



廣州白雲山醫葯集團股份有限公司

GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS CO., LTD.

(Stock code: 874)



ANNUAL REPORT
2015

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IMPORTANT NOTICE

- I. The Board, the Supervisory Committee of the Company 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 21st meeting of the sixth session of the Board, among whom, Mr. Jiang Wenqi, an independent non-executive Director, was unable to attend the meeting due to business reason and had appointed Mr. Chu Xiaoping, an independent non-executive Director, to attend the meeting and vote on his behalf.
- III. The financial report of the Group and the Company for the year ended 31 December 2015 was prepared in accordance with the China Accounting Standards for Business Enterprises, which were audited by BDO China Shu Lun Pan Certified Public Accountants LLP which had issued unqualified auditors' reports thereon.
- IV. Mr. Li Chuyuan (chairman of the Board), Mr. Wu Changhai (executive director) and Ms. Yao Zizhi (head of the finance department) declared that they warranted that the financial reports contained in this annual report were true and complete.
- V. Profit distribution plan or plan of carrying over reserved funds to equity shares during the Reporting Period as considered by the Board

As audited and confirmed by BDO China Shu Lun Pan Certified Public Accountants LLP: the net profit attributable to the shareholders of the Group of 2015 amounted to RMB1,300,351,292.59. Based on the net profit of the Company of RMB1,150,350,559.84 in 2015, a 10% statutory surplus reserve in the amount of RMB115,035,055.98 is provided, with the addition of the undistributed profit carried over from last year in the amount of RMB2,275,474,523.03, and after reducing the cash dividends of 2014 by RMB361,575,382.00, the actual distributable profits amounted to RMB2,949,214,644.89.

Contents

The Company's application for non-public offering of A shares was approved by the Issuance Audit Committee of China Securities Regulatory Commission on 9 December 2015, but it has not yet obtained the offering approving document from CSRC. According to Article 18 of the Measures for Administration of Securities Issuance and Underwriting issued by CSRC (2015 Revision), listed companies shall not issue securities until implementation of profit distribution plan (if any) or plan (if any) of carrying over reserved funds to equity shares if such plan has not been submitted to general meeting of shareholders for a vote or has not been implemented after being voted by general meeting of shareholders. To avoid the impact of distribution of dividend on progress of the Company's non-public offering of A shares, the Board of Directors of the Company proposed: (1) not to distribute dividend for year 2015, nor carrying over reserved funds to equity shares; and (2) after completion of the non-public offering of A shares, the Company will consider a special dividend.

The profit distribution plan will be submitted to the 2015 Annual General Meeting of Shareholders for approval. Independent non-executive directors of the Company have expressed independent opinions on said matters.

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

Definitions

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

Company	Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited
PRC or China	the People's Republic of China
Reporting Period/Year/the current year	the 12 months ended 31 December 2015
Post Reporting Period	the period after the end of the Reporting Period up to the date of this annual report, being 1 January 2016 to 18 March 2016
Group	the Company and its subsidiaries
Board	the board of directors of the Company
Supervisory Committee	the supervisory committee of the Company
CSRC	China Securities Regulatory Commission
SSE	The Shanghai Stock Exchange
HKEx	The Stock Exchange of Hong Kong Limited
CSRC Guangdong Bureau	the Guangdong Bureau of CSRC
Depository Corporation	The Shanghai branch of China Securities Depository and Clearing Corporation Limited
Articles of Association	the articles of association of the Company
Listing Rules of HKEx	the Rules Governing the Listing of Securities on the HKEx
Listing Rules of SSE	the Listing Rules of the 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)

