,059.86	-
Collection of utility on behalf of others	7,729,458.14	11,360,014.70	8,432,223.27	10,145,844.16
Sales of materials	3,385,983.36	1,780,582.16	1,858,165.61	35,310.28
Service income	3,068,234.91	4,945,425.02	3,051,211.69	4,451,745.47
Income from franchise store management fee	3,059,397.78	-	-	-
Technical service income	1,071,486.80	-	1,381,812.54	2,466,115.03
Others	9,238,952.08	6,761,079.30	13,003,777.24	4,858,488.13
Total	253,460,538.53	58,336,565.01	164,809,088.27	39,831,579.56

40. Taxes and Surcharges

Item	Current year	Prior year
Urban maintenance and construction tax	109,463,501.98	85,512,430.13
Education surcharge	47,516,309.63	36,923,466.75
Local education surcharge	31,613,407.28	24,610,692.58
House property tax	31,699,058.39	26,259,030.31
Vehicle and vessel use tax	145,188.95	196,111.72
Stamp duty	33,825,378.81	21,421,427.29
Land use tax	6,652,959.61	8,849,122.21
Others	2,044,069.52	316,523.04
Total	262,959,874.17	204,088,804.03

Note: Please refer to Note V. Taxes for basic rates of the above taxes and surcharges.

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41. Selling and Distribution Expenses

Item	Current year	Prior year
Employee benefits	2,084,916,436.36	1,702,286,828.76
Advertising and promotion fees	1,044,694,199.85	567,035,137.63
Freight and miscellaneous charges	691,761,052.60	458,579,746.26
Sales and service fees	667,086,742.90	1,279,604,585.41
Traveling expenses	149,181,538.93	130,483,954.15
Conference expenses	88,329,778.61	46,435,688.58
Rental expenses	81,658,892.82	31,644,960.58
Consulting fees	46,271,334.29	12,381,167.15
Depreciation expenses	42,398,248.30	2,874,346.97
Office expenses	36,316,161.36	19,044,765.06
Others	124,206,528.11	35,578,172.91
Total	<u>5,056,820,914.13</u>	<u>4,285,949,353.46</u>

42. General and administrative Expenses

Item	Current year	Prior year
Employee benefits	978,874,628.25	742,789,551.41
Trademark license fees	173,110,774.52	105,449,398.35
Depreciation expenses	76,638,933.34	51,531,515.74
Amortization	67,143,952.45	31,816,477.32
General and administrative expenses	57,056,487.54	44,014,041.85
Rental expenses	49,014,829.43	36,965,594.95
Repairing expenses	41,953,095.32	21,362,249.05
Traveling expenses	25,372,400.60	21,377,406.36
Professional service fees	23,011,971.42	19,667,982.61
Including: Audit fee	2,425,786.50	2,553,000.00
Freight and miscellaneous charges	18,483,358.49	14,997,913.64
Utilities	16,250,591.54	10,844,554.57
Conference expenses	11,123,255.48	5,191,997.30
Consulting fees	9,405,783.09	6,318,727.68
Insurance premium	3,816,739.03	2,641,589.61
Others	147,805,683.72	91,325,986.78
Total	<u>1,699,062,484.22</u>	<u>1,206,294,987.22</u>

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43. Research and development expenditures

Item	Current year	Prior year
Employee benefits	195,942,572.79	171,384,504.18
Raw materials	167,907,992.11	51,556,644.96
Special research and development	65,898,697.14	31,796,956.30
Trial production expenses	48,780,880.61	16,657,124.59
Clinical trial expenses	23,666,935.39	10,694,817.94
Depreciation expenses	22,938,714.09	18,364,027.71
Technique research expenses	4,837,987.58	1,092,433.24
Amortization	4,197,091.78	3,538,628.60
Others	51,326,833.51	68,202,384.19
Total	585,497,705.00	373,287,521.71

44. Financial expenses

Item	Current year	Prior year
Interest expenses	222,800,930.26	1,065,465.65
Interest expenses of notes	4,540,898.58	5,757,678.99
Interest income	(262,003,043.18)	(218,821,732.64)
Exchange losses/(gains)	5,093,953.48	(1,758,873.67)
Service charge of finance institutions	7,871,312.37	2,680,535.69
Cash discount	10,700,313.47	298,557.44
Finance lease interest	4,236,933.29	–
Others	104,173.30	207,069.10
Total	(6,654,528.43)	(210,571,299.44)

Notes to the Financial Statements

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45. Impairment loss in respect of Assets

Item	Current year	Prior year
Loss on bad debts	–	13,656,344.39
Loss on decline in value of inventories	60,201,650.41	4,451,623.12
Fixed asset impairment loss	910,238.91	1,855,000.39
Goodwill impairment loss	118,275,499.68	–
Development expenditure impairment loss	800,000.00	–
Total	180,187,389.00	19,962,967.90

46. Impairment Losses in respect of Credit

Item	Current year	Prior year
Loss on bad debts of notes receivable and accounts receivable	25,717,696.04	–
Including: Loss on bad debts of notes receivable	–	–
Loss on bad debts of accounts receivable	25,717,696.04	–
Loss on bad debts of other receivables	13,609,143.19	–
Total	39,326,839.23	–

Notes to the Financial Statements

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47. Other Income

Item	Current year	Prior year	Amount recognized into non-recurring profit or loss in the current year	Asset related/income related
Technology funds granted by the government	10,414,003.89	15,719,489.26	10,414,003.89	Asset related
Special project fund for environmental protection	280,963.36	1,046,508.32	280,963.36	Asset related
Construction funds for innovation platform and laboratory	1,718,315.69	2,063,567.79	1,718,315.69	Asset related
Land support funds granted by the government	1,745,213.50	–	1,745,213.50	Asset related
Support funds for industrial development	–	965,586.12	–	Asset related
Others	553,217.89	1,400,102.38	553,217.89	Asset related
Subtotal	14,711,714.33	21,195,253.87	14,711,714.33	
Technology funds granted by the government	48,452,015.90	63,308,279.42	48,452,015.90	Income related
Special fund for Technology export	93,262.06	–	93,262.06	Income related
Medical industrial research project funds	6,525,573.37	8,813,472.10	6,525,573.37	Income related
Special funds for energy-saving project	12,075.00	12,600.00	12,075.00	Income related
Special fund for innovative firms	1,057,800.00	–	1,057,800.00	Income related
Compensation for demolition and relocation	7,808,045.39	–	7,808,045.39	Income related
Support funds for industrial development	92,890,000.00	11,280,000.00	92,890,000.00	Income related
Others	24,560,610.07	7,166,290.87	24,560,610.07	Income related
Subtotal	181,399,381.79	90,580,642.39	181,399,381.79	
Total	196,111,096.12	111,775,896.26	196,111,096.12	

Notes to the Financial Statements

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48. Investment Income

Item	Current year	Prior year
Long-term equity investment income under equity method	317,196,606.84	281,264,687.40
Investment income from disposal of long-term equity investment	1,099,377.08	–
Investment income from the period in which the Group held the financial assets at FVTPL	–	201,347.70
Investment income from available-for-sale financial assets	–	13,230,314.11
Proceed from remeasurement of share to fair value at the acquisition of control	870,677,046.64	–
Investment income from the period in which the Group held the non-current financial assets	14,096,380.82	–
Interest income from finance products and structured deposits	68,244,907.23	43,666,279.98
Total	<u>1,271,314,318.61</u>	<u>338,362,629.19</u>

49. Gains from changes in fair value

Sources of gains from changes in fair value

Sources of gains from change in fair value

Financial assets held for trading

Other non-current financial assets

Total

	Current year	Prior year
Financial assets held for trading	–	(1,151,066.21)
Other non-current financial assets	115,575,352.23	–
Total	<u>115,575,352.23</u>	<u>(1,151,066.21)</u>

Notes to the Financial Statements

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

50. Proceed from disposal of assets

Item	Current year	Prior year	Amount recognized into non-recurring profit or loss in the current year
Gains on damaging and scrapping of non-current assets	707,312.22	–	707,312.22
Including: proceed from disposal of fixed assets	707,312.22	–	707,312.22
Total	707,312.22	–	707,312.22

51. Non-operating income

Item	Current year	Prior year	Amount recognized into non-recurring profit or loss in the current year
Proceed from damage and scrapping of non-current assets	929,680.36	457,099.43	929,680.36
Government grant	47,139,280.96	59,772,941.97	47,139,280.96
Penalty income	119,263.29	487,018.84	119,263.29
Income from sale of scrap	4,436,055.06	3,937,105.85	4,436,055.06
Debt forgiveness	5,815,876.61	2,150,627.20	5,815,876.61
Compensation for demolition and relocation	610,793.12	–	610,793.12
Compensation	580,464.02	2,113,626.18	580,464.02
Remuneration of expatriates	3,741,084.51	1,953,014.82	3,741,084.51
The difference between the business combination cost and the book value of the share of net identifiable assets acquired	125,981,938.96	–	125,981,938.96
Others	8,218,446.60	5,632,714.24	8,218,446.60
Total	197,572,883.49	76,504,148.53	197,572,883.49

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51. Non-operating income (Continued)

Government grant recognized into profit or loss for the current year:

Item	Current year	Prior year	Amount recognized into non-recurring profit or loss in the current year	Asset related/income related
Compensation for demolition and relocation	42,127,961.18	365,644.44	42,127,961.18	Asset related
Special project fund for environmental protection	–	10,687.50	–	Asset related
Others	4,670,234.52	4,670,234.52	4,670,234.52	Asset related
Subtotal	46,798,195.70	5,046,566.46	46,798,195.70	
Compensation for demolition and relocation	–	38,766,556.51	–	Income related
Support funds for industrial development	–	15,959,819.00	–	Income related
Special funds for energy-saving project	313,730.00	–	313,730.00	Income related
Others	27,355.26	–	27,355.26	Income related
Subtotal	341,085.26	54,726,375.51	341,085.26	
Total	47,139,280.96	59,772,941.97	47,139,280.96	

52. Non-operating expenses

Item	Current year	Prior year	Amount recognized into non-recurring profit or loss in the current year
Losses on damage and scrapping of non-current assets	2,072,428.85	2,140,625.46	2,072,428.85
Public welfare donation expenditure	6,998,480.92	7,076,366.67	6,998,480.92
Penalty and overdue fines	3,476,160.83	1,344,601.25	3,476,160.83
Reward of family planning	854,898.80	238,809.39	854,898.80
Expenses accrued based on court decision	–	26,376,110.52	–
Others	1,394,397.29	7,322,464.15	1,394,397.29
Total	14,796,366.69	44,498,977.44	14,796,366.69

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

53. Income Tax Expenses

(1) Income tax expenses

Item	Current year	Prior year
Current tax expenses	699,010,875.25	294,299,835.26
Deferred tax expenses	(213,996,855.53)	79,920,680.54
Total	485,014,019.72	374,220,515.80

(2) Adjustment processes of accounting profit and income tax expenses

Item	Current year
Total profit	4,018,730,255.62
Income tax expenses calculated at statutory/applicable rates	602,809,538.34
Tax effect of different rates applicable to subsidiaries	38,281,956.35
Adjustment effect of income tax of prior year	(2,114,519.29)
Tax effect of non-taxable income	(218,163,324.75)
Tax effect of costs, expenses and losses not deductible for tax purposes	95,336,456.38
Tax effect of R&D expenditure deduction	(30,049,379.28)
Tax effect of use of deductible loss of previously unrecognized DTA	(7,996,296.88)
Tax effect of deductible temporary differences or deductible loss of unrecognized DTA in the current year	6,909,588.85
Income tax expenses	485,014,019.72

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

54. Other comprehensive income

Please refer to Note VI. 35.

55. Items in the Cash Flow Statement

(1) Cash received from other operating activities

Item	Current year	Prior year
Interest income	262,003,043.18	218,821,732.64
Other operating income	253,460,538.53	164,809,088.27
Government grant	235,951,130.84	146,324,666.15
Non-operating income	146,980,773.32	14,123,479.94
Deposit received and other items	10,977,037.62	60,651,687.18
Total	<u>909,372,523.49</u>	<u>604,730,654.18</u>

(2) Cash paid for other operating activities

Item	Current year	Prior year
Cash paid for selling and distribution expenses	1,479,632,629.07	2,180,112,251.00
Cash paid for general and administrative expenses	332,882,219.57	562,357,630.15
Deposit paid	80,084,277.94	–
Term deposit	20,000,000.00	–
Financial expenses – bank charges	7,871,312.37	2,680,535.69
Others	609,137,600.70	150,984,317.45
Total	<u>2,529,608,039.65</u>	<u>2,896,134,734.29</u>

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

55. Items in the Cash Flow Statement (Continued)

(3) Cash received from other investing activities

Item	Current year	Prior year
The difference between consideration paid and cash or cash equivalents of the acquired company	928,379,998.71	—
Repayment of internal borrowings	15,618,641.39	—
Interest	44,810.67	30,116.53
Internal borrowings interest received	—	619,962.45
Total	<u>944,043,450.77</u>	<u>650,078.98</u>

(4) Cash paid to other investing activities

Item	Current year	Prior year
Book balance of currency assets at the time the Group's subsidiaries are excluded from consolidation scope	161,611.03	—
Total	<u>161,611.03</u>	<u>—</u>

(5) Cash received from other financing activities

Item	Current year	Prior year
Return of deposit for notes	958,871,915.99	—
Total	<u>958,871,915.99</u>	<u>—</u>

(6) Cash paid to other financing activities

Item	Current year	Prior year
Deposit for notes paid	993,041,430.98	—
Factoring deposit for accounts receivable paid	100,438,849.65	—
Deposit for borrowings paid	3,794,247.96	—
Finance lease	48,458,481.77	—
Total	<u>1,145,733,010.36</u>	<u>—</u>

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

56. Supplementary Information of Cash Flow Statement

(1) Supplementary information of cash flow statement

Supplementary information	Current year	Prior year
1. Reconciliation from net profit to cash flows from operating activities:		
Net profits	3,533,716,235.90	2,118,755,620.90
Add: Provision for assets impairment	180,187,389.00	19,962,967.90
Provision for credit impairment	39,326,839.23	–
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of bearer biological assets (“-” refers to income)	260,915,748.59	221,130,196.83
Amortization of intangible assets (“-” refers to income)	40,308,217.44	23,815,087.25
Amortization of long-term prepaid expenses (“-” refers to income)	32,181,960.73	9,749,458.46
Losses on disposal of fixed assets, intangible assets and other long-term assets (“-” refers to income)	(707,312.22)	1,683,526.03
Losses on scrapping of fixed assets (“-” refers to income)	1,142,748.49	–
Loss on changes in fair value (“-” refers to income)	(115,575,352.23)	1,151,066.21
Financial expenses (“-” refers to income)	238,413,961.66	6,829,666.15
Investment losses (“-” refers to income)	(1,271,314,318.61)	(338,362,629.19)
Decrease in deferred tax assets (“-” refers to income)	(79,875,823.19)	43,459,704.05
Increase in deferred tax liabilities (“-” refers to income)	(35,549,957.95)	36,460,976.49
Decrease in inventories (“-” refers to income)	(2,003,344,782.55)	(917,263,177.25)
Decrease of operating receivables (“-” refers to income)	27,962,057.35	35,182,106.13
Increase of operating payables (“-” refers to income)	4,369,100,874.23	571,136,155.61
Others (“-” refers to income)	–	–
Net cash flows from operating activities	5,216,888,485.87	1,833,690,725.57
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	15,071,612,198.38	11,495,535,159.70
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	3,576,077,038.68	(1,090,934,626.81)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

56. Supplementary Information of Cash Flow Statement (Continued)

(2) Net cash paid for acquisition of subsidiaries in the current year

Item	Amount
Cash or cash equivalents paid in the current year for business combination in the current year	1,455,575,081.81
Including: GP Corp.	1,094,100,000.00
Wang Lao Ji	361,475,081.81
Less: Cash and cash equivalents held by the subsidiaries at the purchase date	2,383,955,080.52
Including: GP Corp.	1,509,277,153.74
Wang Lao Ji	874,677,926.78
Add: Cash and cash equivalents paid in the current year for combinations in the prior years	-
Net cash paid for acquisition of subsidiaries	<u>(928,379,998.71)</u>

(3) Net cash received for disposal of subsidiaries in the current year

Item	Amount
Cash or cash equivalents received for disposal of subsidiaries in the current year	-
Including: Guangzhou Guangyao Baiyunshan Great Health Hotel Co., Ltd.	-
Less: Cash and cash equivalents held by the subsidiaries at the date the Group loss control over the subsidiaries	161,611.03
Including: Guangzhou Guangyao Baiyunshan Great Health Hotel Co., Ltd.	161,611.03
Add: Cash and cash equivalents received in the current year for disposal of subsidiaries in previous periods	-
Net cash received for disposal of subsidiaries	<u>(161,611.03)</u>

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

56. Supplementary Information of Cash Flow Statement (Continued)

(4) Breakdown of cash and cash equivalents

Item	Closing balance	Opening balance
I. Cash	15,071,612,198.38	11,495,535,159.70
Including: Cash on hand	981,910.86	908,829.96
Bank deposits that are readily available for payment	15,049,107,347.81	11,487,756,822.40
Other cash that are readily available for payment	21,522,939.71	6,869,507.34
II. Cash equivalents	–	–
Including: Debt investment maturing within three months	–	–
III. Closing balance of cash and cash equivalents	15,071,612,198.38	11,495,535,159.70
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.

57. Assets with Restriction on Ownership or Use Right

Item	Closing balance of book value	Reason for restriction
Currency funds	1,043,271 thousand	The Group's deposit of notes payable is RMB838,954 thousand, factoring deposit for account receivable of RMB100,439 thousand, deposit for borrowings of RMB3,798 thousand, guarantee deposit of RMB1,212 thousand, frozen account funds of RMB78,284 thousand, term deposit of RMB20,000 thousand, and housing fund is RMB588 thousand.
Accounts receivable	475,291 thousand	The Group's short-term borrowings of RMB475,291 thousand is derived from accounts receivable as pledge or factoring.
Notes receivable	2,138,092 thousand	The Group's notes receivable pledged is RMB27,210 thousand. Notes receivable discounted but not yet due is RMB206,666 thousand. Notes receivable endorsed but not yet due is RMB1,904,216 thousand.