Definitions

Xing Qun	Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd. (廣州白雲山星群(藥業)股份有限公司)
Zhong Yi	Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited (廣州白雲山中一藥業有限公司)
Chen Li Ji	Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Company Limited (廣州白雲山陳李濟藥廠有限公司)
Qi Xing	Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. (廣州白雲山奇星藥業有限公司)
Pan Gao Shou	Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (廣州白雲山潘高壽藥業股份有限公司)
Jing Xiu Tang	Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. (廣州白雲山敬修堂藥業股份有限公司)
Wang Lao Ji	Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. (廣州王老吉藥業股份有限公司)
Guangzhou Han Fang	Guangzhou Baiyunshan Han Fang Contemporary Pharmaceutical Co., Ltd. (廣州白雲山漢方現代藥業有限公司)
Guangzhou Bai Di	Guangzhou Baiyunshan Bai Di Bio-technology Co., Ltd. (廣州白雲山拜迪生物醫藥有限公司)
Guangxi Ying Kang	Guangxi Yingkang Pharmaceutical Company Limited (廣西盈康藥業有限責任公司)
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

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 of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (廣州白雲山醫藥集團股份有限公司廣州白雲山製藥總廠)
Chemical Pharmaceutical Factory	Guangzhou Baiyunshan Chemical Pharmaceutical Factory of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (廣州白雲山醫藥集團股份有限公司廣州白雲山化學製藥廠)
He Ji Gong	Guangzhou Baiyunshan Pharmaceutical Co., Ltd. Baiyunshan He Ji Gong Pharmaceutical Factory of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (廣州白雲山醫藥集團股份有限公司白雲山何濟公製藥廠)
Tian Xin	Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. (廣州白雲山天心製藥股份有限公司)
Guang Hua	Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd., (廣州白雲山光華製藥股份有限公司)
Ming Xing	Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. (廣州白雲山明興製藥有限公司)
HWBYS	Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited (廣州白雲山和記黃埔中藥有限公司)
Baxter Qiao Guang	Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. (廣州百特僑光醫療用品有限公司)
Pharmaceutical Technology	Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd. (廣州白雲山醫藥科技發展有限公司)
Baiyunshan Great Health Hotel	Guangzhou Guangyao Baiyunshan Great Health Hotel Co., Ltd. (廣州廣藥白雲山大健康酒店有限公司)
CPIC	Guangzhou Baiyunshan Chemical Pharmaceutical Innovation Center (廣州白雲山化學藥創新中心)
Weiling	Baiyuanshan Weiling Pharmaceutical Co., Ltd. (白雲山威靈藥業有限公司)

Definitions

Wei Yi Co.,Ltd.	Guangzhou Baiyunshan Wei Yi Medical Investment Management Co.,Ltd. (廣州白雲山維醫醫療投資管理有限公司)
Medical and Healthcare Industry Company	Guangzhou Baiyunshan Medical and Healthcare Industry Investment Company Limited
Baxter Healthcare	Baxter Healthcare (Guang Zhou) Co., Ltd. (廣州百特醫療用品有限公司)
Bozhou Baiyunshan	Bozhou Baiyunshan Pharmaceutical Co., Ltd. (亳州白雲山製藥有限公司)
Guangyao General Institute	Guangzhou Pharmaceutical Research General Institute Co., Ltd. (廣州醫藥研究總院有限公司)
Guangyao Haima	Guangzhou Pharmaceutical Brands Integration and Communication Co., Ltd. (廣州醫藥海馬品牌整合傳播有限公司)
Baiyunshan Pharmaceutical Marketing	Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd. (廣州白雲山醫藥銷售有限公司)
Golden Eagle Fund	Golden Eagle Fund Management Co., Ltd. (金鷹基金管理有限公司)
Chongqing Medicines	Chongqing Pharmaceutical (Group) Company Limited (重慶醫藥(集團)股份有限公司)
Chuangmei Pharmaceutical	Chuangmei Pharmaceutical Company Limited (創美藥業股份有限公司)
Essential Drugs List	National Essential Drugs List. It is the basis for the 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 the reasonable price and they can be guaranteed for supply and available to the public.
OTC	Over-the-counter drugs, namely the drugs can be bought without the prescriptions by the physicians or other medical professionals after regulated or approved by the State Public Health Administrative Department.

GDP	the English abbreviation of Gross Domestic Product. It refers to the market value of all final products and labor produced by all permanent units in a country (within national borders) in a given period. GDP is the core indicator of the national economic accounting, and it is also an important indicator to measure the overall economic conditions of a country or region.
GMP	the English abbreviation of Good Manufacturing Practice, and it is a set of mandatory standards applicable to the pharmaceutical industry, which requires the pharmaceutical companies to ensure the quality of medicines in the production process shall conform to the national standards in accordance with the GMP requirements.
GAP	the English abbreviation of Good Agricultural Practice for Chinese Crude Drugs (Trial). It refers to the management system for the development of this specification with a view to standardize the Chinese crude drugs production, and to ensure its quality as well as to promote the standardization and modernization of the Chinese crude drugs.
Drug Registration	the drug supervision and administration department conducts 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.
Medical Insurance Catalogue	a Catalogue of the List of Pharmaceutical Products under the National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance of the PRC (國家基本醫療保險、工傷保險和生育保險藥品目錄) (referred to as "Pharmaceutical List"), being the standard to pay the drugs fees for the basic medical insurance, work-related injury insurance and maternity insurance fund.
OEM	Original Equipment Manufacture.

Company Profile

- Legal Chinese Name: 廣州白雲山醫藥集團股份有限公司
Chinese Name Abbreviation: 廣藥白雲山
English Name: Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited
English Name Abbreviation.: GYBYS
Legal Representative: Li Chuyuan
- Secretary to the Board: Chen Jing
Representative of securities affairs: Huang Xuezheng
Address: 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC
Telephone: (8620) 6628 1218 / 6628 1219
Fax: (8620) 6628 1229
E-mail: chenjing@gybys.com.cn/huangxz@gybys.com.cn
- Registered address and office: 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC
Postal code: 510130
Internet website: <http://www.gybys.com.cn>
E-mail: sec@gybys.com.cn
Principal place of business in Hong Kong: Room 2005, 20th Floor, Tower Two Lippo Center, 89 Queensway, Hong Kong
- Designated newspapers for information disclosure: 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)

Internet website designated by the CSRC for publishing this annual report: <http://www.sse.com.cn>

Internet website of the HKEx for publishing this annual report: <http://www.hkex.com.hk>

Place where this annual report is available for inspection: The Secretariat of the Company
- Stock exchanges, name and codes of the Company's shares: A Shares: The Shanghai Stock Exchange
Stock Code: 600332
Stock Abbreviation: BAIYUNSHAN
H Shares: The Stock Exchange of Hong Kong Limited
Stock Code: 0874
Stock Abbreviation: BAIYUNSHAN PH

6. Other information:
- | | |
|---|---|
| First registration date: | 1 September 1997 |
| First place of registration: | 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC |
| Registration date for subsequent change: | 11 February 2015 |
| Place of registration for subsequent change: | 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC |
| Business registration number: | 440101000005674 |
| Tax registration number: | 44010063320680x |
| Organization code: | 63320680-X |
| Auditors and its address: | BDO China Shu Lun Pan CPAs LLP
4 Floor, Nan Jing East Road No. 61, Shanghai |
| Names of the accountants of the auditors firm whose signatures are given: | Zhang Ning, Zhang Xi |

Financial Data and Financial Highlights

(1) PRINCIPAL FINANCIAL DATA AND INDICATORS AS AT THE END OF THE REPORTING PERIOD

(i) Principal financial data

Principal financial data	2015	2014		Year on year increase/ (decrease) (%)	2013		2012		2011	
		After restatement	Before restatement		After restatement	Before restatement	After restatement	Before restatement	After restatement	Before restatement
Income from operations (RMB'000)	19,124,658	18,818,232	18,799,881	1.63	17,628,142	17,608,193	12,081,764	12,062,642	8,887,967	8,869,704
Net profit attributable to the shareholders of the Company (RMB'000)	1,300,351	1,194,141	1,192,472	8.89	979,376	980,045	728,150	729,040	544,341	542,763
Net profit attributable to the shareholders of the Company after deducting non-recurring items (RMB'000)	1,128,765	1,092,530	1,112,771	3.32	873,052	891,802	687,910	706,882	495,909	509,456
Net cash flow from operating activities (RMB'000)	1,941,956	1,751,690	1,761,382	10.86	1,341,176	1,339,140	1,003,536	999,230	85,042	83,079
Total profit (RMB'000)	1,628,122	1,468,061	1,467,177	10.90	1,228,521	1,229,190	880,173	881,063	657,699	656,121