Notes to the Financial Statements

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

58. 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	5,452,751.85	6.8632	37,423,319.65
HKD	14,934,814.49	0.8762	13,085,611.04
EUR	22,678.04	7.8473	177,961.37
JPY	52.03	0.061887	3.22
Accounts receivable			
Including: USD	2,357,370.36	6.8632	16,179,104.25
HKD	10,632,597.38	0.8762	9,316,281.82
EUR	41,160.00	7.8473	322,994.87
Other receivables			
Including: HKD	680,679.49	0.8762	596,411.37
Contract liabilities			
Including: USD	6,501.54	6.8632	44,621.36
Other payables			
Including: HKD	999,645.75	0.8762	875,889.61

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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 year

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 year end	Net profits of acquiree from the purchase date to the year 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	20,449,195,492.03	161,238,313.42
Wang Lao Ji	11 September 2018	899,333,714.69	96.093	Business combinations not under common control	11 September 2018	Share equity dispute is supported by the decision of the board of arbitration. 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	83,616,417.79	(157,921,052.93)

Condition about realizing business combination by steps and acquiring control over the reporting period

Acquiree's name	Acquisition date	Acquisition cost	Shareholding (%)	Acquisition method
GP Corp.	31 May 2018	1,094,100,000.00	30.00	Cash
Wang Lao Ji	11 November 2018	368,919,146.25	48.0465	Cash

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VII. CHANGE IN THE SCOPE OF CONSOLIDATION (Continued)

1. Business combination not under the common control (Continued)

(2) Combination cost and goodwill

Item	GP Corp.	Wang Lao Ji
Combination cost		
– Cash	1,094,100,000.00	368,919,146.25
– Fair value of non-cash assets	–	–
– 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	1,823,500,000.00	530,414,568.44
– Others	–	–
Total combination costs	<u>2,917,600,000.00</u>	<u>899,333,714.69</u>
Less: Fair value of identifiable net assets obtained	<u>1,985,250,996.16</u>	<u>1,025,315,653.65</u>
Goodwill/combination cost lower than the fair value of identifiable net assets	<u>932,349,003.84</u>	<u>(125,981,938.96)</u>

① Recognition of the fair value of combination cost

The fair value of the non-cash assets in the combination cost of GP Corp. 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.

The fair value of the non-cash assets in the combination cost of GP Corp. has been adjusted and determined by the valuation results determined using the income method valuation method by Guangzhou Heng Ding Real Estate, Land, and Assets Evaluation and Appraisal Co., Ltd.

② Explanation of contingent considerations and explanation for change

Nil.

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.

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(All amounts in Renminbi yuan unless otherwise stated)

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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.		Wang Lao Ji	
	Fair value at the purchase date	Book value at the purchase date	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	874,677,926.78	874,677,926.78
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	89,392,844.69	89,392,844.69
Prepayments	480,420,214.12	480,420,214.12	2,382,992.21	2,382,992.21
Other receivables	804,794,691.48	805,250,142.03	17,529,013.92	17,529,013.92
Inventories	3,415,844,222.20	3,415,844,222.20	219,050,758.92	200,010,664.32
Other current assets	80,732,420.57	80,732,420.57	225,000,000.01	225,000,000.01
Other non-current financial assets	-	-	100,000.00	100,000.00
Investment properties	6,502,500.00	124,276.05	-	-
Fixed assets	866,610,501.48	338,096,751.59	230,782,003.34	190,243,936.55
Construction in progress	54,151,645.64	54,151,645.64	1,482,558.91	1,482,558.91
Intangible assets	247,710,677.72	112,935,483.44	6,951,252.44	5,544,801.11
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	244,123,126.84	244,123,126.84
Contract liabilities	48,806,283.66	48,806,283.66	85,414,935.76	85,414,935.76
Employee benefits payable	46,533,213.84	46,533,213.84	99,460,305.09	99,460,305.09
Taxes payable	82,276,190.24	82,276,190.24	13,005,596.36	13,005,596.36
Other Payables	1,368,894,001.96	1,368,894,001.96	547,799,656.17	547,799,656.17
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	583,762.27	583,762.27
Deferred income	2,883,392.79	2,883,392.79	588,087.37	3,920,582.44
Deferred tax liabilities	171,173,341.58	2,605,266.54	9,647,566.17	-
Net assets	2,735,996,251.06	2,270,339,484.65	666,726,315.19	612,056,773.57
Less: Minority interest	254,432,505.87	251,867,551.12	-	-
Net assets acquired	2,481,563,745.19	2,018,471,933.53	666,726,315.19	612,056,773.57

Notes:

- ① Fair value of net identifiable assets and liabilities of GP Corp. is valued by Zhonglian International Appraisal and Consultation Co., Ltd. under cost method.
- ② Fair value of net identifiable assets and liabilities of Wang Lao Ji is valued by Guangzhou Heng Ding Real Estate, Land, and Assets Evaluation and Appraisal Co., Ltd. under cost method.

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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

Acquiree	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	The method of determining and the 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
GP Corp.	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
Wang Lao Ji	485,512,361.92	530,414,568.44	44,902,206.52	Adjustments of matters affecting fair value on the basis of the income approach	

- (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 7 companies in scope of consolidation comparing to the prior year 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 RMB100,000 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 RMB49,600 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 RMB800 thousand.

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VII. CHANGE IN THE SCOPE OF CONSOLIDATION *(Continued)*

2. Changes in Consolidation Scope due to Other Reasons *(Continued)*

- (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.
- (5) Ming Xing Pharmaceutical Co., Ltd., a subsidiary of the Company, established Guangzhou Xing Ji Industries Co., Ltd. in January 2018, capital contribution subscribed by Ming Xing Pharmaceutical Co., Ltd. accounts for 100% of registered capital amounted to RMB100 thousand.
- (6) Guangzhou Baiyunshan Medical and Healthcare Industry Co., Ltd., a subsidiary of the Company, established Guangzhou Baiyunshan Run Kang Confinement Service Center Co., Ltd. in July 2018, capital contribution subscribed by Guangzhou Baiyunshan Medical and Healthcare Industry Co., Ltd. accounts for 51% of registered capital amounted to RMB10,000 thousand.
- (7) Guangzhou Bai Di, a subsidiary of the Company, established Guangzhou Wei Yi Industries Co., Ltd. in November 2018, capital contribution subscribed by Guangzhou Baiyunshan Medical and Healthcare Industry Co., Ltd. accounts for 51% of registered capital amounted to RMB10,000 thousand.

The reasons for the reduction of 1 company in scope of consolidation comparing to the prior year 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. Consequently, the company is excluded from the scope of consolidation.

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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'000)	Shareholding (%)		Voting (%)		Acquisition method
					Direct	Indirect	Direct	Indirect	
Xing Qun	Guangzhou	Guangzhou	Pharmaceutical manufacturing	77,168.90	88.99	-	88.99	-	Establishment or Investment
Guangzhou Baiyunshan Xing Qun Health Technology Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	3,000.00	-	88.99	-	100.00	Establishment or Investment
Zhong Yi	Guangzhou	Guangzhou	Pharmaceutical manufacturing	217,410.00	100.00	-	100.00	-	Establishment or Investment
Chen Li Ji	Guangzhou	Guangzhou	Pharmaceutical manufacturing	112,845.41	100.00	-	100.00	-	Establishment or Investment
Guangzhou Chen Li Ji Great Health Industry Co., Ltd. ⁽²⁾	Guangzhou	Guangzhou	Pharmaceutical manufacturing	15,000.00	-	44.00	-	44.00	Establishment or Investment
Guangzhou Han Fang	Guangzhou	Guangzhou	Pharmaceutical manufacturing	246,046.30	99.96	-	100.00	-	Establishment or Investment
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	82,406.78	100.00	-	100.00	-	Establishment or Investment
Qi Xing	Guangzhou	Guangzhou	Pharmaceutical manufacturing	100,000.00	-	100.00	-	100.00	Establishment or Investment
Jing Xiu Tang	Guangzhou	Guangzhou	Pharmaceutical manufacturing	86,230.00	88.40	-	88.40	-	Establishment or Investment
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd. ⁽¹⁾	Guangzhou	Guangzhou	Pharmaceutical trading	3,000.00	-	45.08	-	51.00	Establishment or Investment
Pan Gao Shou	Guangzhou	Guangzhou	Pharmaceutical manufacturing	65,436.20	87.77	-	87.77	-	Establishment or Investment
Guangzhou Pan Gao Shou Natural Healthcare Products Co., Ltd. ⁽¹⁾	Guangzhou	Guangzhou	Pharmaceutical manufacturing	14,000.00	-	87.77	-	100.00	Establishment or Investment
Wang Lao Ji	Guangzhou	Guangzhou	Food manufacturing	204,756.88	96.093	-	96.093	-	Business combination not under common control
Guangzhou Wang Lao Ji Food Co., Ltd.	Guangzhou	Guangzhou	Trading	1,000.00	-	96.093	-	96.093	Business combination not under common control
GP Corp.	Guangzhou	Guangzhou	Pharmaceutical trading	700,000.00	80.00	-	80.00	-	Business combination not under common control
Guangzhou Jian Min Pharmaceutical Chain Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	86,000.00	-	80.00	-	80.00	Business combination not under common control
Guangzhou Jian Min Pharmaceutical Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	8,000.00	-	80.00	-	80.00	Business combination not under common control
Guangzhou Qi Hua Medical Instruments Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	11,880.00	-	80.00	-	80.00	Business combination not under common control
Guangzhou Wan Kang Orthopedics Medical Instruments Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	10,000.00	-	80.00	-	80.00	Business combination not under common control

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VIII. EQUITY IN OTHER ENTITIES

1. Equity in subsidiaries (Continued)

(1) Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'000)	Shareholding (%)		Voting (%)		Acquisition method
					Direct	Indirect	Direct	Indirect	
Fujian Guangyao Jie Da Pharmaceutical Co., Ltd.	Fuzhou	Fuzhou	Pharmaceutical trading	30,100.00	-	41.60	-	41.60	Business combination not under common control
Hubei Guangyao An Kang Pharmaceutical Co., Ltd.	Wuhan	Wuhan	Pharmaceutical trading	60,00.00	-	40.80	-	40.80	Business combination not under common control
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	465,000.00	-	80.00	-	80.00	Business combination not under common control
Guangzhou Xin Te Pharmaceutical Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	50,000.00	-	80.00	-	80.00	Business combination not under common control
Foshan Guangyao Jian Ze Pharmaceutical Co., Ltd.	Foshan	Foshan	Pharmaceutical trading	13,500.00	-	48.00	-	48.00	Business combination not under common control
Shenzhen Guangyao Lian Kang Pharmaceutical Co., Ltd.	Shenzhen	Shenzhen	Pharmaceutical trading	15,000.00	-	80.00	-	80.00	Business combination not under common control
Hunan Guangyao Heng Sheng Pharmaceutical Co., Ltd.	Changsha	Changsha	Pharmaceutical trading	55,000.00	-	80.00	-	80.00	Business combination not under common control
Hainan Guangyao Chen Fei Pharmaceutical Co., Ltd.	Haikou	Haikou	Pharmaceutical trading	56,000.00	-	48.00	-	48.00	Business combination not under common control
Shanxi Guangyao Kang Jian Pharmaceutical Co., Ltd.	Xi'an	Xi'an	Pharmaceutical trading	87,500.00	-	48.00	-	48.00	Business combination not under common control
Guangdong Meixian Pharmaceutical Co., Ltd.	Meizhou	Meizhou	Pharmaceutical trading	14,000.00	-	48.00	-	48.00	Business combination not under common control
Jiangmen Guangyao Qiao Kang Pharmaceutical Co., Ltd.	Jiangmen	Jiangmen	Pharmaceutical trading	15,000.00	-	80.00	-	80.00	Business combination not under common control
Guangyao Sichuan Pharmaceutical Co., Ltd.	Chengdu	Chengdu	Pharmaceutical trading	50,000.00	-	40.80	-	40.80	Business combination not under common control
Hubei Guangyao Ji Da Pharmaceutical Co., Ltd.	Wuhan	Wuhan	Pharmaceutical trading	30,500.00	-	56.00	-	56.00	Business combination not under common control
Guangxi Guangyao Xin Shi Dai Pharmaceutical Co., Ltd.	Nanning	Nanning	Pharmaceutical trading	50,000.00	-	56.00	-	56.00	Business combination not under common control
Guangzhou Pharmaceutical (Hong Kong) Co., Ltd.	Hong Kong	Hong Kong	Pharmaceutical trading	5,000.00	-	80.00	-	80.00	Business combination not under common control

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VIII. EQUITY IN OTHER ENTITIES

1. Equity in subsidiaries (Continued)

(1) Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'000)	Shareholding (%)		Voting (%)		Acquisition method
					Direct	Indirect	Direct	Indirect	
Jian Min International Co., Ltd.	Hong Kong	Hong Kong	Pharmaceutical trading	HKD300.00	-	80.00	-	80.00	Business combination not under common control
Zhuhai Guangyao Kang Ming Pharmaceutical Co., Ltd.	Zhuhai	Zhuhai	Pharmaceutical trading	550.00	-	80.00	-	80.00	Business combination not under common control
Foshan Guangyao Feng Kang Pharmaceutical Co., Ltd.	Foshan	Foshan	Pharmaceutical trading	5,700.00	-	80.00	-	80.00	Business combination not under common control
Guangzhou Pharmaceutical Pharmacy Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	60,000.00	-	80.00	-	80.00	Business combination not under common control
Guangzhou Pharmaceutical Information Technology Co., Ltd.	Guangzhou	Guangzhou	Service	60,000.00	-	80.00	-	80.00	Establishment or Investment
Guangzhou Pharmaceutical Nanpi Great Pharmacy Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	1,500.00	-	52.00	-	52.00	Establishment or Investment
Zhongshan Guangyao Gui Kang Pharmaceutical Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	6,000.00	-	80.00	-	80.00	Establishment or Investment
Cai Zhi Lin	Guangzhou	Guangzhou	Pharmaceutical trading	32,202.00	100.00	-	100.00	-	Establishment or Investment
Jingyu County Dong'e Guangyao Chinese Raw Medicine Development Co., Ltd. ⁽¹⁾	Jingyu	Jingyu	Pharmaceutical trading	3,000.00	-	57.50	-	60.00	Establishment or Investment
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	Guangzhou	Guangzhou	Pharmaceutical trading	2,940.00	-	100.00	-	100.00	Establishment or Investment
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Fengshun	Fengshun	Pharmaceutical trading	2,000.00	-	60.00	-	60.00	Establishment or Investment
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Guangzhou	Guangzhou	Pharmaceutical manufacturing	20,000.00	-	100.00	-	100.00	Establishment or Investment
Guangzhou Cai Zhi Lin Corporation Beishang Chinese Raw Medicine Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	5,000.00	-	100.00	-	100.00	Establishment or Investment
Guangzhou Ao Ma Medical Instruments Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	6,680.00	-	100.00	-	100.00	Establishment or Investment
Heilongjiang Sen Gong Guangyao Raw Medicine Development Co., Ltd.	Ha'erbin	Ha'erbin	Pharmaceutical trading	3,000.00	-	60.00	-	60.00	Establishment or Investment
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Wulanchabu	Wulanchabu	Pharmaceutical trading	1,000.00	-	80.00	-	80.00	Establishment or Investment
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Linyi	Linyi	Pharmaceutical trading	2,000.00	-	60.00	-	60.00	Establishment or Investment
Meizhou Guangyao Cai Zhi Lin Pharmaceutical Co., Ltd.	Meizhou	Meizhou	Pharmaceutical manufacturing	10,000.00	-	100.00	-	100.00	Establishment or Investment
Pharmaceutical Import & Export Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	24,000.00	100.00	-	100.00	-	Establishment or Investment

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VIII. EQUITY IN OTHER ENTITIES

1. Equity in subsidiaries (Continued)

(1) Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'000)	Shareholding (%)		Voting (%)		Acquisition method
					Direct	Indirect	Direct	Indirect	
Guangzhou Bai Di	Guangzhou	Guangzhou	Pharmaceutical manufacturing	131,600.00	100.00	-	100.00	-	Establishment or Investment
Guangzhou Baiyunshan Wei Yi Industries Co., Ltd.	Guangzhou	Guangzhou	Trading	10,000.00	-	51.00	-	51.00	Establishment or Investment
Tibet Linzhi Guangyao Development Co., Ltd. ⁽¹⁾	Linzhi	Linzhi	Pharmaceutical trading	2,000.00	-	54.82	-	55.00	Establishment or Investment
Wang Lao Ji Great Health	Guangzhou	Guangzhou	Food manufacturing	900,000.00	100.00	-	100.00	-	Establishment or Investment
Wang Lao Ji Great Health Industry (Ya'an) Co., Ltd.	(Ya'an)	(Ya'an)	Pharmaceutical manufacturing	50,000.00	-	100.00	-	100.00	Establishment or Investment
Guangzhou Wang Lao Ji Great Health Enterprise Development Co., Ltd.	Guangzhou	Guangzhou	Food manufacturing	10,000.00	-	100.00	-	100.00	Establishment or Investment
Guangzhou Wang Lao Ji Industry Co., Ltd.	Guangzhou	Guangzhou	Food manufacturing	1,000.00	-	100.00	-	100.00	Establishment or Investment
Wang Lao Ji Great Health Industry (Beijing) Sales Co., Ltd.	Beijing	Beijing	Trading	5,000.00	-	100.00	-	100.00	Establishment or Investment
Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd.	Meizhou	Meizhou	Food manufacturing	50,000.00	-	100.00	-	100.00	Establishment or Investment
Guangzhou Wang Lao Ji Great Health E-Commerce Co., Ltd.	Guangzhou	Guangzhou	Trading	10,000.00	-	100.00	-	100.00	Establishment or Investment
Guangxi Ying Kang	Nanning	Nanning	Pharmaceutical manufacturing	31,884.50	51.00	-	51.00	-	Business combination not under common control
Yi Gan	Guangzhou	Guangzhou	Pharmaceutical manufacturing	29,500.00	60.00	-	60.00	-	Establishment or Investment
Baiyunshan Medical and Healthcare Industry Co., Ltd.	Guangzhou	Guangzhou	Commercial services	116,000.00	100.00	-	100.00	-	Establishment or Investment
Tibet Linzhi Baiyunshan Tibetan Health Castle Management Co., Ltd.	Linzhi	Linzhi	Pharmaceutical manufacturing	50,000.00	-	100.00	-	100.00	Establishment or Investment
Guangzhou Baiyunshan Hospital	Guangzhou	Guangzhou	Medical	40,816.00	-	51.00	-	51.00	Business combination not under common control
Guangzhou Baiyunshan Run Kang Confinement Service Center Co., Ltd.	Guangzhou	Guangzhou	Service	10,000.00	-	51.00	-	51.00	Establishment or Investment
Xing Zhu	Guangzhou	Guangzhou	Pharmaceutical manufacturing	126,480.00	100.00	-	100.00	-	Establishment or Investment
Wang Lao Ji Investment Co., Ltd.	Guangzhou	Guangzhou	Commercial services	10,000.00	100.00	-	100.00	-	Establishment or Investment
Guangzhou WLJ Catering Management Development Co., Ltd.	Guangzhou	Guangzhou	Commercial services	20,000.00	-	80.00	-	80.00	Establishment or Investment
Tian Xin Pharmaceutical	Guangzhou	Guangzhou	Pharmaceutical manufacturing	45,693.00	82.49	-	82.49	-	Business combination under common control
Guangzhou Baiyunshan Tian Xin Pharmaceutical Technology Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	800.00	-	100.00	-	100.00	Establishment or Investment

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VIII. EQUITY IN OTHER ENTITIES