Principal accounting data	As at 31 December 2015	As at 31 December 2014		Year on year increase/ (decrease) (%)	As at 31 December 2013		As at 31 December 2012		As at 31 December 2011	
		After restatement	Before restatement		After restatement	Before restatement	After restatement	Before restatement	After restatement	Before restatement
Net assets attributable to the shareholders of the Company (RMB'000)	8,450,814	7,705,137	7,739,301	9.68	6,795,505	6,831,768	5,530,786	5,566,352	4,909,310	4,943,960
Total assets (RMB'000)	15,870,577	14,266,903	14,210,784	11.24	12,321,777	12,249,123	9,482,369	9,394,208	7,835,431	7,742,904
Total liabilities (RMB'000)	7,186,644	6,344,908	6,251,805	13.27	5,335,803	5,226,886	3,761,972	3,638,244	2,753,328	2,626,151
Equity attributable to the shareholders of the Company per share (RMB)	6.55	5.97	5.99	9.70	5.26	5.29	4.39	4.41	3.89	3.92
Total equity (RMB'000)	1,291,079	1,291,341	1,291,341	(0.02)	1,291,341	1,291,341	1,261,240	1,261,240	1,261,240	1,261,240

Note: The Company acquired 100% equity interest in Guangyao General Institute under the same parent company in the third quarter of 2015, and restated the previous financial statements in accordance with the accounting standards.

Financial Data and Financial Highlights

(ii) Principal financial indicators

Principal accounting data	2015	2014		Year on year increase/(decrease)	2013		2012		2011	
		After restatement	Before restatement		After restatement	Before restatement	After restatement	Before restatement	After restatement	Before restatement
Basic earnings per share (RMB)	1.007	0.925	0.923	8.91%	0.767	0.768	0.577	0.578	0.432	0.430
Diluted earnings per share(RMB)	1.007	0.925	0.923	8.91%	0.767	0.768	0.577	0.578	0.432	0.430
Basic earnings per share after deducting non-recurring items (RMB)	0.874	0.846	0.862	3.33%	0.684	0.699	0.545	0.560	0.393	0.404
Weighted average return on net assets ratio (%)	15.91	16.48	16.38	a decrease of 0.57 percentage point	15.70	15.71	13.87	13.89	11.71	11.50
Ratio of weighted return on net assets after deducting non-operating items (%)	13.81	15.08	15.29	a decrease of 1.27 percentage points	13.99	14.30	13.11	13.47	10.67	10.80
Return on total equity attributable to shareholders of the Company (%)	15.39	15.50	15.41	a decrease of 0.11 percentage point	14.41	14.35	13.17	13.10	11.09	10.98
Ratio on total equity attributable to shareholders of the Company to total assets (%)	53.25	54.01	54.46	a decrease of 0.76 percentage point	55.15	55.77	58.33	59.25	62.66	63.85
Gearing ratio (%) (note)	45.28	44.47	43.99	an increase of 0.81 percentage point	43.30	42.67	39.67	38.73	35.14	33.92

Notes:

1. The above financial data and indicators are computed based on the consolidated financial statements.
2. Gearing ratio = Total liabilities / Total assets * 100%
3. The Company acquired 100% equity interest in Guangyao General Institute under the same parent company in the third quarter of 2015, and restated the previous financial statements in accordance with the accounting standards.

Financial Data and Financial Highlights

(2) QUARTERS' PRINCIPAL FINANCIAL DATA OF 2015

	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)
	After restatement	Before restatement	After restatement	Before restatement		
Income from operations	4,733,064	4,730,148	5,746,283	5,742,008	4,591,467	4,053,844
Net profit attributable to the shareholders of the Company	364,306	365,128	410,671	409,896	185,024	340,350
Net profit attributable to the shareholders of the Company after deducting non-recurring items	352,790	354,418	415,220	415,378	192,601	168,154
Net cash flow from operating activities	243,682	238,588	1,033,439	1,034,733	327,294	337,542

Note: The Company acquired 100% equity interest in Guangyao General Institute under the same parent company in the third quarter of 2015, and restated the previous financial statements in accordance with the accounting standards.

Financial Data and Financial Highlights

(3) NON-RECURRING ITEMS

Items	Amount in 2015 (RMB'000)	Note	Amount in 2014 (RMB'000) (After restatement)	Amount in 2013 (RMB'000) (After restatement)
Gain/(Loss) on disposal of non-current assets	(1,285)		(9,939)	(537)
Tax reduction or refund of ultra vires approval or without formal approval documents	12		322	240
Government subsidies recognized as gain/ (loss)	307,220	This is the amount of government subsidies received by the Company's subsidiaries which was transferred to non-operating income in the Reporting Period.	185,775	129,114
Gain/(Loss) on changes in fair value arising from trading financial assets and trading financial liabilities held (excluding the valid hedging business related to normal operating activities of the Company) as well as the investment gains received from disposal of trading financial assets, trading financial liabilities and financial assets available for sale	1,814		1,323	487
Write-off of provision for impairment of accounts receivable undergoing independent impairment test	671		–	372
Gain/Loss from entrusted loans	(1,743)		(1,048)	(974)
Other non-operating income and expenses excluding the above items	(88,140)		(51,005)	(1,505)
Income tax effect	(45,633)		(23,367)	(22,566)
Effect on minority interest (after tax)	(1,329)		(441)	(1,317)
Total	171,587		101,611	106,324

Financial Data and Financial Highlights

(4) CHANGES IN SHAREHOLDERS' EQUITY IN 2015 (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	1,291,341	2,526,639	11,901	815,487	3,059,769	7,705,137
Additions	–	372	88	115,035	1,300,351	1,415,846
Deductions	261	180,576	12,722	–	476,610	670,169
Closing balance	1,291,080	2,346,435	(733)	930,522	3,883,510	8,450,814

(5) ITEMS RELATED TO FAIR VALUE MEASUREMENT

Items	Balance at the beginning of the Reporting Period (RMB'000)	Balance at the end of the Reporting Period (RMB'000)	Changes during the Reporting Period (RMB'000)	Impact on the profit for the Reporting Period (RMB'000)
Available for sale financial assets	32,207	76,415	44,208	1,236
Financial assets base on fair value to confirm profit or loss	4,686	6,500	1,814	2,111
Total	36,893	82,915	46,022	3,347

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

(i) Main Business and Products

Since its establishment, the Company has been committed to the pharmaceutical and 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) Chinese and Western medicine, chemical raw materials, natural medicine, biological medicine, research and development, manufacturing and sales of chemical raw materials intermediates; (2) wholesale, retail and import and export business of Western medicine, Chinese medicine and medical equipment; (3) the research and development, production and sales of great health product; (4) the health industry investment in medical services, health management, health maintenance and elderly care etc.