1. Equity in subsidiaries (Continued)

(1) Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'000)	Shareholding (%)		Voting (%)		Acquisition method
					Direct	Indirect	Direct	Indirect	
Guang Hua	Guangzhou	Guangzhou	Pharmaceutical manufacturing	55,285.00	84.48	-	84.48	-	Business combination under common control
Guang Hua Health ⁽¹⁾	Guangzhou	Guangzhou	Pharmaceutical manufacturing	10,000.00	-	63.36	-	75.00	Establishment or Investment
Ming Xing Pharmaceutical	Guangzhou	Guangzhou	Pharmaceutical manufacturing	46,091.90	100.00	-	100.00	-	Business combination under common control
Guangzhou Xing Ji Industries Co., Ltd.	Guangzhou	Guangzhou	Manufacturing	100.00	-	100.00	-	100.00	Establishment or Investment
Weiling Pharmaceutical	Jiexi	Jiexi	Pharmaceutical manufacturing	11,790.00	100.00	-	100.00	-	Business combination under common control
Pharmaceutical Technological	Guangzhou	Guangzhou	Pharmaceutical trading	2,000.00	51.00	-	51.00	-	Business combination under common control
Wang Lao Ji Da Zhai Beverages Co., Ltd.	Yangquan	Yangquan	Food manufacturing	50,000.00	-	60.00	-	60.00	Establishment or Investment
Guangzhou Wang Lao Ji Da Zhai Beverages Co., Ltd.	Guangzhou	Guangzhou	Food manufacturing	35,000.00	-	60.00	-	60.00	Establishment or Investment
Guangyao Baiyunshan Hong Kong Company	Hong Kong	Hong Kong	Pharmaceutical trading	HKD132,500.00	100.00	-	100.00	-	Business combination under common control
Guangyao Baiyunshan Macao Co., Ltd.	Macao	Macao	Pharmaceutical trading	MOP 1,000.00	99.90	-	99.90	-	Establishment or Investment
Guangzhou Baiyunshan Chemical Pharmaceutical Technology Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	163,470.00	100.00	-	100.00	-	Establishment or Investment
Zhejiang Guang Kang Pharmaceutical Co., Ltd.	Shengzhou	Shengzhou	Pharmaceutical manufacturing	85,000.00	-	51.00	-	51.00	Establishment or Investment
Guangyao Baiyunshan Chemical Pharmaceutical (Zhuhai) Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	49,600.00	-	100.00	-	100.00	Establishment or Investment
Guangyao Hai Ma	Guangzhou	Guangzhou	Advertising	500.00	100.00	-	100.00	-	Business combination not under common control
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	40,000.00	100.00	-	100.00	-	Establishment or Investment
Guangzhou Baiyunshan Jin Ge Male Health Consulting Co., Ltd.	Guangzhou	Guangzhou	Consulting	1,000.00	-	100.00	-	100.00	Establishment or Investment
Guangyao General Institute	Guangzhou	Guangzhou	Medical research	80,000.00	100.00	-	100.00	-	Business combination under common control
Guangzhou Baiyunshan Medical Instruments Investment Co., Ltd.	Guangzhou	Guangzhou	Commercial services	10,000.00	-	100.00	-	100.00	Establishment or Investment
Guangzhou Baiyunshan Chemical Pharmaceutical Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	100,000.00	100.00	-	100.00	-	Establishment or Investment

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VIII. EQUITY IN OTHER ENTITIES

1. Equity in subsidiaries (Continued)

(1) Composition of Enterprises Group (Continued)

Notes:

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

(2) Significant non-wholly owned subsidiaries

Subsidiary	Shareholding of minority shareholders (%)	Profit or loss attributable to minority shareholders in the current year	Dividend paid to minority shareholders in the current year	Closing balance of minority shareholders' equity
GP Corp.	20.00	28,988,282.47	–	725,301,031.51
Wang Lao Ji	3.907	(6,169,975.54)	17,333,228.79	18,184,621.62

(3) Primary financial information of significant non-wholly owned subsidiaries

Subsidiary	Current assets	Non-current assets	Closing balance		Non-current liabilities	Total liabilities
			Total assets	Current liabilities		
GP Corp.	19,027,761,085.33	1,405,773,512.96	20,433,534,598.29	15,807,319,952.93	688,872,436.93	16,496,192,389.86
Wang Lao Ji	937,113,928.36	229,335,394.05	1,166,449,322.41	695,189,403.63	5,814,718.79	701,004,122.42

Subsidiary	Operating income	Net profit	Current year	
			Total comprehensive income	Operating cash flows
GP Corp.	20,449,195,492.03	161,328,313.42	161,328,313.42	1,780,119,668.37
Wang Lao Ji	83,616,417.79	(157,921,052.93)	(157,921,052.93)	(172,273,678.15)

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VIII. EQUITY IN OTHER ENTITIES (Continued)

2. Equity in Joint Ventures or Associates

(1) Summary for financial information of insignificant associates and joint ventures

Item	Closing balance/ Current year	Opening balance/ Prior year
Joint ventures:		
Total book balance of investments	661,295,124.97	1,840,718,609.13
Calculated by rate of interests held:		
– Net profit	305,162,068.66	275,058,851.60
– Other comprehensive income	(8,821.96)	20,429.81
– Total comprehensive income	305,153,246.70	275,079,281.41
Associates		
Total book balance of investments	1,098,662,910.42	167,762,647.93
Calculated by rate of interests held:		
– Net profit	70,921,573.37	13,259,282.01
– Other comprehensive income	29,136.57	–
– Total comprehensive income	70,950,709.94	13,259,282.01

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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 31 December 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	50,686,895.28	10,187,248.89
Accounts receivable	25,818,380.94	26,545,890.62
Prepayments	–	936,351.27
Other receivables	596,411.37	516,764.75
Total financial assets in foreign currency	77,101,687.59	38,186,255.53
Accounts payable	11,311,566.29	13,890,397.99
Advances from customers	32,378.59	156,950.18
Other payables	205,308.23	980,294.04
Current portion of non-current liabilities	–	31,307,337.23
Total financial liabilities in foreign currency	11,549,253.11	46,334,979.44

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 31 December 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 RMB5,074 thousand (As at 31 December 2017: approximately RMB611 thousand).

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IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

1. Market risk (Continued)

(2) Interest rate risk

As at 31 December 2018, the Group's long-term interest-bearing debt balance was RMB413,554 thousand. If the annual interest rate decreased by 50 basis points and other factors remained unchanged, the Group's net profit will increase by RMB16,908 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 investments in equity instruments	–	–
Other non-current financial assets	142,759,160.02	891,777,560.04
Total	142,759,160.02	891,777,560.04

As at 31 December 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 RMB14,276 thousand (As at 31 December 2017: net profit and other comprehensive income will increase by RMB488 thousand and RMB75,382 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.

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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	16,144,883,673.51	-	-	-	-	16,144,883,673.51
Notes receivable and accounts receivable	13,653,056,156.35	-	-	-	-	13,653,056,156.35
Other receivables	1,056,551,186.68	-	-	-	-	1,056,551,186.68
Subtotal	<u>30,854,491,016.54</u>	-	-	-	-	<u>30,854,491,016.54</u>
Financial liabilities:						
Short-term borrowings	5,905,703,286.10	-	-	-	-	5,905,703,286.10
Current portion of non-current liabilities	153,000,000.00	-	-	-	-	204,024,196.93
Notes payable and accounts payable	11,969,454,162.81	-	-	-	-	11,969,454,162.80
Other payables	3,466,357,353.39	-	-	-	-	3,466,357,353.41
Long-term payables	128,649,038.74	-	-	84,771,651.81	-	135,795,848.74
Subtotal	<u>21,623,163,841.04</u>	-	-	<u>84,771,651.81</u>	-	<u>21,707,935,492.85</u>

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IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

3. Liquidity risk (Continued)

(cont.)

Period	Opening balance					No fixed maturity date	Total
	Within 1 year	1-2 years	2-5 years	Over 5 years			
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	762,257,361.98	-	-	-	-	-	762,257,361.98
Subtotal	<u>15,275,900,726.41</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,275,900,726.41</u>
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	3,054,427,081.1	-	-	-	-	-	3,054,427,081.10
Other payables	2,399,394,477.50	-	-	-	-	-	2,399,394,477.50
Long-term payables	-	-	-	20,171,809.73	-	-	20,171,809.73
Subtotal	<u>5,496,956,192.40</u>	<u>-</u>	<u>-</u>	<u>20,171,809.73</u>	<u>-</u>	<u>-</u>	<u>5,562,827,986.32</u>

X. DISCLOSURE OF FAIR VALUE

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.

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X. DISCLOSURE OF FAIR VALUE (Continued)

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 data (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.

(1) Closing balance of fair value of assets and liabilities measured at fair value

Item	The first hierarchy	Closing balance of fair value		Total
		The second hierarchy	The third hierarchy	
I. Continuous measurement at fair value				
A. Financial assets held for trading	-	-	-	-
1. Financial assets measured at FVTPL	-	-	-	-
2. Financial assets designated at FVTPL	-	-	-	-
B. Other debt investments	-	-	-	-
C. Other investments in equity instruments	-	-	-	-
1. Equity instrument investments	-	-	84,897,870.89	84,897,870.89
D. Other non-current financial assets	-	-	-	-
1. Equity instrument investments	28,314,931.38	-	198,623,524.78	226,938,456.16
E. Investment property	-	-	-	-
F. Biological assets	-	-	-	-
Total assets continuously measured at fair value	28,314,931.38	-	283,521,395.67	311,836,327.05

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X. DISCLOSURE OF FAIR VALUE (Continued)

3. 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.

4. 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
Equity instrument investment	84,897,870.89	Market discount method	Lack of liquidity discount	The higher the discount, the lower the liquidity
Other non-current financial assets	198,623,524.78	Market discount method	Lack of liquidity discount	The higher the discount, the lower the liquidity

5. 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	Total amount of profit or loss for the current year		Purchase, issuance, sale and settlement		Gains and losses recognized through profit or loss at the year end of assets held at the year end
				Recognized in profit or loss	Recognized in other comprehensive income	Disposal	Closing balance	
Other investments in equity instruments	62,686,231.77	-	-	-	(2,885,860.88)	25,097,500.00	84,897,870.89	-
Other non-current financial assets	944,029,037.38	-	-	119,064,714.42	-	864,570,227.02	198,623,524.78	-

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XI. 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	1,252,810.98	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 Company in the current year, or had had transactions with the Company in prior years and formed a balance in current year is as follows:

Associates or joint ventures	Relationship with the Company
GP Corp.	Joint venture
Wang Lao Ji	Joint venture
Nuo Cheng	Joint venture
HWBYS	Joint venture
Baxter Qiao Guang	Joint venture
Chuangmei Medicines	Associates
Guangzhou Baiyunshan Southern Anti-tumor Biological Products Co., Ltd.	Associates
Yi Xin Tang	Associates
Baiyunshan Yi Xin Tang	Associates

Notes:

- ① 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.
- ② On 11 September 2018, by purchasing additional 48.0465% of equity of Wang Lao Ji from other shareholders, the Group's shareholding proportion reached 96.093%. Wang Lao Ji was included in the scope of consolidation. Therefore, Wang Lao Ji was no longer a joint venture since 12 September 2018.

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XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

4. Other Related Parties without Control Relationship

Other related parties	Relationship with the Company
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. (hereinafter referred to as "Hua Cheng")	Controlled by the same parent company

5. Related Party Transactions

(1) Related party transaction of purchase and sales of goods, rendering and receiving of services

① Purchase of goods from related parties

Related party	Type	Content	Pricing policy and decision-making procedure	Current year	% of total (similar category)	Prior year	% of total (similar category)
HWBYS	Purchase of goods	Medicinal material or medicine	Market price	111,109,170.28	0.27	24,954,015.81	0.24
GP Corp.	Purchase of goods	Medicinal material or medicine	Market price	41,325,294.07	0.10	286,177,077.81	2.81
Wang Lao Ji	Purchase of goods	Medicinal material or medicine	Market price	898,962,329.29	2.16	872,214,455.47	8.55
Baxter Qiao Guang	Purchase of goods	Medicinal material or medicine	Market price	12,584,109.35	0.03	-	-
Chuangmei Medicines	Purchase of goods	Medicinal material or medicine	Market price	21,994,996.93	0.05	16,368,263.44	0.16
Hua Cheng	Purchase of goods	Medicinal material or medicine	Market price	4,309,981.67	0.01	7,986,777.28	0.08
Yi Xin Tang	Purchase of goods	Medicinal material or medicine	Market price	822,832.72	-	-	-
Total				1,091,108,714.31	2.62	1,207,700,589.81	11.84

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XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

5. Related Party Transactions (Continued)

(1) Related party transaction of purchase and sales of goods, rendering and receiving of services (Continued)

② Sales of goods to related parties

Related party	Type	Content	Pricing policy and decision-making procedure	Current year	% of total (similar category)	Prior year	% of total (similar category)
Southern Anti-tumor Biological Products	Sales of good	Medicinal material or medicine	Market price	-	-	707.69	0.02
HWBYS.	Sales of good	Medicinal material or medicine	Market price	182,614,716.16	0.44	209,169,141.32	1.01
GP Corp.	Sales of good	Medicinal material or medicine	Market price	152,495,945.38	0.36	1,019,758,204.85	4.95
Wang Lao Ji	Sales of good	Medicinal material or medicine	Market price	476,599,653.08	1.14	562,242,250.42	2.73
Nuo Cheng	Sales of good	Medicinal material or medicine	Market price	111,620.68	0.00	23,097.44	0.00
Baxter Qiao Guang	Sales of good	Medicinal material or medicine	Market price	2,079,676.82	0.00	927,514.52	0.00
Chuangmei Medicine	Sales of good	Medicinal material or medicine	Market price	451,354,161.51	1.08	326,372,536.13	1.58
Hua Cheng	Sales of good	Medicinal material or medicine	Market price	132,044,378.63	0.31	72,693,961.41	0.35
Baiyunshan Yixin Tang	Sales of good	Medicinal material or medicine	Market price	46,363,332.52	0.11	-	-
Total				<u>1,443,663,474.78</u>	<u>3.44</u>	<u>2,191,187,413.78</u>	<u>10.62</u>

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XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

5. Related Party Transactions (Continued)

(1) Related party transaction of purchase and sales of goods, rendering and receiving of services (Continued)

③ Rendering of services to related parties

Related party	Type	Content	Pricing policy and decision-making procedure	Current year	% of total (similar category)	Prior year	% of total (similar category)
GPHL	Rendering of services	Advertising agency service	Market price	1,076,291.49	1.07	1,189,977.61	0.92
HWBYS	Rendering of services	Advertising agency service	Market price	45,805,389.40	45.51	43,597,886.40	33.87
GP Corp.	Rendering of services	Advertising agency service	Market price	82,696.23	0.08	342,920.18	0.27
Wang Lao Ji	Rendering of services	Advertising agency service	Market price	44,531,828.07	44.25	74,602,790.97	57.96
Baxter Qiao Guang	Rendering of services	Advertising agency service	Market price	47,490.57	0.05	39,245.28	0.03
Hua Cheng	Rendering of services	Advertising agency service	Market price	5,764,818.95	5.73	4,992,802.34	3.88
Baiyunshan Yi Xin Tang	Rendering of services	Advertising agency service	Market price	1,748.58	0.00	-	-
Subtotal				97,310,263.29	-	124,765,622.78	-
Wang Lao Ji	Rendering of services	Consigned processing	Market price	13,479,531.38	79.95	23,754,475.51	82.57
HWBYS	Rendering of services	Consigned processing	Market price	1,754,945.87	10.41	2,284,247.18	7.94
Hua Cheng	Rendering of services	Consigned processing	Market price	1,626,428.25	9.65	-	-
Subtotal				16,860,905.50	-	26,038,722.69	-
HWBYS	Rendering of services	Research and development services	Market price	247,641.50	3.18	742,924.54	6.68
Wang Lao Ji	Rendering of services	Research and development services	Market price	188,679.24	2.42	-	0.01
Subtotal				436,320.74	-	742,924.54	-
Total				114,607,489.53	-	151,547,270.01	-

(2) The Group had no associated trusteeship/Entrusted management for the current year.

(3) The Group had no associated contracting for the current year.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

(4) Leases

① *The Group as the lessor*

A. Office Tenancy Agreement – 5th Floor, Front building, 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 RMB376 thousand for the current year (for the year ended 31 December 2017: RMB367 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 year is RMB545 thousand due from GP Corp. (for the year ended 31 December 2017: RMB1,458 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 RMB259 thousand for the current year (for the year ended 31 December 2017: RMB572 thousand).

According to the tenancy agreement entered into by the Company and Baxter Qiao Guang, the Company leases the building located on No. 25 of Fangcun Dadao Road, Guangzhou to Baxter Qiao Guang as workshop. The lease agreement started on 10 May 2007 to the relocation date. The rent is RMB3,031 thousand for the current year (for the year ended 31 December 2017: RMB2,971 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 RMB2,298 thousand (for the year ended 31 December 2017: RMB2,258 thousand).

Notes to the Financial Statements

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

(4) 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 RMB12 thousand (for the year ended 31 December 2017: RMB70 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 15 July 2015 to 14 July 2020. And GP Corp. should pay Guang Hua the rent of RMB174 thousand (for the year ended 31 December 2017: RMB637 thousand).

② *The Group as the lessee*

A. Tenancy Agreement

According to the tenancy agreement entered into by the Company and GPHL, GPHL leases certain premises to the Company 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 GPHL the rent of RMB7,564 thousand for the current year (for the year ended 31 December 2017: RMB1,458 thousand).

According to the tenancy agreement entered into by HWBYS and Baiyunshan Pharmaceutical Marketing, a subsidiary of the Company, Baiyunshan Pharmaceutical Marketing is authorized by HWBYS to use 704 room on the 7 floor and the 8 to 11 floor of Shennong Building on No. 389 of North Sha Tai Road, Baiyun District, Guangzhou as office place. Rent is paid at the price specified in the agreement annually. Thereinto, the lease term for 704 room on the 7 floor started from 1 April 2018 to 31 December 2023; the lease term for the 8 to 11 floor started from 1 January 2018 to 31 December 2023. Baiyunshan Pharmaceutical Marketing shall pay rental of RMB3,783 thousand for the above-mentioned place to HWBYS (for the year ended 31 December 2017: nil).

- (5) The Group had no guarantee for related parties for the current year.
- (6) The Group had no borrowing or lending between related parties for the current year.
- (7) The Group had no transfer of asset and debt restructuring for the current year.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

5. Related Party Transactions (Continued)

(8) Employee benefits of key management personnel

Employee benefits of the Group's key management personnel amounted to RMB4,185 thousand for the year ended 31 December 2018 (for the year ended 31 December 2017: RMB3,151 thousand). The Group's key management personnel of current year include 9 persons, such as director, general manager, vice general manager, and secretary to the Board of Director (for the six months ended 31 December 2017: 10 persons). Among them, 4 received their salaries from the Group (for the year ended 31 December 2017: 5).