1. **Great Southern TCM (pharmaceutical manufacturing business)**

There are 25 pharmaceutical manufacturing companies and organizations under the Company (including 3 branches, 18 subsidiaries and 4 joint ventures). The above enterprises or institutions are 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 13 China time honored brand enterprises such as Zhong Yi, Chen Li Ji, Qi Xing, Jing Xiu Tang, Pan Gao Shou, etc. (including subsidiaries and joint ventures), among which, 7 of them are century old time-honored brand. It has 17 protected Chinese traditional medicine of national grade, and 97 exclusively made Chinese traditional medicine. Main products include Xiao Ke Pill, Hua Tuo Zai Zao Pill, compound Salvia Milltiorrhiz slice, Ban Lan Gen Granule series, Qingkailing series, Zhui Feng Tou Gu Pill, An Gong Niu Huang pill, Zi Shen Yu Tai Pill, etc.. The Company has the obvious advantages in respect of TCM resources in Southern China and even the whole country.
- 2) The Group has a complete antibiotic production chain ranging from raw material medicine to preparation, with products covering commonly used antibiotic varieties. The Group integrated the antibiotic brands with the famous trademark "Kang Zhi Ba" (抗之霸), striving to make a market image with the first brand of oral antibacterial antiinflammatory. The Group's chemical medicine includes cefathiamidine, cefixime, amoxicillin and sildenafil citrate, etc..

Company's Business Profile

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

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

2. **Great Health Industry**

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

3. **Great Commerce (Pharmaceutical distribution business)**

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

4. **Great Medical Care**

The Group promoted the industry investments in medical services, health management, health maintenance and elderly care etc., with Medical and Healthcare Industry Company as the main investment vehicle. At present, the Great Medical Care is still in the stage of preliminary layout.

Company's Business Profile

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

(ii) Operating Model

1. Great Southern TCM segment

1) Procurement Model

After the completion of the major assets reorganization, the Group integrated the procurement systems of its subordinated enterprises, and established the centralized procurement platform with Pharmaceutical Import & Export and Cai Zhi Lin as hearts, intensively centralized procurement of raw and auxiliary materials, Chinese herbal medicine, packaging materials and machinery equipment, improved the ability of negotiation and risk resistance, effectively reduced the procurement cost. Details of the centralized procurement platform of the Group are set out below:

Procurement items	Centralized procurement platform	Description
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 medicinal origins, ensured the valuable raw materials were stable and controllable through certificated GAP bases, so as to ensure the quantity, quality, time and cost of the bulk Chinese herbal medicine.
Bulk raw and auxiliary materials, packaging materials	Pharmaceutical Import & Export	The Group ensured the advantage of quality and cost of the bulk raw and auxiliary materials, packaging materials through strengthening supplier development, improving and subdividing the supplier classification management and cultivating strategic cooperation suppliers.
Imported equipments	Guangyao Baiyunshan Hong Kong Company, Pharmaceutical Import & Export	Guangyao Baiyunshan Hong Kong Company takes charge of the imported equipment procurement, while Pharmaceutical Import & Export takes charge of the imported formalities.

Company's Business Profile

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

(ii) Operating Model *(Continued)*

1. **Great Southern TCM segment** *(Continued)*

2) *Production Model*

The Company and its subsidiaries based on the demand of the pharmaceutical market, formulated the annual, monthly and weekly production plan and arrange production. The Company and its manufacturing enterprises organize the production in strict accordance with the national GMP requirements and strictly implement 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. In addition, the Company conducts supervision and direction on the production management of its subsidiaries in various aspects including technical quality, environmental protection, and safety, sanitation and health of the staff.

3) *Sales Model*

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

① The sales mode for national essential drugs

Recently, China has put more efforts into deepening medicare reform and actively promoted universal health insurance system. All of the national essential drugs have been included into the eve National Drug Reimbursement List, and reimbursed with full amount, forming huge advantages in Chinese pharmaceutical market. The companies under the Company have responded to national policies by setting up special marketing teams for undertaking sales of national essential drugs, and positively participated in purchasing by Invitation to Bid for essential drugs in all provinces and made essential drugs marketing as the key point of pharmaceutical sales in the future.

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

Company's Business Profile

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

(ii) Operating Model *(Continued)*

1. Great Southern TCM segment *(Continued)*

3) Sales Model *(Continued)*

② The sales mode for non-national essential drugs

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

I. Pharmaceutical industry sales sub-platform

The Company established the pharmaceutical industry sales sub-platform with the model of "industrial operation + commercial platform", integrated the Group's pharmaceutical industry marketing resources to improve marketing level of pharmaceutical industry enterprise, creating overall pharmaceutical marketing advantages. During the Reporting Period, the Group established the OTC integrated marketing platform with HWBYS as the heart, deepening in-depth cooperation with retail drug stores, and set up Baiyunshan Pharmaceutical Marketing, starting integration of marketing resources for the subordinated pharmaceutical manufacturing enterprises.

II. E-commerce sales sub-platform

E-commerce sales sub-platform was a platform of brands and new products promotion for complementing the existing marketing systems. It is also one of the sales channels that the Group will focus on development. Currently, Cai Zhi Lin, a subsidiary of the Company, has already set up e-commerce terminal marketing platform on Taobao, 1st Shop, Suning E-commerce and others. Tianmao franchise store of Guangzhou Chinese Medicine Corporation Chinese Herbal Pieces Factory was successfully launched. Guangyao Jian Min Pharmaceutical Chain Co., Ltd. set up modern community flagship drugstores to interface with WeChat team and has initially established a new platform for Jian Min life house Vshop. Guangyao Jian Min Network has become the first appointed drug store for medical insurance network that can make payment online without medical insurance card in the PRC and JM cross-border e-commerce officially operated, attracting numerous international brands for settling down.

Company's Business Profile

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

(ii) Operating Model *(Continued)*

2. **Great Health segment**

(1) *Purchasing Model*

The uniform centralized purchasing platform is mainly used for centralized purchasing of the Great Health segment.

(2) *Production Model*

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

(3) *Sales Model*

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

3. **Great Commerce segment**

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

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

Company's Business Profile

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

(ii) Operating Model *(Continued)*

3. Great Commerce segment *(Continued)*

As at 31 December 2015, the Group and its joint ventures had 61 retail chain pharmacy outlets, including 31 "Cai Zhi Lin" pharmacy outlets which specialized in traditional Chinese medicines, 29 "Jian Min" pharmacy outlets which specialized in western medicine, medical apparatus and instruments, and one pharmacy named Ying Bang.

The main performance driving factors:

During the Reporting Period, the Group's revenue amounted to RMB19,124,658,000, representing an increase of 1.63% compared with last year. The revenue growth was mainly attributable to strategic upgrading in three segments of "Great Southern TCM, Great Health, Great Commerce" by the Group and the strengthened market promotion and marketing.

(iii) Current development of the industry

In recent years, with the increasingly intensified efforts in medicine bidding and medical insurance cost control, as well as the slowdown in GDP growth and the completion of full coverage in the medical insurance, the growth rate of the pharmaceutical industry has declined. The main business revenue achieved from the national scale plus pharmaceutical manufacturing industries in 2015 was RMB2,553.7 billion, representing an increase of 9.1%, which declined by 3.8 percentage points in growth rate as compared with 2014; total profit amounted to RMB262.7 billion, representing an increase of 12.9% as compared with 2014.

(iv) Periodic Characteristics

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

Company's Business Profile

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

(v) Position of the Company in the Industry

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

In 2012, the Company founded Wang Lao Ji Great Health, with "Wang Lao Ji" brand leading the great health industry of the Group's, to open up new growth impetus and strategic space for the Group's development. The recent years has witnessed the rapid growth in the great health industry of the Group. The main products, namely Wang Lao Ji herbal tea, has occupied a leading position in the Chinese herbal tea market.

(2) DESCRIPTION OF THE GROUP REGARDING THE MAJOR CHANGES OF THE PRIME ASSETS DURING THE REPORTING PERIOD

(I) The Group's closing balance of financial assets available for sale was RMB328,372,000, representing an increase of 145.12%, mainly because:

- (1) in July 2015, the Company, as a strategic investor, invested RMB150 million to participate in the subscription of 10 million shares in the private placement of Chongqing Medicines, and held 2.22% stake of Chongqing Medicines;
- (2) In December 2015, the Company's wholly-owned subsidiary, Guangyao Baiyunshan Hong Kong Company, as the cornerstone investor, subscribed for 7,906,500 H shares initially public offered by Chuangmei Pharmaceutical in the HKEx, accounting for 7.3% of the share equity of Chuangmei Pharmaceutical after public offer.