(9) Remuneration of directors and supervisors

Remuneration of each directors and supervisors are as follows:

Name	Remuneration of director/supervisors	Salary and subsidy	Pension scheme	Bonus	Entry bonus	severance packages	Other	Total
Director name								
Li Chuyuan	-	-	-	-	-	-	-	-
Chen Mao	-	-	-	-	-	-	-	-
Liu Juyan	-	-	-	-	-	-	-	-
Cheng Ning	-	-	-	-	-	-	-	-
Ni Yidong	-	-	-	-	-	-	-	-
Li Hong (Note 1)	-	382,038.00	107,030.00	579,606.50	-	-	25,778.00	1,094,452.50
Wu Changhai	-	370,098.00	82,046.00	678,244.00	-	-	25,778.00	1,156,166.00
Huang Xianrong	100,000.00	-	-	-	-	-	-	100,000.00
Wang Weihong	100,000.00	-	-	-	-	-	-	100,000.00
Chu Xiaoping	100,000.00	-	-	-	-	-	-	100,000.00
Jiang Wenqi	100,000.00	-	-	-	-	-	-	100,000.00
Supervisor name								
Xian Jiaxiong	-	-	-	-	-	-	-	-
Li Jinyun	-	-	-	-	-	-	-	-
Gao Yanzhu	-	236,664.00	65,414.00	236,429.00	-	-	17,750.00	556,257.00

Notes to the Financial Statements

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

5. Related Party Transactions (Continued)

(9) Remuneration of directors and supervisors (Continued)

Remuneration of each directors and supervisors in the prior year are as follows:

Name	Remuneration of director/supervisors	Salary and subsidy	Pension scheme	Bonus	Entry bonus	severance packages	Other	Total
Director name								
Li Chuyuan	-	-	-	-	-	-	-	-
Chen Mao	-	-	-	-	-	-	-	-
Liu Juyan	-	-	-	-	-	-	-	-
Cheng Ning	-	-	-	-	-	-	-	-
Ni Yidong	-	-	-	-	-	-	-	-
Wu Changhai	-	499,952.00	78,494.00	375,719.00	-	-	51,343.00	1,005,508.00
Wang Wenchu (Note 2)	-	187,885.00	45,215.00	128,600.00	-	-	-	361,700.00
Chu Xiaoping	100,000.00	-	-	-	-	-	-	100,000.00
Jiang Wenqi	100,000.00	-	-	-	-	-	-	100,000.00
Qiu Hongzhong (Note 3)	50,000.00	-	-	-	-	-	-	50,000.00
Patrick Wong (Note 4)	50,000.00	-	-	-	-	-	-	50,000.00
WONG Hin Wing (Note 5)	52,222.00	-	-	-	-	-	-	52,222.00
Wang Weihong (Note 6)	52,222.00	-	-	-	-	-	-	52,222.00
Supervisor name								
Xian Jiaxiong	-	-	-	-	-	-	-	-
Li Jinyun	-	138,297.00	25,293.00	58,500.00	-	-	-	222,090.00
Gao Yanzhu (Note 7)	-	240,265.00	17,619.00	70,220.00	-	-	-	328,104.00
Wu Yan (Note 8)	-	25,000.00	-	-	-	-	-	25,000.00

Notes:

- ① Mr. Li Hong was erected as the executive director of the Company's 7th Board of Director on 22 June 2018. Term of office starts from the date of being elected to the date of election for member of the next generation of Board of Director.
- ② Applied for resignation from the Company's executive director due to personal reason on 28 August 2017.
- ③ Retired at the expiration of term of office on 23 June 2017.
- ④ Retired at the expiration of term of office on 23 June 2017.
- ⑤ Mr. WONG Hin Wing was erected as the independent non-executive director of the Company's 7th Board of Director on 23 June 2017. Term of office is three years, starting from the date of being elected to the date of election for member of the next generation of Board of Director.
- ⑥ Ms Wang Weihong was erected as the independent non-executive director of the Company's 7th Board of Director on 23 June 2017. Term of office is three years, starting from the date of being elected to the date of election for member of the next generation of Board of Director.
- ⑦ Ms Gao Yanzhu was erected as the supervisor of the Company's 7th Board of Supervisors on 23 June 2017. Term of office is three years, starting from the date of being elected to the date of election for member of the next generation of Board of Director.
- ⑧ Applied for resignation from the Company's supervisor due to work reason on 4 February 2016.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

5. Related Party Transactions (Continued)

(9) Remuneration of directors and supervisors (Continued)

In addition to the remuneration of directors and supervisors disclosed above, president Li Chuyuan, vice president Chen Mao, director Liu Juyan, director Cheng Ning, director Ni Yidong, chairman of the Board of Supervisor Xian Jiexiong and supervisor Li Jinyun received remuneration of RMB1,014,199.00, RMB968,743.00, RMB990,249.00, RMB970,539.00, RMB953,100.00, RMB998,469.00, RMB968,313.00 from the controlling shareholders of the Company (2017: president Li Chuyuan, vice president Chen Mao, director Liu Juyan, director Cheng Ning, director Ni Yidong, chairman of the Board of Supervisor Xian Jiexiong received remuneration of RMB2,269,476.00, RMB1,222,443.00, RMB1,060,714.00, RMB1,076,117.00, RMB1,119,997.00, RMB1,100,584.00 from the controlling shareholders of the Company). A portion of the remuneration is paid for their services rendered to the Group. The Board of Director hold that it is difficult to divide the amount between the services rendered to the Group and the services rendered to the holding companies of the Company and entities under common control. Subsequently, this amount is not apportioned.

For the year ended 31 December 2018, no director has foregone or agreed to forego any remuneration (2017: nil).

(10) The top five remuneration

The top five persons of the Group as per remuneration in 2018 are comprised of 1 director (2017: 3 directors and 1 supervisor). The aggregate amount of remuneration paid to the other 4 persons (2017: 1 person) are as follows:

Item	2018	2017
Salary and subsidy	1,416,781.00	536,875.00
Pension scheme	206,904.00	29,222.00
Bonus	3,233,455.00	578,644.00
Others	23,367.00	450.00
Total	4,880,507.00	1,145,191.00

Remuneration range	Number	
	2018	2017
0-1,000,000	0	0
Over 1,000,000	4	1

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(All amounts in Renminbi yuan unless otherwise stated)

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XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

(11) 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 Confirmation letter signed based on the Trademark License Agreements. 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 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. The two parties entered into the Trademark License Agreement on 28 May 2018, the trademark license fee is agreed to be paid to the Company 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 1 January 2019 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 RMB76,469 thousand for the current year (for the year ended 31 December 2017: RMB89,683 thousand) and GPLH should receive RMB155,094 thousand (for the year ended 31 December 2017: RMB101,132 thousand).

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

(11) 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 RMB1,000 thousand for the basic trusteeship fee before the end of every March; (5) on the premise of non-violation to the Trademark License Agreement or supplementary which is entered into by consignor and third party before this Agreement takes effect, 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 took effect 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.

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

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

Notes to the Financial Statements

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

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

① License Agreement *(Continued)*

- (c) Pursuant to Trademark License Agreement entered into by Xing Qun and the Company on 7 March 2016, Xing Qun is authorized to use 32 kinds of trademark owned by GPLH on 32 kinds of designated plant beverage and coke products from 5 September 2013 to 6 March 2019 (both parties otherwise agreed to extend the term if need to). 2.1% of net sale volume for the authorized products, as audited in annual financial statements according prepared under ASBE, shall be paid to the Company as a license fee. Trademark License Agreement will expire on 6 March 2019. The Company entered into License Agreement for Chamomile with Xing Qun. License fee (in weak endorsement form) is 0.8% of net sale volume, as audited in annual financial statements according prepared under ASBE. Xing Qun should pay the Company license fee amounted to RMB664 thousand at current year. (For the year ended 31 December 2017: RMB782 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 RMB664 thousand for the year ended 31 December 2018 (for the year ended 31 December 2017: RMB782 thousand), and should totally pay GPLH RMB531 thousand (for the year ended 31 December 2017: RMB625 thousand).

- (d) Pursuant to multiple Trademark License Contracts entered into by Guangzhou Baiyunshan He Huang Great Health Products Co., Ltd. and the Company for the period from 2014 to 2017, Guangzhou Baiyunshan He Huang Great Health Products Co., Ltd. is authorized to use 32 kinds of trademark owned by GPLH on 32 kinds of plant beverages and non-alcoholic beverages. $2.1\% * (1 + \text{VAT rate})$ of net sale volume for the authorized products, as audited in annual financial statements according prepared under ASBE, shall be paid to the Company as a license fee. In December 2018, as the License Contract has expired, the Company and He Huang Great Health entered into the contract again, license fee of which is 2.1% prior to 19 June 2018 and 0.8% after 19 June 2018. On 18 December 2018, the Company and He Huang Great Health signed the Confirmation Letter that, for authorized products of which license contract not mature yet, trademark license fee is calculated at $0.8\% * (1 + \text{VAT rate})$ of net sale volume for the authorized products, as audited in annual financial statements according prepared under ASBE. In addition, the Company and He Huang Great Health entered into license Contract for new products (retro style tea product series and lemon tea products) with trademark fee of 0.8%. Guangzhou Baiyunshan He Huang Great Health Products Co., Ltd. should pay the Company license fee amounted to RMB1,279 thousand for the current year (for the year ended 31 December 2017: RMB1,814 thousand).

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

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

① License Agreement *(Continued)*

(d) *(Continued)*

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 RMB1,279 thousand for the year ended 31 December 2018 (For the year ended 31 December 2017: RMB1,814 thousand), and should totally pay GPLH RMB1,023 thousand (For the year ended 31 December 2017: RMB1,451 thousand).

- (e) Pursuant to Trademark License Agreement entered into by Guangzhou Wang Lao Ji Da Zhai Beverages Co., Ltd. and the Company on 6 September 2017, Guangzhou Wang Lao Ji Da Zhai Beverages Co., Ltd. is able to use 32 kinds of trademark owned by GPLH for 32 kinds of herbal 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 Da Zhai Beverages Co., Ltd. Trademark License Agreement will expire on 5 September 2020. Guangzhou Wang Lao Ji Da Zhai Beverages Co., Ltd. should pay the Company license fee amounted to RMB558 thousand at current year. (for the year ended 31 December 2017: RMB145 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 Da Zhai Beverages Co., Ltd. should pay the Company the above license fee amounted to RMB558 thousand for the year ended 31 December 2018 (for the year ended 31 December 2017: RMB145 thousand), and should totally pay GPLH RMB446 thousand (for the year ended 31 December 2017: RMB116 thousand).

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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XI. 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:				
HWBYS	45,851,564.23	458,515.64	36,112,366.62	388,503.17
Baxter Qiao Guang	231,360.00	2,313.60	-	-
Chuangmei Medicines	106,497,509.92	1,065,173.77	30,876,904.42	308,886.62
GPHL	3,120.00	31.20	8,400.00	84.00
Hua Cheng	10,730,644.45	107,306.44	8,306,091.67	83,060.92
Wang Lao Ji	-	-	127,536,422.67	1,744,923.79
Yi Xin Tang	13,405,525.06	137,258.97	-	-
GP Corp.	-	-	108,315,583.96	1,774,228.39
Total	176,719,723.66	1,770,599.62	311,155,769.34	4,299,686.89
Notes receivable:				
Chuangmei Medicines	67,778,737.45	-	64,423,774.86	-
Hua Cheng	967,279.69	-	-	-
Yi Xin Tang	424,149.97	-	-	-
HWBYS	-	-	8,175,000.00	-
GP Corp.	-	-	150,931,623.28	-
Total	69,170,167.11	-	223,530,398.14	-
Prepayments:				
HWBYS	27,610,685.72	-	1,073,298.64	-
Hua Cheng	8,302.97	-	71,663.26	-
Wang Lao Ji	-	-	918,115.80	-
Guangzhou Yu Fa Medical Instruments Co., Ltd.	-	-	210,278.62	-
GP Corp.	-	-	929.44	-
Total	27,618,988.69	-	2,274,285.76	-
Other receivables:				
HWBYS	3,950,767.44	-	20,542,631.61	-
GPHL	2,032,085.00	-	3,228,120.78	-
Hua Cheng	1,816,800.00	-	-	-
Baxter Qiao Guang	1,279,120.80	-	3,094,266.79	-
Guangzhou South China Medical Instruments Co., Ltd.	100,000.00	100,000.00	100,000.00	100,000.00
Wang Lao Ji	-	-	1,374,386.91	-
Guangzhou Baiyunshan Southern Anti-tumor Biological Products Co., Ltd.	-	-	77,452.83	-
GP Corp.	-	-	53,039.67	-
Total	9,178,773.24	100,000.00	28,469,898.59	100,000.00

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

6. Receivables and Payables of Related Parties

(2) Payables

Item	Closing Balance	Opening Balance
Accounts payables:		
Baxter Qiao Guang	3,682,927.03	–
HWBYS	3,285,233.23	4,181,609.48
Chuangmei Medicines	8,704,951.71	9,283,262.12
Hua Cheng	1,471,492.91	473,175.67
Yi Xin Tang	511,970.00	–
GP Corp.	–	52,049,347.91
Total	17,656,574.88	65,987,395.18
Notes payable:		
HWBYS	37,612,860.00	1,517,296.64
Chuangmei Medicines	5,000,000.00	–
Hua Cheng	168,218.00	–
Total	42,781,078.00	1,517,296.64
Contract liabilities:		
Chuangmei Medicines	30,791,568.30	16,204,394.49
HWBYS	5,738,465.12	1,991,966.08
Hua Cheng	141,400.00	–
Yi Xin Tang	33,801.25	–
Nuo Cheng	150.00	–
GP Corp.	–	27,046,074.94
Total	36,705,384.67	45,242,435.51
Other payables:		
GPHL	116,611,943.50	47,902,394.11
HWBYS	339,822.35	668,878.04
Baxter Qiao Guang	–	–
GP Corp.	–	217,599.54
Wang Lao Ji	–	77,715.58
Total	116,951,765.85	48,866,587.27

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XII. 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	1,064,737,221.31	246,645,887.83
– Large amount contract	–	–
– Commitments on external investment	–	100,300,000.00
Total	1,064,737,221.31	346,945,887.83

(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:		
1 year subsequent to balance sheet date	116,778,536.53	74,880,300.79
2 year subsequent to balance sheet date	108,790,462.05	48,999,389.49
3 year subsequent to balance sheet date	113,892,279.49	59,417,772.17
Over 3 year subsequent to balance sheet date	247,566,091.45	206,131,969.07
Total	587,027,369.52	389,429,431.52

Note: Operating lease rent recognized into profit or loss for the period from January to December of year 2018 was RMB200,353 thousand (January to December of year 2017: RMB97,908 thousand)

(3) As of 31 December 2018, the Group has no unrecognized commitment related to investment in joint ventures.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XII. COMMITMENTS OR CONTINGENCY (Continued)

1. Significant Commitments (Continued)

(4) Other commitments

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 equipment	5,000.00	737,286,295.70
Total	5,000.00	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 equipment	877,784,270.00	1,025,443,400.94
Commitments on external investments	320,000,000.00	320,000,000.00
Total	1,197,784,270.00	1,345,443,400.94

③ *Fulfillment of commitments for the prior year*

The Group has fulfilled the capital expenditures and operating lease commitments as at 31 December 2018.

Notes to the Financial Statements

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

XII. COMMITMENTS OR CONTINGENCY *(Continued)*

2. Contingencies

(1) Alliance BMP's put option

According to the Equity Transfer Contract entered into by the listed company, Alliance BMP Limited (hereinafter referred to as "Alliance BMP") and GP Corp., the listed company granted Alliance BMP a put option. Alliance BMP can choose to sell its remaining 20% equity of GP Corp. to the listed company within the exercise period.

The exercise period of the put option starts from the day six months subsequent to the settlement date, on which the listed company buys 30% equity of GP Corp. held by Alliance BMP in cash from Alliance BMP, to anytime within thirty-six months subsequent to the settlement date. Within the exercise period, Alliance BMP has the right (no obligation) to transfer all of its remaining equity of GP Corp. to Guangzhou Baiyunshan according to the Contract. Guangzhou Baiyunshan is obliged to accept the equity according to the Contract.

If Alliance BMP exercises the put option, the exercise price of the put option shall be determined based on the valuation result by the qualified independent valuer. The transaction price shall not be lower than the transaction consideration adjusted for the 30% equity of GP Corp., and should be within the scope accepted by the relevant laws and regulations, normative documents, regulatory policies of Chinese law in respect of the management of state-owned assets, China Securities Regulatory Commission, Shanghai Stock Exchange and/or Hong Kong Exchanges and Clearing Limited. If GP Corp. has an increase in capital or the board of director makes a resolution to pay dividends to shareholders subsequent to the signature date but prior to the date on which Alliance BMP exercises the put option, the listed company and Alliance BMP shall take the impact of such capital increase or dividends into consideration and make corresponding adjustments with the same proportion to the transaction price. After the listed company accepts the equity and completes the purchase of the remaining 20% equity of GP Corp., GP Corp. shall be a wholly-owned subsidiary of the listed company.

If Alliance BMP does not exercise the put option, the listed company still holds 80% equity of GP Corp, and GP Corp. is still a holding subsidiary of the listed company.

(2) Please refer to Note XIV (1) for contingencies related to litigation.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XIII. EVENTS AFTER THE BALANCE SHEET DATE

(1) Acquisition of the trademark of “Wang Lao Ji”

In 2013, based on solving the potential horizontal competition between listed companies and controlling shareholders and their affiliates, by integrating and organizing the pharmaceutical resources of GPLH, the listed companies implemented material assets reorganization: merging Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (formerly known as Baiyunshan A) via share swap by issuing A shares while issuing A shares to purchase the relevant assets of the remaining main pharmaceutical business of GPLH.

On 28 February 2012, as the trademark dispute of “Wang Lao Ji” with registration number 626155 has not been determined yet and there were legal obstacles to its transfer while the thirteenth session of the fifth board of directors of Guangzhou Pharmaceutical Co., Ltd. (formerly known as “Guangzhou Pharmaceutical”, and renamed as “Guangzhou Baiyunshan Pharmaceutical Group Co., Ltd.” in July 2013) reviewed the reorganization plan, a total of 33 trademarks, which are comprised of the 29 trademarks of the “Wang Lao Ji” series and the other 4 trademarks of the “Wang Lao Ji” exclusively used by Wang Lao Ji Pharmaceutical licensed by GPLH under certain conditions, except for the 8 trademarks of “Wang Lao Ji” series, are not included in the scope of the assets to be purchased.

In order to avoid potential horizontal competition, improve the efficiency of trademarks, and enhance the profitability of listed companies, GPLH and listed companies have signed the “Trademark Escrow Agreement” and the “Supplemental Agreement of the Trademark Escrow Agreement”. At the same time, in order to ensure the integrity of the assets of listed companies, GPLH issued the “Commitment Letter on transfer “Wang Lao Ji” Brand” and further supplementary commitments in February 2012 and June 2012 respectively:

- (a) GPLH promises that within two years from the date of any of the following conditions is satisfied, GPLH will transfer the trademarks of Wang Lao Ji series (25 in total) and the other four trademarks (including the trademarks with registration numbers of 125321, 214168, 538308, 5466324 respectively) to Guangzhou Pharmaceutical in accordance with the laws and regulations in effect at that time: ① On the expiration date of 1 May 2020, or the license agreement and its supplemental agreement is determine invalidation/invalidation/termination by the arbitral institution prior to the expiration date, or the agreement is terminated with the agreement of both parties; ② Hongdao (Group) Co., Ltd. no longer has the right to preempt the Wang Lao Ji trademark in the agreement in accordance with the laws.
- (b) On the basis of the original letter of commitment, GPLH further committed to the following: after all legal disputes concerning the trademark of Wang Lao Ji are resolved, within two years from the date of transfer, after fulfilling the relevant approval procedures, GPLH will transfer the 29 series of trademarks of Wang Lao Ji and the trademarks the Company obtained legally and the other four trademarks of the “Wang Lao Ji” exclusively used by Wang Lao Ji Pharmaceutical licensed by GPLH under certain conditions after the signing date of the “Supplemental Agreement of the Trademark Escrow Agreement” (including the signing date) to Guangzhou Pharmaceutical (listed company) in accordance with the laws and regulations in effect at that time. Guangzhou Pharmaceuticals can obtain the assets in the settlement of cash or the issuance of shares. The transfer price is determined on the basis of the evaluation value determined in the valuation report, which should be issued by the appraisal agency with securities qualification and approved by the of department of state-owned property.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XIII. EVENTS AFTER THE BALANCE SHEET DATE *(Continued)*

(1) Acquisition of the trademark of “Wang Lao Ji” *(Continued)*

In December 2014, GPLH made adjustments to the original commitment to execution period to lower uncertainty and protect the legal interest of the shareholders of the listed company, due to the fact that the result of sentence of “Red Jar Decoration Dispute” will have significant impact on the trademark right and sales of red jar Wang Lao Ji herbal tea, which will influence the valuation of the Wang Lao Ji trademark. The execution period in the original commitment is modified to “until two years within the effective date of judgment on “Red Jar Decoration Dispute”.

On 16 August 2017, the Supreme People’s Court carried out public trial on the Red Jar Decoration Dispute and issued the final judgment. According to the commitment made by GPLH in February 2012, supplementary commitment in June 2012 and revised commitment in December 2014, the conditions for GPLH to inject “Wang Lao Ji” series trademark into the listed company were satisfied. In view of this, Guangzhou Baiyunshan planned to accept the transfer the right to exclusive use of 420 trademarks, both registered after approval and still under application of register, owned by GPLH, which are comprised of 14 basic trademark and 406 defensive trademarks, collectively referred to as “Wang Lao Ji” series trademarks.

On 27 December 2018, the 18th meeting of the Company’s 7th board of directors approved the Proposal on Purchasing Trademarks in Cash and the Relevant Agreements and Connected Transactions after discussion. The Company planned to adopt the assessed value, which was determined on the Asset Evaluation Report on the Planned Transfer of Right to Exclusive Use of 420 Trademarks Owned by Guangzhou Pharmaceutical Holdings Co., Ltd. (ZhongLianGuoJiPingZi [2018] No. WIGPZ0701) with base date of evaluation on 30 June 2018, in the pricing policy and to purchase the “Wang Lao Ji” series trademarks (including trademarks both registered and under application of register in domestic China and other countries or regions) held by the controlling shareholder GPLH in cash. The Company has signed The Agreement on Purchase of Trademarks in Cash between Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. and Guangzhou Pharmaceutical Holdings Limited. and The Agreement on Compensation for Performance between Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. and Guangzhou Pharmaceutical Holdings Limited.

Currently, the above-mentioned transactions are yet to be submitted to the first Extraordinary General Meeting 2019 to be held on 28 March 2019 for approval.

(2) Profit distribution

According to the actual situation of the Company, cash dividends of RMB4.24 (tax included) are to be distributed for every 10 shares based on the total share capital of 1,625,790,949 shares at the end of 2018. Total cash dividends distributed shall be RMB689,335,362.38. The remaining undistributed profits shall be transferred into next distribution. No capital reserve shall be converted into share capital in the current year.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XIV. OTHER SIGNIFICANT MATTERS

(1) Litigations

① Litigation of the Group's Subsidiary A

- (a) Guangdong Guangsheng Nonferrous 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 the due payment and the overdue interest.

Pursuant to the Paper of Civil Judgment numbered (2015) SuiYueFaMinErChuZi No.328-3 issued by the People's Court of Guangzhou Yuexiu District on 14 March 2016, the prosecution by Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. was dismissed.

On 23 March 2016, Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. lodged an appeal.

Pursuant to Paper of Civil Judgment numbered (2016) Yue01MinZhong No.10682 issued by the Intermediate People's Court of Guangzhou on 16 December 2016, Paper of Civil Judgment numbered (2015) SuiYueFaMinErChuZi No.328-3 issued by the People's Court of Guangzhou Yuexiu District was quashed, and the case was referred to the People's Court of Guangzhou Yuexiu District.

On 5 February, 2018, the People's Court of Guangzhou Yuexiu District rendered a judgment of the first instance that: lacking sufficient fact and without merit, the claims of Guangdong Guangsheng Nonferrous Metal Group Co., Ltd., which seeks for compensation from Subsidiary A, were dismissed by the Court because Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. failed to present evidence to prove that the goods involved had been delivered to Subsidiary A. Hence, Subsidiary A had no need to pay the due payment and the overdue interest mentioned in the above case.

On 12 March 2018, Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. lodged an appeal against the case. On August 30, 2018, the second trial was held in the Intermediate People's Court of Guangzhou. On November 6, 2018, the Intermediate People's Court of Guangzhou made a Paper of Civil Judgement numbered 2018 Yue01MinZhong No.12715, and decided that the appeal of Guangdong Guangsheng Nonferrous Metals Group Co., Ltd. was not established. The appeal was dismissed, and the original judgment was upheld.

Guangdong Guangsheng Nonferrous 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 the due payment and the overdue interest.

Pursuant to Paper of Civil Judgement numbered (2015) SuiLiFaMinErChuZi No.774-3 issued by the People's Court of Guangzhou Liwan District on 21 December 2015, the prosecution by Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. was dismissed, and transferred to public security organization to handle as criminal case. Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. has lodged an appeal.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

① Litigation of the Group's Subsidiary A *(Continued)*

(a) *(Continued)*

Pursuant to Paper of Civil Judgment numbered (2016) Yue01MinZhong No.3446 issued by the Intermediate Court of Guangzhou on 16 December 2016, Paper of Civil Judgment numbered (2015) SuiYueFaMinErChuZi No.774-3 issued by the People's Court of Guangzhou Liwan District was quashed, and the case was referred to the People's Court of Guangzhou Liwan District.

On 27 December 2017, the People's Court of Guangzhou Liwan District made a civil judgment that all the claims of Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. were dismissed.

On 10 January 2018, Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. appealed to the Intermediate People's Court of Guangzhou. On 9 May 2018, the meeting was held at the Intermediate People's Court of Guangzhou. The judgment made by the Intermediate People's Court of Guangzhou on 27 August on the second trial of the re-examination of the Guangsheng case, case number: (2018) Yue01MinZhong No.6503, dismissed the appeal of Guangsheng and upheld the original judgment. On 21 September 2018, the Intermediate People's Court of Guangzhou issued a Proof for the effectuation of the judgment.

Guangdong Guangsheng Investment Group Energy Co., Ltd. filed a claim with the Court on the unreceived payment of RMB 47,400 thousand against the Group's Subsidiary A on 25 December 2014, and seek for freezing the bank accounts of Subsidiary A, and required Subsidiary A to pay the due payment and the overdue interest.

Pursuant to Paper of Civil Judgement numbered (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 dismissed, 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 the Intermediate People's Court of Guangzhou.

Pursuant to a total of 15 Paper of Civil Judgements numbered (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 Paper of Civil Judgements numbered (2015) SuiLiFaMinErChuZi No.454-1 to No. 468-1 issued by the People's Court of Guangzhou Liwan District was quashed, and the case was referred to the People's Court of Guangzhou Liwan District.

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.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

① Litigation of the Group's Subsidiary A *(Continued)*

(a) *(Continued)*

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 was to be made.

On 6 November 2018, the Intermediate People's Court of Guangzhou finalized the judgment, Guangdong Guangsheng Investment Group Energy Co., Ltd. could not prove that it had delivered the goods involved to Subsidiary A. The appeal was finally dismissed, and the original judgment was upheld considering the fact that a sales contract between the two parties existed and the goods had been delivered so that Subsidiary A had to pay in lack of evidence.

According to professional opinions provided by external lawyers, upstream suppliers of Subsidiary A could not provide Delivery Orders which can prove that the goods had been delivered to Guangzhou Defenghang Petrochemical Co., Ltd. and Guangzhou Tongtai Fuel Chemical Co., Ltd., thus the debtor-creditor relationship was not proven. Subsidiary A may not need to pay to the upstream suppliers, and there are no overdue accounts receivable.

With the assessment of the case and the consideration of the professional opinions provided by external lawyers, 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., with a provision rate of 10%. The amounts that had been paid, which includes other receivables of RMB 10,315.7 thousand of Guangzhou Defenghang Petrochemical Co., Ltd., and accounts receivable of RMB 10,541.8 thousand of Sinogas (Zhuhai) Petrochemical Co. Ltd., made provision for bad debts, with a provision rate of 100%.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XIV. 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 the 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, the People's Court of Jiangmen Pengjiang selected Guangdong Huasheng Judicial Expertise Center as an agency of this case, and paid the accreditation fee of RMB 70,240. In accordance with the summons, Subsidiary A was required to appear in court for appraisal and to provide an original copy of signature of "Feng Yaowen" as a sample.

Pursuant to Paper of Civil Judgment numbered (2017) Yue07MinZhong No.1734 issued by the Intermediate People's Court of Jiangmen on 10 July 2017, all claims of Guangdong Nanyue Bank Jiangmen Branch were dismissed, and the case was transferred to Jiangmen public security organization. Guangdong Nanyue Bank Jiangmen Branch shall bear the accreditation fee.

On 5 January 2018, Guangdong Nanyue Bank filed a claim with the Higher People's Court of Guangdong for retrial.

On 30 March 2018, Subsidiary A received a notice of case conclusion numbered (2018) Yue0703Zhi No.26 issued by the People's Court of Jiangmen Pengjiang District, in regard of the case that Subsidiary A applied 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 was concluded, and a decision was made to close the case.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XIV. 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 the Group's Subsidiary A on 11 November 2014, and required Subsidiary A to pay the due payment and the overdue interest.

In accordance with the Paper of Civil Judgment numbered (2014) SuiLiFaMinErChuZi No. 2424 and No.2425-4 issued by the People's Court of Guangzhou Liwan District on 30 December 2015, Subsidiary A was sentenced to pay the due payment and the overdue interest to Guangzhou Linhai Trade Industry Co., Ltd.

In accordance with the Paper of Civil Judgment numbered (2016) Yue01MinZhong No. 7733 and No.7734 issued by the Intermediate People's Court of Guangzhou on 21 December 2016, the Paper of Civil Judgment numbered (2014) SuiLiFaMinErChuZi No. 2424 and No.2425-4 issued by the People's Court of Guangzhou Liwan District was quashed, and claims of Guangzhou Linhai Trade Industry Co., Ltd., the appellant, was dismissed.

In accordance with the Paper of Civil Judgment numbered (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 judgment of Paper of Civil Judgment numbered (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 Subsidiary A. The Procuratorate has accepted the case.

On 13 July 2018, Subsidiary A received the written decision of not support the supervisory from Guangzhou People's Procuratorate's SuiJianMin (Hang) Jian (2018) No.44010000573, and SuiJianMin (Hang) Jian (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.

As at the reporting date, the above cases had completed the trial and Subsidiary A had no direct economic losses in the litigation case.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

① Litigation of the Group's Subsidiary A *(Continued)*

- (d) On 6 September 2018, Guangdong Guangsheng Nonferrous Metals Group Co., Ltd. filed a claim against Subsidiary A with the People's Court of Guangzhou Tianhe District. Guangdong Guangsheng filed a claim with the court on the private lending dispute, claiming that the Subsidiary A and the other five defendants jointly pay the outstanding principal of RMB 18 million together with the compensation for the due payment and the overdue interest, which totaled to RMB 4,216,500 from due date to the date of actual repayment, at the rate of 6% per annum.

As at the reporting date, the above case were still on trial. On the basis of full reference to professional opinions provided by external lawyers, the management of Subsidiary A had evaluated the case and considered that it was unlikely that Subsidiary A would lose the case and incur direct economic losses.

- (e) For the sales contract dispute between Subsidiary A and Hainan Lanhui New Energy Development Co., Ltd. (hereinafter, "Lanhui Company"), Guangzhou Yongyi Energy Technology Development Co., Ltd. (hereinafter, "Yongyi Company"), after Subsidiary A made the payment according to the contract, Lanhui Company and Yongyi Company forged the goods delivery notes (the legal representative of both companies is Zhang Dajun). Subsidiary A had the right to claim the refund of the payment to Yongyi Company as no goods were actually received and its payment was defrauded. At the same time, because Lanhui Company issued the "guarantee" for Yongyi Company, it should bear the guarantee responsibility. Subsidiary A filed a claim against Lanhui Company, Yongyi Company and Zhongshan Jinneng Battery Co., Ltd. on sales contract disputes, claiming that the two defendants jointly return the payment of RMB 3 million together with the interest of RMB 630,000, which totaled to about RMB 3,630 thousand, to Subsidiary A.

After the trial, and considering the first-instance court in the trial, Subsidiary A had applied to the court of first instance for withdrawal. On 3 December 2018, the Liwan Court of Guangzhou made a Paper of Civil Judgment numbered No. 2 of (2018) Yue0103MinChu 2868, allowing Subsidiary A withdraws the lawsuit and re-sue after the corresponding evidence were fully compiled.

After evaluating the case and considering the professional opinions provided by external lawyers, the management of Subsidiary A considered that the relevant accounts receivable were unlikely to be recovered and decided to make a provision for bad debts at the ratio of 100%.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XIV. OTHER SIGNIFICANT MATTERS (Continued)

(1) Litigations (Continued)

② Other litigation of the Group's Subsidiary A

(i) The Group's Subsidiary A filed a claim for the unreceived payment of RMB 5,191.2 thousand against Hengshan Zhongkong International Paper Co., Ltd. with the Intermediate People's Court of Hunan Hengyang on 10 December 2014, and required Hengshan Zhongkong International Paper Co., Ltd. to pay the due payment and the overdue interest.

On 5 December 2014, the People's Court of Hunan Hengshan County accepted and heard the bankruptcy liquidation case 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 dismissed. Creditor's rights of Subsidiary A will be dealt with in the procedure of bankruptcy liquidation.

On 20 November 2015, the bankruptcy administrator considered that the seal of the contract for declaring creditor's right by Subsidiary A was inconsistent with the one used by Hengshan Zhongkong International Paper Co., Ltd., and Subsidiary A was not a qualified creditor. Subsidiary A had reported to Guangzhou Public Security Bureau Liwan District Economic Crime Investigation Brigade on 29 February 2016.

At the end of year 2015, management of Subsidiary A assessed the case with consideration of professional opinions provided by external lawyers. The above accounts receivable with amount of RMB 5,191.2 thousand were subjected to separate provision for bad debts, with a provision rate of 100%.

As at the reporting date, the judgment has taken effect and Hengshan Zhongkong International Paper Co., Ltd. is implementing the bankruptcy liquidation procedure.

③ Litigation of the Group's Subsidiary G

(a) On 27 December 2016, Guangzhou Keyun branch of Ping'an Bank Co., Ltd. filed a claim 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 Subsidiary G, against Huaqiang, and several guarantors, and Subsidiary G which is the debtor of the accounts receivable.

During the period from April to June of 2014, Huaqiang obtained the loan through transferring the accounts receivable due from Subsidiary G to Ping'an Bank without notifying Subsidiary G. Subsidiary G was the debtor of the accounts receivable but was 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.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

③ Litigation of the Group's Subsidiary G *(Continued)*

(a) *(Continued)*

On 29 December 2018, the first-instance judgment was received. The court of first instance dismissed all the claims of Ping'an Bank Co., Ltd. Guangzhou Branch Yun Branch to the Subsidiary G. After preliminary confirmation with the Intermediate People's Court of Guangzhou, no appeal was received from Ping'an Bank as of 28 February 2019.

After evaluating the case and considering the professional opinions provided by external lawyers, the management of Subsidiary G considered that the Subsidiary G was not responsible for the liabilities of the supplier to the bank. Therefore, no provision had been recognized.

- (b) On 10 November 2017, Guangdong Zirui Pharmaceutical Co., Ltd. (hereinafter referred to as "Zirui Pharmaceutical") filed a claim for the unreceived payments for goods of RMB 10,853.7 thousand in total against the Group's Subsidiary G. It has been confirmed by the procurement department of Subsidiary G that the payment for goods is overdue. 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 had completed the trial and the Court sentenced Subsidiary G to pay the payment for goods of RMB 10,505.5 thousand to Zirui Pharmaceutical. Subsidiary G was dissatisfied with the judgment and lodged an appeal to the court on 4 June 2018. The Court has accepted the case.

The court of second instance considered that Subsidiary G should pay RMB 10,505.5 thousand and relevant interest to Zirui while Zirui should pay the difference of RMB 313,100 to Subsidiary G. As at the reporting date, the case has been closed.

- (c) On 31 May 2018, Zirui Pharmaceutical filed a claim 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 judgment and lodged an appeal on 30 July 2018. Subsidiary G received relevant material on 8 August 2018. The judgment of the second instance court upheld the original judgment, which is that all the claims of Guangdong Ruirui were dismissed.

As at the reporting date, the above case had been closed. The Subsidiary G did not incur any direct economic losses in the lawsuit.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XIV. OTHER SIGNIFICANT MATTERS (Continued)

(1) Litigations (Continued)

④ Prosecution of the Group's Subsidiary G

- (a) On 24 July 2015, the Group's Subsidiary G filed a claim with the Intermediate People's Court of Wuhan and filed a claim against Hubei Hongqiao Pharmaceutical Co., Ltd. (hereinafter referred to as "Hubei Hongqiao") for the due payment amounted to RMB 27,725.1 thousand. The Subsidiary G required Hubei Hongqiao to pay the due payment, the 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 Intermediate People's Court of Wuhan made a first-instance judgment on the case, and sentenced Hubei Hongqiao to pay Subsidiary G 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 Subsidiary G had 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. In October 2018, the auction succeed. The next step will be to verify the rights and interests of the auction fund in accordance with the relevant laws and regulations.

After evaluating the case and considering the professional opinions provided by external lawyers, the management of Subsidiary G decided to make a provision for bad debts at the ratio of 85.57% to the above accounts receivable of RMB 27,725,100.

Notes to the Financial Statements

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

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

④ Prosecution of the Group's Subsidiary G *(Continued)*

- (b) On 5 April 2017, the Group's Subsidiary G filed a claim against Guangxi Liuzhou Baicaotang Pharmaceutical Co., Ltd. (hereinafter referred to as "Liuzhou Baicaotang") for defaults on the payment for goods with an amount of RMB 14,443.5 thousand with the People's Court of Guangzhou Liwan District, requesting Liuzhou Baicaotang to pay the due payment and the overdue interest.

On 24 July 2018, the People's Court of Guangzhou Liwan District made a first-instance judgment and sentenced Liuzhou Baicaotang to pay the Subsidiary G a payment of RMB 14,443,500 and the 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 Subsidiary G's lawyer fee of RMB 416 thousand and return the appraisal fee of RMB 44.8 thousand which Subsidiary G had paid within 10 days from the effective date of the judgment.

In this case, the pre-litigation property preservation measures were taken before the prosecution, and the property rights and bank accounts of Liuzhou Baicaotang 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.

Baicaotang appealed in August 2018. The dispute was transferred to the Intermediate People's Court of Guangzhou. On 7 January 2019, the second trial was held, and there is no judgment yet.

After evaluating the case and considering the professional opinions provided by external lawyers, the management of Subsidiary G decided to make a provision for bad debts at the ratio of 100% to the above accounts receivable of RMB 14,443,500.00.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XIV. OTHER SIGNIFICANT MATTERS (Continued)

(1) Litigations (Continued)

④ Prosecution of the Group's Subsidiary G (Continued)

- (c) On 7 February 2018, the Group's Subsidiary G 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). The case had been accepted and filed. After the trial, as of 13 August 2018, a total of 14 cases had been settled to judgments. Among them, 3 cases numbered (2018) Yue0103Minchu No. 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 dismissed the claim of Subsidiary G (the judgment had taken effect). Among them, 11 cases numbered (2018) Yue0103Minchu No. 1928, 1932, 1933, 1936, 1939, 1941, 1943, 1944, 1947, 1893, 1894 respectively, have a total amount of RMB 421,410.29. The court supported Subsidiary G's claim request that the Zirui pay for the replenishment, but dismissed the Subsidiary G's request of the interest of the overdue payment.

As at the reporting date, only the case numbered (2018) Yue 0103 MinChu No.1919 was not yet closed, involving an amount of RMB 229,520.64. The remaining 38 cases were all closed. The court finally decided that the total amount of these 38 cases was RMB 1,187,952.69 which has been received by Subsidiary G.

- (d) On 18 August 2016, the Group's Subsidiary G filed a claim 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 Subsidiary G the due 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. Both the first and second trials succeeded, and the relevant assets were seized in full, including 3 sets of real estate. The Subsidiary G applied to the court for enforcement, and is waiting for the court to auction the seized property.

After evaluating the case and considering the professional opinions provided by external lawyers, the management of Subsidiary G decided to make a provision for bad debts at the ratio of 100% to the above accounts receivable of RMB 4,130.8 thousand.

Notes to the Financial Statements

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

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

④ Prosecution of the Group's Subsidiary G *(Continued)*

- (e) On 29 March 2018, the Group's Subsidiary G filed a claim against Weihai QINUO Medical Instruments Co., Ltd. (hereinafter referred to as "QINUO Medical") to refund the Subsidiary G's prepayments of RMB 1,521.39 thousand in total. The case was judged on the first instance on 6 July 2018. According to the judgment of the first trial, QINUO Medical was sentenced to pay RMB 951.39 thousand and the interest to Subsidiary G, and the insurance premium of RMB 5 thousand and the case acceptance fee of RMB 5.555 thousand were borne by QINUO Medical. The Subsidiary G was dissatisfied with the judgment and has filed an appeal.

As at the reporting date, Subsidiary G had received the judgment of the second instance. The court of second instance ruled that QINUO Medical paid the prepayment of RMB 1,521,390.00 together with relevant interests.

- (f) Sub-subsidiary J filed a claim against Hebei Xinglin Pharmaceutical Co., Ltd. for arrear of RMB 2,797,654.40 together with relevant interest.

After the second trial of the case on 26 February 2018, the defendant, Hebei Xinglin Pharmaceutical Co., Ltd., applied for judicial identification on the authenticity of the "Contract seal of Hebei Xinglin Pharmaceutical Co., Ltd." on the "Purchase and Sales Contract" and on whether the signatures of "Su Xueliang" on the three documents were signed by Su Xueliang himself. On 8 May 2018, the third trial were opened for the sample discussion. On the morning of 18 May 2018, the Intermediate People's Court of Nanning chose Guangxi Guigongming Forensic Center as the judicial appraisal institution through plate lottery. On 18 December 2018, Sub-subsidiary J sent the original contract and receipt to the Guangxi Guigongming Forensic Center for appraisal. On 8 April 2018, the People's Court of Nanning Qingxiu District, Guangxi Zhuang Autonomous Region, continued to freeze the bank deposit of Hebei Xinglin Pharmaceutical Co., Ltd., the defendant, for RMB 2,842,153.00, and the freezing period was til 7 April 2019.

After evaluating the case and considering the professional opinions provided by external lawyers, the management of Sub-subsidiary J decided to make a provision for bad debts at the ratio of 50% to the above accounts receivable

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XIV. 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. filed a claim for the unreceived medicine goods from Sub-subsidiary H to Huaqiang, a 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 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 and the two companies are close to each other, Huarun Guokang and Sub-subsidiary H agreed to transport medicine directly to the third party to save the transportation expenses. Huarun Guokang filed a claim 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 12 September 2017, the Second People's Court of Beijing made the final judgment and Paper of Civil Judgment numbered (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.

After evaluating the case and considering the professional opinions provided by external lawyers, the management of Sub-subsidiary H believed that the company had fulfilled the purchase and sales contract, made the payment to the supplier, and obtained the receipt confirmation form of Huarun Guokang which proved that it had fulfilled its supply obligation to Huarun Guokang; the management of Sub-subsidiary H expects no compensation and thus does not recognize any provisions.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

⑥ Respond to prosecution of other subsidiaries of the Group

- (a) On 17 November 2014, the Group applied for arbitration from Shenzhen Court of International Arbitration (hereinafter, "SCIA") with the case number of SHEN T2014811. The arbitration request was: in accordance with the contract, Tongxing Pharmaceutical Co., Ltd. shall transfer all of the 48.0465% shares of Wang Lao Ji Pharmaceuticals it held (the number of shares held is 98,378,439) to the Group, with RMB 468,126,196.35 as the consideration. Tongxing Pharmaceutical Co., Ltd. paid the Group for the legal fees and arbitration fees paid by the Group for the case (including but not limited to case filing fees, case acceptance fees, actual expenditures of arbitration, etc.).

On 11 January 2016, the Group proposed to the SCIA to change the above arbitration application (case number: SHEN T2014811), and the arbitration request is changed to: Tongxing Pharmaceutical Co., Ltd. shall transfer all of the 48.0465% shares of Wang Lao Ji Pharmaceuticals it held (the number of shares held is 98,378,439) to the Group, with RMB 358,245,085.62 (tax included) as the consideration. Meanwhile, the corresponding registration procedures involved in the equity transfer of Wang Lao Ji Pharmaceutical shall be handled. Tongxing Pharmaceutical Co., Ltd. paid the Group for the legal fees and arbitration fees paid by the Group for the case (including arbitration fees such as case filing fees and case arbitration fees).

On 20 February 2016, SCIA conducted the first trial of the above-mentioned cases. With the court's approval process by mutual consent, both of the two parties decided to engage a professional agency to conduct audit and appraisal on the company's net asset value per share mentioned in the Shareholder Contract for Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. The Group and Tongxing Pharmaceutical Co., Ltd. jointly selected Deloitte Consulting (Beijing) Co., Ltd. as the appraisal agency, and Deloitte Touche Tohmatsu CPA (Special General Partnership) Beijing Branch as the audit agency. The above audit and appraisal were completed on 10 April 2017.

On 22 December 2017, SCIA issued the award numbered HuaNanGuoZhongShenCai [2017] No. 578 in which it stated that Tongxing Pharmaceutical Co., Ltd. shall transfer all of the shares of Wang Lao Ji Pharmaceutical (98,378,439 shares in total) to the Group with the net asset value per share of RMB 3.75 and the total transfer price of RMB 368,919,146.25 (tax included).

On 8 February 2018, the Company applied to Guangzhou Intermediate People's Court for enforcement, and Guangzhou Intermediate People's Court has filed a case numbered (2018) Yue01Zhi No. 985. After Tongxing Pharmaceutical filed a claim against the Intermediate People's Court of Shenzhen to withdraw the arbitral award, the case was suspended and has been resumed for now.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XIV. OTHER SIGNIFICANT MATTERS (Continued)

(1) Litigations (Continued)

⑥ Respond to prosecution of other subsidiaries of the Group (Continued)

(a) (Continued)

The case Tongxing Pharmaceutical Co., Ltd. applied to the Intermediate People's Court of Shenzhen for the cancellation of the arbitral award (HuaNanGuoZhongShenCai [2017] No. 578 "Attachment"), numbered (2018) Yue03MinTe No. 49. The Company received the notice of the lawsuit issued by the Intermediate People's Court of Shenzhen on 19 March 2018 concerning the case. On 1 June 2018, the Intermediate People's Court of Shenzhen dismissed the claims for the withdrawal of Tongxing Pharmaceutical.

On 13 June 2018, the Company applied to the Intermediate People's Court of Guangzhou for the resumption of the implementation of the case of (2018) Yue 01 Zhi No. 985, and received the "Executive Notice" issued by the Intermediate People's Court of Guangzhou on 14 June 2018. Tongxing Pharmaceutical also filed an enforcement arbitrage with the Intermediate People's Court of Guangzhou after the dismissal of the arbitral award was dismissed. The case number is (2018) Yue01Zhi No. 3133.

On 20 September 2018 and 25 September 2018, the above two arbitration enforcement cases have been completed and the Intermediate People's Court of Guangzhou issued notices respectively.

- (b) For the dispute between Wang Lao Ji Great Health, a 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-JDB", "7 of 10 cans of herbal tea sold in China are JDB. Many more people drink JDB to avoid suffering from excessive internal heat. Many more people drink JDB as its formula is more authentic." or "JDB is approved as a national intangible cultural heritage masterpiece" 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 was sentenced to stop. And according to the judgment of the first trial, Wuhan Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. were sentenced 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 the second trial upheld the judgment of the 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 Supreme 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. The case was tried on 8 March 2019, and is at a retrial stage at present.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

⑥ Respond to prosecution of other subsidiaries of the Group *(Continued)*

(b) *(Continued)*

For the dispute between Wang Lao Ji Great Health, a wholly-owned subsidiary of the Group, and Wuhan Jiaduobao Beverage Co., Ltd. in Chongqing City arising from the slogan of “The red cans herbal tea – national top sales-renamed JDB”, both the first trial (case number: (2013) YuWuZhongMinFaChuZi No.00345), and the second trial (case number: (2014) YuGaoFaMinZhongZi No.318) made the judicial decision that the slogan involved in the case constitutes false propaganda and Jiaduobao (China) Beverage Co., Ltd. was sentenced to stop the infringement. And according to the judgment of the first trial, JDB (China) Beverage Co., Ltd. were required to pay Wang Lao Ji Great Health pecuniary loss and reasonable expenditures on safeguarding the legal rights of RMB 400,000.00. The court of the second trial upheld the judgment of the first trial. JDB (China) Beverage Co., Ltd. was dissatisfied with the first-instance judgment and applied for a retrial to the Supreme Court. The Supreme 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. 151. The Supreme People’s Court started the first trial and second trial on 30 November 2017 and 8 March 2019 respectively. So far, the case is at a retrial stage.

For the dispute between Wang Lao Ji Great Health, a wholly-owned subsidiary of the Group, and Guangdong Jiaduobao Beverage Co., Ltd. in Guangzhou City arising from the slogan of “I, Wang Jianyi, am the great-great grandson of Wang Lao Ji”, “I gave the exclusive formula to the Jiaduobao Group.”, “The herbal tea produced by Jiaduobao is prepared by my ancestral exclusive formula” and so on which constitute false propaganda and commercial slander, under both the first trial (case number: (2014) SuiZhongFaZhiMinChuZi No.2) and the second trial (case number: (2016) YueMinZhong No.293), the slogan of JDB (China) Beverage Co., Ltd. constitute false propaganda, and the infringement was sentenced to stop and make an apology. According to the judgment of the first trial, Guangdong Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. were sentenced to pay Wang Lao Ji Great Health pecuniary loss and reasonable expenditures on safeguarding the legal rights of RMB 5,000,000.00. The court of the second trial upheld the judgment. Guangdong Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. were dissatisfied with the first-instance judgment and applied for a retrial to the Supreme Court, numbered (2017) ZuiGaoFaMinShen No. 509. The Supreme People’s Court started the trial on 27 December 2017, and the decision of whether to accept its retrial application or not is under trial.

As at the reporting date, the case is currently at the review stage. The management of the Group considered that it is not probable that it will lose the case which results in direct economic loss after the assessment which takes the professional opinions provided by external lawyers into consideration.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XIV. 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. filed a claim to the dispute of lease contract by the Group's Subsidiary B and applied for termination to contract and compensation for the loss. Subsidiary B also filed a claim for the unreceived rental and penalty of Guangzhou Hao Cheng Estate Management Development Co., Ltd and its guarantor.

Pursuant to Paper of Civil Judgment numbered (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 Subsidiary B on 28 February 2014 was terminated on 9 September 2016. Subsidiary B 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 when this Paper of Civil Judgement takes effect, and other claims of Guangzhou Hao Cheng Estate Management Development Co., Ltd. were dismissed.

Pursuant to Paper of Civil Judgment numbered (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 Subsidiary B penalty and rental of to RMB9,800 thousand for the period from 1 October 2014 to 31 January 2015, its guarantor shall undertake joint liability for the debts, and other claims of Subsidiary B were dismissed.

Pursuant to Paper of Civil Judgment numbered (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 Subsidiary B rental and the penalty of RMB 33,205 thousand for the period from 1 February 2015 to 31 December 2015. Its guarantor shall undertake joint liability for the debts. Other claims of Subsidiary B were dismissed. Guangzhou Hao Cheng Estate Management Development Co., Ltd. refused to accept the above-mentioned civil judgment and lodged an appeal. Subsidiary B filed a claim 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 numbered (2018) Yue0104Minchu No. 813.

The final judgment on 28 May 2018 included three cases in which Subsidiary B recovered the rent arrears from October 2014 to December 2015. The final judgment announced that rental shall be halved based on the contracted rental, and the interest on the rental payable 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 was agreed by Subsidiary B.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

⑥ Respond to prosecution of other subsidiaries of the Group *(Continued)*

(c) *(Continued)*

On 28 June 2018, Subsidiary B 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 Subsidiary B 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 Subsidiary B, and received the receipt from Subsidiary B for receiving refund of the deposit of RMB 5,800,000. On 29 June, Subsidiary B handed in the written application of unblocking the assets of Haocheng and Cai Song, and the written application of withdrawal of the appealed but not judged case which was numbered as (2018) Yue0104Minchu No. 813.

Both parties of the case had settled and had fulfilled the main part of the settlement agreement. Some legal settlement documents for the case are still being processed. Cai Song, one of the defendants in the latter two cases, filed a retrial application (case number: (2018) YueMinShen No. 12750 & No. 12751). Subsidiary B has filed a reply to the High Court, and the retrial application is still under review.

(d) Guangdong Guangsheng Investment Group Energy Co., Ltd. filed a claim for the unreceived payment of RMB 58,900 thousand against a branch of the Group, and applied for freezing the branch's bank account in 2014. The branch 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 freezing related assets. The branch has reported this case to Guangzhou Public Security seeking for investigation of criminal responsibility of Hua Zi.

Pursuant to Paper of Civil Judgment numbered (2014) SuiTianHeFaMinErChuZi No.4583-2 issued by People's Court of Guangzhou Tianhe District on 5 February 2016, the prosecution by Guangsheng Energy was dismissed, and the case was transferred to the public security organization to treated as a criminal case. Guangsheng Energy lodged an appeal.

Pursuant to Paper of Civil Judgment numbered (2016) Yue01MinZhong No.5365, issued by the Intermediate People's Court of Guangzhou on 16 December 2016, Paper of Civil Judgement numbered (2014) SuiTianFaMinErChuZi No.4583-2 issued by People's Court of Tianhe District was quashed, and the case was referred to People's Court of Tianhe District.

Pursuant to Paper of Civil Judgment numbered (2014) SuiTianHeFaMinErChuZi No.4583 issued by People's Court of Tianhe District on 6 April 2017, the prosecution by Guangsheng Energy was dismissed. Guangsheng Energy lodged an appeal to the Intermediate People's Court of Guangzhou with second instance numbered (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.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

⑥ Respond to prosecution of other subsidiaries of the Group *(Continued)*

(d) *(Continued)*

On 25 September 2017, pursuant to the Paper of Civil Judgment numbered (2014) SuiTianFaMinErChuZi No. 4583 to No. 4584-4, the Court has sentenced to revoke the frozen.

Pursuant to Paper of Civil Judgment numbered (2014) SuiTianHeFaMinErChuZi No.4584-2 issued by People's Court of Tianhe District on 9 August 2016, the prosecution by Guangsheng Energy was dismissed, and this judgment has become legally effective since 1 September 2016.

On 1 June 2017, Guangsheng Energy lodged an appeal to the People's Court of Tianhe District for the dispute with a case numbered (2017) Yue0106MinChu No.13720. Pursuant to Paper of Civil Judgment numbered (2017) Yue0106Minchu No.13720 issued by the People's Court of Guangzhou Tianhe District on 23 August 2017, claims of Guangsheng Energy were dismissed. Guangsheng Energy lodged an appeal to the Intermediate People's Court of Guangzhou for the second trial numbered (2017) Yue01Minzhong No. 23351. The Intermediate People's Court of Guangzhou has rendered a ruling of second instance to dismiss the appeal from Guangsheng Energy and affirmed the original judgment.

Pursuant to Paper of Civil Judgment numbered (2014) SuiTianFaMinErChuZi No.4619 and No.4620-1, issued by People's Court of Tianhe District on 16 August 2016, all claims against Hua Zi by the subsidiary of the Group were dismissed. A subsidiary of the Group lodged an appeal. In accordance with Paper of Civil Judgment numbered (2016)Yue01MinZhong No.16382 and No.16383 issued by Intermediate People's Court of Guangzhou on 21 December 2016, Paper of Civil Judgment numbered (2014) SuiTianFaMinErChuZi No.4619 and No.4620-1 issued by People's Court of Tianhe District was quashed, and the case was referred to People's Court of Tianhe District.

Pursuant to Paper of Civil Judgment numbered (2014) SuiTianFaMinErChuZi No.4619 issued by People's Court of Tianhe 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 Group. And at present this judgment has taken effect. On 17 August 2017, the subsidiary applied to the People's Court of Tianhe District for enforcement of (2017) Yue0106Zhi No. 9947. Currently, the subsidiary is notified by the People's Court of Tianhe District that the current enforcement is terminated because no asset of the person subject to the enforcement was found.

Pursuant to Paper of Civil Judgment numbered (2014) SuiTianHeFaMinErChuZi No.4620 issued by the People's Court of Tianhe District on 6 April 2017, the prosecution by a subsidiary of the Group was dismissed. The subsidiary lodged an appeal to the Intermediate People's Court of Guangzhou with second instance numbered (2017) Yue01MinZhong No.10910. On 25 August 2017, the Intermediate People's Court of Guangzhou had made a judgment of second instance to dismiss the appeal from the branch and affirmed the original judgment.

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(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

⑥ Respond to prosecution of other subsidiaries of the Group *(Continued)*

(d) *(Continued)*

In order to prevent Huazi Company from evading the responsibility of payment, and to ensure the execution of the judgment numbered (2014) SuiTianFaMinErChuZi No. 4619 and 4620, the branch of the Group has applied to the People's Court of Tianhe 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 branch applied to the People's Court of Tianhe 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 the case numbered (2013) SuHaiFaZhiZi No.1978, had not been changed to Hua Zi, People's Court of Tianhe District has merely sent the Paper of Civil Judgment of property preservation to Hai Zhu Court in October 2014.

In order to avoid the payment to a branch of the Group and to transfer property, Hua Zi made up a fictional fact for assignment of debt by signing a contract with Cai Li, 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 filed a claim to the People's Court of Yuexiu District (hereinafter referred to as the "Yuexiu District Court") by maliciously confirmed the validity of the credit assignment contract by way of court judgment, so as to achieve the purpose of transferring property. In accordance with Paper of Civil Judgment numbered (2015) SuiYueFaMinErChuZi No. 1367 and No.1368 subsequently issued by the Yuexiu District 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 Cai Li is valid.

The branch filed a claim to the Yuexiu District Court for the above credit assignment between Hua Zi and Caili, and requested for cancellation of Paper of Civil Judgment numbered (2015) SuiYueFaMinErChuZi No. 1367 and No.1368 and confirming that the transfer is invalid [Paper of Civil Judgment numbered (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 had made a civil judgment to dismiss the appeal from the branch. The branch 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 dismissed the retrial application from the subsidiary.

Pursuant to Paper of Civil Judgment numbered (2018) YueMinShen No. 2229 issued on 25 May 2018, the Higher People's Court of Guangdong made a civil judgment to dismiss the retrial application from Guangsheng Group Energy Co., Ltd.

As at the reporting date, the above-mentioned cases are now all closed. The subsidiary did not suffer direct economic loss in cases with Guangsheng Energy and Hua Zi.

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(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XIV. 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 the Group's Subsidiary E 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.

Subsidiary E 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.

Subsidiary E filed a claim to the First Railway Transportation Court of Guangzhou on 15 January 2017, and requested for withdraw 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 Subsidiary E were dismissed.

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

Pursuant to the Administrative Judgment numbered (2017) Yue71xingzhong No. 1288 issued on 17 October 2017, the Intermediate Railroad Transportation Court of Guangzhou issued the final judgment which dismissed the appeal from Subsidiary E and the original judgment was upheld. According to the principle of prudence, Subsidiary E accrued land-transferring fees and penalty of RMB 26,376,110.52 in non-operating expenses for the current period. Subsidiary E applied for a retrial for this case and the Higher People's Court of Guangdong has accepted the retrial appeal on 22 March 2018. No re-trial notice has been received by Subsidiary E so far.

On 5 March 2019, the Guangzhou Railway Transport Court issued a notice of execution to the Subsidiary E numbered (2019) Yue7101Zhi No. 254, requesting Subsidiary E and Guangdong Construction Engineering Corporation Real Estate Development Company to pay the unpaid land transfer fee of RMB 13,160,051.26 and penalty of RMB 13,216,059.26, which is RMB 26,376,110.52 in total, immediately.

On 12 March 2019, Subsidiary E and Guangzhou Municipal Land Resources and Planning Commission reached an implementation settlement that if Subsidiary E could pay the land transfer fee of RMB 13,160,051.26 and liquidated damages of RMB 13,216,059.26 to Guangzhou Municipal Land Resources and Planning Commission in advance, Guangzhou Municipal Land Resources and Planning Commission will no longer request Subsidiary E to pay the interest for the land transfer fee, liquidated damages and the interest during the delay period of the enforcement. As at the reporting date, the implementation has been closed.

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(All amounts in Renminbi yuan unless otherwise stated)

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XIV. 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. filed a claim for the dispute on the contract for legal service against the Group's Subsidiary F and required Subsidiary F to pay the legal service fee and the overdue interest of RMB 22,421,800.00.

Pursuant to Paper of Civil Judgment (SuiNanFangMinErChuZi [2015] No.254) issued by the People's Court of Guangzhou Nansha District on 8 January 2016, Subsidiary F shall pay service fee of RMB13,192,825.00 to Guangzhou Ruigu Enterprise Management Consulting Co., Ltd. within 10 days from the date when the judgment takes effect.

Subsidiary F and Guangzhou Ruigu Enterprise Management Consulting Co., Ltd. were dissatisfied with the judgment of 1st trial, and they lodged an appeal to the Intermediate People's Court of Guangzhou. Pursuant to Paper of Civil Judgment ((2016) Yue01MinZhong No.5137) issued by the Intermediate People's Court of Guangzhou on 17 May 2016, Subsidiary F shall pay Guangzhou Ruigu Enterprise Management Consulting Co., Ltd. service fee of RMB4,352,350.00 within 10 days from the date when the judgment takes effect.

Guangzhou Ruigu Enterprise Management Consulting Co., Ltd. was dissatisfied with the judgment 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, Subsidiary F 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 judgment and dismissed the retrial application from Guangzhou Ruigu Enterprise Management Consulting Co., Ltd.

On 12 September 2018, Guangzhou Ruigu Enterprise Management Consulting Co., Ltd. filed a claim for the dispute of the contract for legal service against Subsidiary F again and required Subsidiary F to pay legal service fee and the overdue interest of RMB 18,069,450.00. The case was heard on 23 October 2018. On 15 November 2018, Guangzhou Ruigu Enterprise Management Information Consulting Co., Ltd. applied to the court to withdraw the lawsuit. On 19 November 2018, the People's Court of Nansha District of Guangzhou City ruled that Guangzhou Ruigu Enterprise Management Information Consulting Co., Ltd. was allowed to withdraw the lawsuit.

As at the reporting date, Guangzhou Ruihao Enterprise Management Information Consulting Co., Ltd. has not re-prosecuted. After evaluating the case and considering the professional opinions provided by external lawyers, the management of Subsidiary F considered that no compensation is expected to be paid by Subsidiary F and no accounting treatment has been made.

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XIV. OTHER SIGNIFICANT MATTERS (Continued)

(1) Litigations (Continued)

⑥ Respond to prosecution of other subsidiaries of the Group (Continued)

- (g) Yinghui Food Store filed a claim for the advance payment of expenses on behalf of Subsidiary F with a total amount of RMB 2,130,444.00 in 2017. On 4 August 2017, the People's Court of Guangzhou Nan Sha District made a judgment of first instance and dismissed 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 was numbered (2017) Yue01minzhong No. 19018. The Intermediate People's Court of Guangzhou had 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 dismissed the appeal lodged by Yinghui Food Store in Kunming Pan Long District and affirmed the original judgment.

On 4 September 2018, Yinghui Food Store filed a retrial application with the Higher People's Court of Guangdong Province.

As at the reporting date, the Guangdong Higher People's Court's ruling concerning about whether to accept the application for retrial of Yinghui Food Store or not is still under trial. With the assessment of the case and the consideration of the professional opinions provided by external lawyer, the management of Subsidiary F has evaluated the case and considered that it is unlikely that Subsidiary F will suffer from direct economic losses.

- (h) In 2018, Dali Baoxunfeng Trading Co., Ltd. filed a claim against the Group's Subsidiary F and requested Subsidiary F to pay a total of RMB 2,538,709.83 for the prepayments Baoxunfeng paid on behalf of Subsidiary F. On 7 September 2018, the People's Court of Guangzhou Nansha District made a first-instance judgment that sentenced Subsidiary F to pay Dali Baoxunfeng Trading Co., Ltd. RMB 39,244 for goods received and RMB 4,551.43 for the prepayment Baoxunfeng paid on behalf of Subsidiary F, and dismissed all other claims of Dali Baoxunfeng Trading Co., Ltd. Dali Baoxunfeng Trading Co., Ltd. was dissatisfied with the judgment of the first instance and filed an appeal with the Intermediate People's Court of Guangzhou on 10 September 2018. The case number of the second instance is (2018) Yue01MinZhong No. 21300.

On 26 December 2018, the Intermediate People's Court of Guangzhou made a second-instance judgment which dismissed the appeal of Dali Baoxunfeng Trading Co., Ltd. and affirmed the original judgment.

As at the reporting date, the case has been closed.

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XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

(1) Litigations *(Continued)*

⑥ Respond to prosecution of other subsidiaries of the Group *(Continued)*

- (i) In January 2018, Guangdong Guangsheng Investment Group Energy Co., Ltd. required the Group's Subsidiary I, to pay RMB 81,408,500.00 for the "Ownership Transfer of the Goods" which did not exist. The plaintiff of this case filed a claim on 11 March 2015 for the same reason, and was dismissed on 17 August 2016 by the Court of Tianhe District as the case involves criminal proceedings. This time, Guangdong Guangsheng Investment Group Energy Co., Ltd. re-claimed on the grounds that "there is no evidence to reflect the alleged economic crimes in this case". The court dismissed the claim in the first instance. Guangdong Guangsheng Investment Group Energy Co., Ltd. filed an appeal, and court of the second instance sent the case back to the first instance court for retrial.

As at the reporting date, after a discussion with the attorney, the management of Subsidiary I did not take any accounting treatment as they believe that Guangdong Guangsheng Investment Group Energy Co., Ltd. failed to present any new evidence which has strong effects on the case, and the risk of Subsidiary I for losing the retrial is pretty low.

- (j) In January 2018, Guangzhou Rural Commercial Bank Co., Ltd. Haizhu Branch requested the Group's Subsidiary I to pay an amount of RMB 38,549,941.94 due to Guangdong Zhonghui Sunshine Pharmaceutical Co., Ltd. to a specific bank account, as the right to accounts receivable due from Subsidiary I had been transferred to Guangzhou Rural Commercial Bank Co., Ltd. Haizhu Branch from Guangdong Zhonghui Sunshine Pharmaceutical Co., Ltd. The court of the first instance dismissed the claim. Guangzhou Rural Commercial Bank Co., Ltd. Haizhu Branch filed an appeal, and the second trial has not held yet.

As at the reporting date, after a discussion with the attorney, the management of Subsidiary I did not make any accounting treatment as they believe that Guangzhou Rural Commercial Bank Co., Ltd. failed to present any new evidence or new opinion, and the risk of Subsidiary I for losing the retrial is pretty low.

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XV. 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 the Financial Statements

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XV. INFORMATION OF SEGMENTS (Continued)

(2) Reporting financial Information of Segments

① The segment information for the year ended 31 December 2018 and as of 31 December 2018 is as follows:

Item	Great Southern TCM	Great Health	Great Commerce	Other	Offset between segments	Total
External revenue	9,796,024,948.68	9,492,904,408.94	22,811,449,928.90	133,458,764.60	-	42,233,838,051.12
Inter-segment revenue	144,351,843.81	33,647,788.65	7,310,785,592.07	242,413,790.42	(7,731,199,014.95)	-
Interest income	(54,532,656.59)	(96,941,364.91)	(18,459,600.71)	(94,846,307.77)	2,776,886.80	(262,003,043.18)
Interest expenses	17,455,028.42	-	264,232,320.54	24,294,787.91	(83,181,206.61)	222,800,930.26
Gains from investments in associates and joint ventures	85,838,488.29	755,108.60	2,166,026.75	240,749,192.94	(12,312,209.74)	317,196,606.84
Impairment losses in respect of assets	35,358,983.53	-	26,552,905.79	-	118,275,499.68	180,187,389.00
Impairment losses in respect of credit	2,958,625.66	(292,637.27)	31,274,555.15	8,423,529.03	(3,037,233.34)	39,326,839.23
Depreciation and amortization expenses	222,464,191.81	42,282,814.77	147,687,704.53	27,985,379.02	(144,105.00)	440,275,985.13
Total profit	1,384,538,275.78	852,020,464.44	254,159,649.94	1,398,199,922.59	129,811,942.87	4,018,730,255.62
Income tax expenses	25,185,162.42	166,647,851.61	60,763,086.40	205,667,620.32	26,750,298.97	485,014,019.72
Net profit (Including minority shareholders' profit and losses)	1,359,353,113.36	685,372,612.83	193,396,563.54	1,192,532,302.27	103,061,643.90	3,533,716,235.90
Total assets	11,583,817,470.30	9,419,956,280.11	24,868,693,118.24	20,624,199,398.47	(15,014,482,397.64)	51,482,183,869.48
Total liabilities	6,887,053,492.19	5,896,869,489.81	20,476,717,007.50	2,871,177,504.92	(7,793,366,378.94)	28,338,451,115.48
Long-term equity investment in associates and joint ventures	276,421,358.40	-	62,991,964.68	1,420,544,712.31	-	1,759,958,035.39
Increase in other non-current assets excluding long-term equity investment	413,426,962.68	488,603,396.02	1,852,610,818.57	78,551,367.54	-	2,833,192,544.81

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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XV. INFORMATION OF SEGMENTS (Continued)

(2) Reporting financial Information of Segments

- ② The segment information for the year ended 31 December 2017 and as of 31 December 2017 is as follows:

Item	Great Southern TCM	Great Health	Great Commerce	Other	Offset between segments	Total
External revenue	7,920,991,000.47	8,574,140,675.28	4,347,030,285.90	112,063,227.88	-	20,954,225,189.53
Inter-segment revenue	206,420,129.57	14,639,317.32	6,646,327,048.34	157,223,363.39	(7,024,609,858.62)	-
Interest income	(28,847,134.42)	(64,754,810.30)	(1,660,878.11)	(123,558,909.81)	-	(218,821,732.64)
Interest expenses	18,087,138.51	-	48,411,253.25	5,293,854.77	(64,670,544.45)	7,121,702.08
Gains from investments in associates and joint ventures	58,522,548.73	-	2,796,697.03	214,602,293.03	5,343,148.61	281,264,687.40
Impairment losses of assets	2,019,902.11	(49,905.93)	7,811,480.94	6,788,238.77	3,393,252.01	19,962,967.90
Impairment loss of credit	-	-	-	-	-	-
Depreciation and amortization expenses	207,493,926.36	18,262,232.17	7,226,184.84	21,856,504.17	(144,105.00)	254,694,742.54
Total profit	1,141,613,236.46	754,765,230.42	66,824,009.16	500,858,946.13	28,914,714.53	2,492,976,136.70
Income tax expenses	55,336,427.94	131,204,377.83	15,759,901.66	153,081,430.85	18,838,377.52	374,220,515.80
Net profit (including minority shareholders' profit and losses)	1,086,276,808.52	623,560,852.59	51,064,107.50	347,777,515.28	10,076,337.01	2,118,755,620.90
Total assets	9,766,674,401.97	5,941,353,309.61	4,198,165,473.57	16,969,629,127.74	(8,561,108,859.57)	28,314,713,453.32
Total liabilities	5,472,206,232.20	3,727,005,385.06	3,864,261,178.27	1,061,262,999.58	(5,073,176,134.96)	9,051,559,660.15
Long-term equity 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 excluding long-term equity investment	337,184,429.82	52,757,149.44	27,021,750.62	90,631,857.68	-	507,595,187.56

- 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:

	2018	2017
External revenue		
PRC	42,189,829,224.25	20,903,138,688.93
Other countries/regions	44,008,826.87	51,086,500.60
Total	42,233,838,051.12	20,954,225,189.53
Total non-current assets		
PRC	8,120,762,664.12	5,515,922,789.70
Other countries/regions	18,298,592.95	18,483,577.02
Total	8,139,061,257.07	5,534,406,366.72

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XVI. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS

1. Notes receivable and accounts receivable

Item	Closing balance	Opening balance
Notes receivable	615,391,740.80	679,046,805.63
Accounts receivable	261,455,709.16	265,693,684.36
Total	876,847,449.96	944,740,489.99

(1) Notes receivable

① Notes receivable disclosed by category

Item	Closing balance	
	Closing balance	Opening balance
Bank acceptance notes	615,391,740.80	679,046,805.63
Commercial acceptance notes	—	—
Total	615,391,740.80	679,046,805.63

② The Group had no pledged notes receivable for the current year.

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	453,387,389.83	176,984,967.33
Commercial acceptance notes	—	—
Total	453,387,389.83	176,984,967.33

Notes to the Financial Statements

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XVI. 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 (Continued)*

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 Company. Consequently, the Company is in the continuing 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 continuing 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 continuing involvement on book value.
- (c) The maximum loss from the continuing involvement of the above-mentioned notes receivable which have been discounted or endorsed is equal to its book value of RMB453,387 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 31 December 2018 shall mature before 31 December 2019.
- (e) For the year ended 31 December 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 continuing 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 31 December 2018 and 31 December 2017, the Company has no accounts receivable transferred from notes receivable due to drawer's inability to perform the obligation.*

Notes to the Financial Statements

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XVI. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

1. Notes receivable and accounts receivable (Continued)

(1) Notes receivable (Continued)

⑤ Disclosed by method of accruing provision for bad debts

Category	Book balance		Closing balance Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss (%)	
Notes receivable subject to separate provision	-	-	-	-	-
Notes receivable subject to provision by portfolio Including: portfolio 2	615,391,740.80	100.00	-	-	615,391,740.80
Total	615,391,740.80	100.00	-	-	615,391,740.80

Category	Book balance		Opening balance Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss (%)	
Notes receivable subject to separate provision	-	-	-	-	-
Notes receivable subject to provision by portfolio Including: portfolio 2	679,046,805.63	100.00	-	-	679,046,805.63
Total	679,046,805.63	100.00	-	-	679,046,805.63

Notes to the Financial Statements

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XVI. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

1. Notes receivable and accounts receivable (Continued)

(1) Notes receivable (Continued)

⑤ Disclosed by method of accruing provision for bad debts (Continued)

- A. The Group had no notes receivable that are individually significant and for which bad debt provision has been individually assessed for the current year.
- B. Notes receivable for which provision for bad debts are accrued according to financial asset portfolios with extremely low credit risk

Item	Closing balance Notes receivable	Provision for bad debts	Expected credit loss (%)
Notes receivable with extremely low credit risk	615,391,740.80	-	-
Total	615,391,740.80	-	-

⑥ The Group had no provision for bad debts for the current year.

⑦ The Group had no notes receivable written off for the current year.

(2) Accounts receivable

① The aging analysis of accounts receivable disclosed by booking date is as follows:

Aging	Closing balance	Opening balance
Within 1 year	263,355,485.52	267,228,797.84
1 to 2 years	-	-
2 to 3 years	-	1,624,535.00
3 to 4 years	1,467,557.00	-
4 to 5 years	-	-
Over 5 years	3,288,606.52	3,288,606.52
Total closing balance of accounts receivable	268,111,649.04	272,141,939.36
Less: Provision for bad debts	6,655,939.88	6,448,255.00
Total net amount of accounts receivable	261,455,709.16	265,693,684.36

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XVI. 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

Category	Book balance		Closing balance Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss ratio (%)	
Accounts receivable subject to separate provision	2,354,626.24	0.88	2,354,626.24	100.00	-
Accounts receivable subject to provision by portfolio of features of credit risk Including: portfolio 1	265,757,022.80	99.12	4,301,313.64	1.62	261,455,709.16
Total	268,111,649.04	100.00	6,655,939.88	2.48	261,455,709.16

(Cont.)

Category	Book balance		Opening balance Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss ratio (%)	
Accounts receivable subject to separate provision	2,354,626.24	0.86	2,354,626.24	100.00	-
Accounts receivable subject to provision by portfolio of features of credit risk Including: portfolio 1	269,787,313.12	99.14	4,093,628.76	1.52	265,693,684.36
Total	272,141,939.36	100.00	6,448,255.00	2.36	265,693,684.36

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XVI. 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

A. Accounts receivable subject to separate provision at the year end

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	Customer bankruptcy. Amount is expected to be unrecoverable.
Customer 2	470,000.00	470,000.00	100.00	Amount is expected to be unrecoverable.
Customer 3	315,508.74	315,508.74	100.00	Amount is expected to be unrecoverable.
Customer 4	69,117.50	69,117.50	100.00	Amount is expected to be unrecoverable.
Total	<u>2,354,626.24</u>	<u>2,354,626.24</u>	<u>100.00</u>	-

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XVI. 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)

B. Accounts receivable subject to provision by aging portfolio

Aging	Closing balance		Expected credit loss ratio (%)
	Book balance	Provision for bad debts	
Within 1 year	263,355,485.52	2,633,554.86	1.00
1 to 2 years	–	–	–
2 to 3 years	–	–	–
3 to 4 years	1,467,557.00	733,778.50	50.00
4 to 5 years	–	–	–
Over 5 years	933,980.28	933,980.28	100.00
Total	265,757,022.80	4,301,313.64	–

Cont.

Aging	Opening balance		Expected credit loss ratio (%)
	Book balance	Provision for bad debts	
Within 1 year	267,228,797.84	2,672,287.98	1.00
1 to 2 years	–	–	–
2 to 3 years	1,624,535.00	487,360.50	30.00
3 to 4 years	–	–	–
4 to 5 years	–	–	–
Over 5 years	933,980.28	933,980.28	100.00
Total	269,787,313.12	4,093,628.76	–

③ Provision for bad debts

Provision for bad debts provided in the current year is RMB208 thousand. The Group had no provision for bad debts recovered or reversed for the current year.

④ There is no accounts receivables written off in the current year.

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XVI. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

1. Notes receivable and accounts receivable (Continued)

(2) Accounts receivable (Continued)

⑤ The top five customers by closing balance of accounts receivable:

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	199,059,888.83	Within 1 year	74.25	1,990,598.89
Customer 2	Payment for goods	21,131,250.80	Within 1 year	7.88	211,312.51
Customer 3	Payment for goods	9,870,000.00	Within 1 year	3.68	98,700.00
Customer 4	Payment for goods	3,356,249.62	Within 1 year	1.25	33,562.50
Customer 5	Payment for goods	3,255,000.00	Within 1 year	1.21	32,550.00
Total		<u>236,672,389.25</u>		<u>88.27</u>	<u>2,366,723.90</u>

⑥ The Group had no accounts receivables derecognized due to transfer of financial assets for the current year.

⑦ The Group had no assets or liabilities arising from the transfer of and the continuing involvement of accounts receivable for the current year.

2. Other receivables

Item	Closing balance	Opening balance
Dividends receivable	382,928,791.41	656,897,700.00
Other receivables	1,494,964,007.39	1,527,015,254.36
Total	<u>1,877,892,798.80</u>	<u>2,183,912,954.36</u>

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XVI. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables (Continued)

(1) Dividends receivable

① Dividends receivable are as follows:

Item (or investee)	Closing balance	Opening balance
Tian Xin	104,502,080.90	71,940,605.32
Guang Hua	102,009,719.65	43,882,205.44
Ming Xing	43,385,945.08	36,074,889.24
Wang Lao Ji	41,665,953.14	—
Chen Li Ji	28,461,301.81	—
Pan Gao Shou	21,128,116.20	—
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	17,653,846.37	—
Zhong Yi	14,022,774.24	—
Xing Qun	7,550,441.54	—
Guangzhou Pharmaceutical Import & Export Co., Ltd.	2,548,612.48	—
HWBYS	—	50,000,000.00
GP Corp.	—	455,000,000.00
Total	382,928,791.41	656,897,700.00

② The Group had no significant dividends receivables with aging over one year for the current year.

(2) Other receivables

① Other receivables disclosed by aging are as follows:

Aging	Closing balance	Opening balance
Within 1 year	1,493,036,443.65	1,520,293,135.28
1 to 2 years	556,846.55	4,288,858.19
2 to 3 years	2,549,613.86	1,158,143.04
3 to 4 years	403,590.42	48,885.81
4 to 5 years	48,885.81	65,210.21
Over 5 years	7,524,842.18	6,715,060.94
Total book balance of other receivables	1,504,120,222.47	1,532,569,293.47
Less: Provision for bad debts	9,156,213.08	5,554,039.11
Total book value of other receivables	1,494,964,007.39	1,527,015,254.36

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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XVI. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables (Continued)

(2) Other receivables (Continued)

② Other receivables disclosed by category

Category	Book balance		Closing balance Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss ratio (%)	
Other receivables subject to separate provision	8,296,179.85	0.55	8,114,999.85	97.82	181,180.00
Other receivables subject to provision by portfolio of features of credit risk					
Including: Portfolio 1	33,434,410.75	2.22	1,041,213.23	3.11	32,393,197.52
Portfolio 2	5,725,972.16	0.38	-	-	5,725,972.16
Portfolio 3	1,451,241,604.25	96.49	-	-	1,451,241,604.25
Portfolio 4	5,422,053.46	0.36	-	-	5,422,053.46
Total	1,504,120,220.47	100.00	9,156,213.08	0.61	1,494,964,007.39

Category	Book balance		Opening balance Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss ratio (%)	
Other receivables subject to separate provision	4,177,690.55	0.27	4,177,690.55	100.00	-
Other receivables subject to provision by portfolio of features of credit risk					
Including: 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
Total	1,532,569,293.47	100.00	5,554,039.11	0.36	1,527,015,254.36

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XVI. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables (Continued)

(2) Other receivables (Continued)

② Other receivables disclosed by category (Continued)

A. Other receivables that are individually significant and for which provision for bad debts is provided individually

Other receivables (By debtors)	Book balance	Closing balance		Reason for provision
		Provision for bad debts	Expected credit loss ratio (%)	
Other receivable 1	1,582,097.34	1,582,097.34	100.00	The amount is expected to be unrecoverable.
Other receivable 2	1,284,052.25	1,284,052.25	100.00	The amount is expected to be unrecoverable.
Other receivable 3	502,043.54	502,043.54	100.00	The amount is expected to be unrecoverable.
Other receivable 4	454,940.00	454,940.00	100.00	The amount is expected to be unrecoverable.
Other receivable 5	430,077.57	430,077.57	100.00	The amount is expected to be unrecoverable.
Other receivable 6	392,823.33	392,823.33	100.00	The amount is expected to be unrecoverable.
Other receivable 7	222,360.00	111,180.00	50.00	The amount is expected to be unrecoverable.
Other receivable 8	218,004.59	218,004.59	100.00	The amount is expected to be unrecoverable.
Other receivable 9	188,906.62	188,906.62	100.00	The amount is expected to be unrecoverable.
Other receivable 10	160,894.73	160,894.73	100.00	The amount is expected to be unrecoverable.
Others	2,859,979.88	2,789,979.88	97.55	The amount is expected to be unrecoverable.
Total	<u>8,296,179.85</u>	<u>8,114,999.85</u>	<u>-</u>	-

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XVI. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables (Continued)

(2) Other receivables (Continued)

② Other receivables disclosed by category (Continued)

- B. Other receivables for which credit risk is assessed and provision for bad debts is accrued by aging portfolio

Aging	Book balance	Closing balance		Expected credit loss ratio (%)
		Proportion (%)	Provision for bad debts	
Within 1 year	32,601,097.04	97.51	326,009.00	1.00
1 to 2 years	120,454.02	0.36	12,045.40	10.00
2 to 3 years	1,400.00	–	420.00	30.00
3 to 4 years	–	–	–	–
4 to 5 years	43,604.31	0.13	34,883.45	80.00
Over 5 years	667,855.38	2.00	667,855.38	100.00
Total	33,434,410.75	100.00	1,041,213.23	–

Cont.

Aging	Book balance	Opening balance		Expected credit loss ratio (%)
		Proportion (%)	Provision for bad debts	
Within 1 year	4,691,634.34	77.52	46,916.34	1.00
1 to 2 years	1,400.00	0.02	140.00	10.00
2 to 3 years	–	–	–	–
3 to 4 years	43,604.31	0.72	21,802.16	50.00
4 to 5 years	40,000.00	0.66	32,000.00	80.00
Over 5 years	1,275,490.06	21.08	1,275,490.06	100.00
Total	6,052,128.71	100.00	1,376,348.56	–

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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XVI. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables (Continued)

(2) Other receivables (Continued)

② Other receivables disclosed by category (Continued)

C. Other receivables subject to provision by other portfolio methods

Item	Book balance	Closing balance		
		Proportion (%)	Provision for bad debts	Expected credit loss ratio (%)
Accounts receivable subject to provision by portfolio of related parties	1,451,241,604.25	96.48	-	-
Accounts receivable subject to provision by portfolio of financial asset with extremely low credit risk	5,725,972.16	0.38	-	-
Accounts receivable subject to provision by margins, deposit portfolio	5,422,053.46	0.36	-	-
Total	1,462,389,629.87	97.23	-	-

③ Category of other receivables as per nature

Nature	Closing book balance	Opening book balance
Receivables due from related parties	1,451,241,604.25	1,485,727,079.23
Including: Entrusted loans	1,271,733,486.36	1,170,033,486.36
Other receivables due from related parties	179,508,117.89	315,693,592.87
Rental, margins, deposit, advances to employees	30,635,244.06	19,037,303.35
Others	22,243,372.16	27,804,910.89
Total	1,504,120,220.47	1,532,569,293.47

④ Information of Bad debts provided, recovered or reversed for the current year

Provision for bad debts provided in the current year is RMB3,602 thousand. The Group had no provision for bad debts recovered or reserved for the current year.

⑤ The Group had no other receivables written off for the current year.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

XVI. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables (Continued)

(2) Other receivables (Continued)

⑥ The top five amount of the closing balance of other receivables by customers

Company	Nature	Closing balance	Aging	Proportion of total closing balance of other receivables (%)	Provision for bad debts Closing balance
Other receivables 1	Receivables due from related parties	565,867,612.46	Within 1 year	37.62	–
Other receivables 2	Receivables due from related parties	382,601,050.54	Within 1 year	25.44	–
Other receivables 3	Receivables due from related parties	189,126,898.33	Within 1 year	12.57	–
Other receivables 4	Receivables due from related parties	111,117,110.67	Within 1 year	7.39	–
Other receivables 5	Receivables due from related parties	80,067,571.30	Within 1 year	5.32	–
Total		<u>1,328,780,243.30</u>		<u>88.34</u>	<u>–</u>

⑦ There is no receivables related to government grants for the current year.

⑧ There is no other receivables that had been derecognized due to transfer of financial assets

⑨ There is no assets or liabilities arising from the transfer of and the continuing involvement of other receivables

3. Long-term Equity Investment

(1) Category of long-term equity investment

Item	Closing balance			Opening balance		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investment in subsidiaries	7,198,539,281.83	171,000,000.00	7,027,539,281.83	3,181,465,863.78	171,000,000.00	3,010,465,863.78
Investment in joint ventures and associates	1,413,116,817.35	–	1,413,116,817.35	1,754,208,415.45	–	1,754,208,415.45
Total	<u>8,611,656,099.18</u>	<u>171,000,000.00</u>	<u>8,440,656,099.18</u>	<u>4,935,674,279.23</u>	<u>171,000,000.00</u>	<u>4,764,674,279.23</u>

Notes to the Financial Statements

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(English Translation for Reference Only)

XVI. 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 year	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	-	-
Wang Lao Ji	-	854,431,508.17	-	854,431,508.17	-	-
GP Corp.	-	2,891,825,159.88	-	2,891,825,159.88	-	-
Cai Zhi Lin	105,978,900.00	59,480,000.00	-	165,458,900.00	-	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
WLJ Great Health	900,000,000.00	-	-	900,000,000.00	-	-
Guangxi Ying Kang	21,536,540.49	-	-	21,536,540.49	-	-
Guangzhou Guangyao Yi Gan Biological Product Co., Ltd.	18,600,000.00	7,200,000.00	-	25,800,000.00	-	-
Guangzhou Baiyunshan Medical and Healthcare Industry Investment Co., Ltd.	106,500,000.00	5,100,000.00	-	111,600,000.00	-	-
Xing Zhu	92,070,000.00	34,410,000.00	-	126,480,000.00	-	-
Wang Lao Ji Investment Co., Ltd.	24,000,000.00	-	-	24,000,000.00	-	-
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	-	-
Pharmaceutical Technological	1,020,000.00	-	-	1,020,000.00	-	-
Guangzhou GPLH Guangyao Baiyunshan Great Health Hotel Co., Ltd.	500,000.00	-	-	500,000.00	-	-
Guangyao Baiyunshan Hong Kong Co., Ltd.	93,874,006.87	46,626,750.00	-	140,500,756.87	-	-
Guangzhou Baiyunshan Chemical Pharmaceutical Technology Co., Ltd.	63,470,000.00	100,000,000.00	-	163,470,000.00	-	-
Guangyao Hai Ma	7,000,000.00	-	-	7,000,000.00	-	-
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.	40,000,000.00	-	-	40,000,000.00	-	-
Guangyao General Institute	80,000,000.00	18,000,000.00	-	98,000,000.00	-	-
Guangzhou Baiyunshan Medical Instruments investment Co., Ltd.	10,000,000.00	-	-	10,000,000.00	-	-
Total	3,181,465,863.78	4,017,073,418.05	-	7,198,539,281.83	-	171,000,000.00

Notes to the Financial Statements

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XVI. 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	Investment costs	Opening balance	Increase	Decrease	Investment gains or losses recognized under equity method	Current year				Closing balance	Closing balance of provision for impairment
						Adjustment to other comprehensive income	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	-	-	94,993,806.57	-	-	-	(485,512,361.92)	-	-
HWBYS	100,000,000.00	332,734,264.65	-	-	52,331,677.66	-	-	-	-	385,065,942.31	-
Baxter Qiao Guang	37,000,000.00	39,447,376.09	-	-	3,253,734.50	-	-	-	-	42,701,110.59	-
Subtotal	635,624,264.22	1,697,528,463.66	-	-	213,484,933.00	-8,821.96	-	-	-1,483,237,521.80	427,767,052.90	-
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	-	-	6,128,824.20	29,136.57	-	-	-	60,823,876.62	-
Guangzhou Baiyunshan Weiwei Medical Investment Management Co., Ltd.	2,020,000.00	2,014,035.94	-	-	18,020.27	-	-	-	-	2,032,056.21	-
Guangzhou Baiyunshan Yi Xin Tang Pharmaceutical Investment Development Co., Ltd.	45,000,000.00	-	45,000,000.00	-	-37,480.99	-	-	-	-	44,962,519.01	-
Guangdong Guangyao Jinshen Equity Investment Fund Management Co., Ltd.	4,000,000.00	-	4,000,000.00	-	-929,752.84	-	-	-	-	3,070,247.16	-
Yi Xin Tang	864,570,227.02	-	864,570,227.02	-	22,469,454.73	-	12,578,616.30	-	-	874,461,065.45	-
Subtotal	966,355,227.02	56,679,951.79	913,570,227.02	-	27,649,065.37	29,136.57	12,578,616.30	-	-	985,349,764.45	-
Total	1,601,979,491.24	1,754,208,415.45	913,570,227.02	-	241,133,998.37	20,314.61	12,578,616.30	-	-1,483,237,521.80	1,413,116,817.35	-

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XVI. 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 year		Prior Period	
	Income	Cost	Income	Cost
Main businesses	3,822,126,064.48	1,897,829,832.96	2,761,283,959.77	1,266,866,455.36
Other businesses	509,918,388.57	217,989,937.30	386,215,182.64	178,324,938.01
Total	<u>4,332,044,453.05</u>	<u>2,115,819,770.26</u>	<u>3,147,499,142.41</u>	<u>1,445,191,393.37</u>

(2) Category by business

Item	Current year		Prior year	
	Income	Cost	Income	Cost
Great Southern TCM	3,822,101,089.04	1,897,814,213.61	2,761,252,808.73	1,266,846,448.80
Great Commerce	24,975.44	15,619.35	31,151.04	20,006.56
Great Health	–	–	–	–
Total	<u>3,822,126,064.48</u>	<u>1,897,829,832.96</u>	<u>2,761,283,959.77</u>	<u>1,266,866,455.36</u>

(3) Category by major operating region

Item	Current year		Prior year	
	Income	Cost	Income	Cost
Southern China Area	2,008,595,375.80	1,043,706,446.43	2,081,792,463.40	951,742,055.26
Eastern China Area	828,066,454.70	331,244,020.10	261,551,660.01	125,418,267.96
Northern China Area	405,626,386.77	195,550,066.90	109,667,564.30	61,876,688.77
Northeast Area	115,180,891.90	73,157,215.39	51,261,482.29	26,864,595.29
Southwest Area	363,310,208.51	204,164,804.70	197,154,701.72	81,266,041.23
Northwest Area	101,346,746.80	50,007,279.44	59,856,088.05	19,698,806.85
Total	<u>3,822,126,064.48</u>	<u>1,897,829,832.96</u>	<u>2,761,283,959.77</u>	<u>1,266,866,455.36</u>

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XVI. NOTES TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

4. Operating Income and Operating Costs (Continued)

- (4) Information of the top five customers as per sales: the total sales to the top five customers are RMB1,564,293 thousand, which account for 40.93% of the Company's main business income for the year ended 31 December 2018.

Customer	Sales	Proportion of total revenue (%)
Customer 1	1,339,394,280.99	35.04
Customer 2	62,678,078.79	1.64
Customer 3	60,233,594.88	1.58
Customer 4	54,240,848.80	1.42
Customer 5	47,745,963.17	1.25
Total	<u>1,564,292,766.63</u>	<u>40.93</u>

5. Investment income

Item	Current year	Prior year
Investment Income from long-term equity investments under cost method	865,519,930.33	64,322,657.08
Investment Income from long-term equity investments under equity method	241,342,102.95	214,633,349.87
Investment income from the period in which the financial assets which is measured at FVTPL during their holding period	–	201,347.70
Investment income from available-for-sale financial assets	–	13,105,244.32
Investment income from the holding period of other non-current financial assets	13,808,915.55	–
Interest income from financial products and structured deposits	63,036,249.68	28,408,761.95
Total	<u>1,183,707,198.51</u>	<u>320,671,360.92</u>

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XIX. SUPPLEMENTARY INFORMATION

1. Breakdown of Non-Recurring Profit and Loss for the Current Period

Item	Amount	Note
Profit or loss from disposal of non-current assets	707,312.22	
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 year 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	243,250,377.08	
Fund possession costs included in the profit or loss for the current year 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	125,981,938.96	
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		
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	115,575,352.23	
Reverse of provision for impairment of receivables under individual impairment test	7,199,639.74	

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XIX. SUPPLEMENTARY INFORMATION (Continued)

1. Breakdown of Non-Recurring Profit and Loss for the Current Period (Continued)

Item	Amount	Note
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 year by one-off adjustment of profit or loss for the current year 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	9,655,296.88	
Investment gains from long-term equity investment measured at fair value	870,677,046.64	
Other profit and loss items that meet the definition of non-recurring gains and losses		
	<hr/>	
Subtotal	1,373,046,963.75	
	<hr/>	
Amount of income tax influence	(59,293,849.88)	
Amount of minority equity impact (net of tax)	(4,258,288.62)	
	<hr/>	
Total	1,309,494,825.25	
	<hr/>	

Notes to the Financial Statements

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

XIX. SUPPLEMENTARY INFORMATION (Continued)

1. Breakdown of Non-Recurring Profit and Loss for the Current Period (Continued)

Note: For non-recurring profit or loss, "+" expressed for gains and incomes and "-" expressed for losses or expenses.

The Company 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).

2. Return on Equity and Earnings per Share

Profits for the current year	Weighted Average Return on Equity (%)	Earnings per share	
		Basic EPS	Diluted EPS
Net profits attributable to the ordinary shareholders of the Company	16.93	2.116	2.116
Net profits attributable to the ordinary shareholders after subtracting the non-recurring profit or loss	10.48	1.311	1.311

Documents Available for Inspection

1. The financial statements signed by the legal representative and the Financial Controller of the Company;
2. The auditor's reports signed by Ruihua Certified Public Accountants LLP together with the financial statements prepared in accordance with PRC Accounting Standards;
3. The original company documents disclosed and announcements published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報) and Securities Daily (證券日報) during the Reporting Period;
4. The documents listed above are kept at the Secretariat to the Board.