(II) The closing balance of the intangible assets of the Group was RMB540,175,000, representing an increase of 36.68%, mainly due to the newly added land of the Group's General Hospital of Guangzhou Pharmaceutical and the newly added Great Health Nansha land of Wang Lao Ji Great Health Company.

(3) CORE COMPETITION CAPACITY ANALYSIS DURING THE REPORTING PERIOD

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

- A. The Group possesses rich product and brand resources:
- (A) Products: The Group has formed complete series in areas such as diabetes, cardiovascular and cerebrovascular diseases, anti-bacteria and anti-infection, heat clearing 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.
 - (B) Brands: Currently, the Group has trademarks of 9 nationally renowned brands, 20 renowned brands in Guangdong Province and 26 renowned brands in Guangzhou City. Among which, the brand awareness and reputation of "Baiyunshan" have a greater impact and appeal among consumers in the country, and "Baiyunshan" is one of the most valuable pharmaceutical brands in the country. After completion of the major assets reorganization comprising the absorption and merger of Baiyunshan through share swap and the asset acquisition through issuance of shares to GPLH, the Group promoted the grand brand strategy on the basis of integrating brand resources, implementing the changes in brand marketing model from developing individual brands to grouping brands under one umbrella with collective strategy. On the basis of reviving the Grand Southern TCM, the Group developed the Grand Health business, expanding the brand value from traditional pharmaceutical products to the new grand health products.
- B. Long history in Chinese traditional medicine history and cultural soft power. The Group has more than 13 long lasting enterprises in Chinese pharmaceutical industry, among which, Chen Li Ji, Pan Gao Shou, Jing Xiu Tang, and Cai Zhi Lin 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, "Dashen Kouyanqing" (大神口焮清) of Baiyunshan, herbal tea of Wang Lao Ji, 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) and Wang Lao Ji Herbal Tea Museum and had established a number of platforms for the promotion of the "Grand Southern TCM" culture and demonstration of the long history and splendid culture of Chinese medicine and rebuilding the famous brands of Chinese medicine.

Company's Business Profile

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

- C. The Group has a relatively complete production chain system, including the existing major pharmaceutical assets. Through the internal and external forward integration and backward integration, the Group has formed a thorough raw materials, research and development, production, circulation and terminal production chain. In respect of the supply of Chinese herbs, the Group has more than 40 GAP herbs bases nationwide, which effectively ensure the quality and supply of Chinese herbs and controls production costs. In respect of research and development of products, the Group continues to build a comprehensive technological innovation system. The Group has built an extensive collaborative network with renowned scientific research institutions at home and abroad to create a synergy effect between both sides for highly effective utilization of favourable resources from various parties, promoting development through the support of technology.
- D. The Group has a large sales network and a broad and stable customer base with 60 in Guangdong Province retail chain pharmacy outlets, The Company is one of the first pharmaceutical trading enterprises that obtained the GSP certificate. The Group has also established the largest pharmaceutical retail network and medicine logistics center in southern China. With the advantages of its strong market position and marketing network, the Group has established a long-term and reliable business relationship with hundreds of thousands of customers across the country, including medium-and-large-sized hospitals, pharmaceutical wholesalers, distributors and retailers.
- E. The Group has an ever-improving technological innovation system. The Group has continuously strengthening the construction of the platform, improving the scientific research innovation system for many years. As at the date of this annual report, the Group has 7 state level research and development institutions, 6 provincial level corporate technical centers, 2 provincial-level key laboratories, 12 provincial level engineering technical centers, 12 municipal level corporate technical centers, 14 municipal level engineering technical research and development centers and 4 municipal level key laboratories. The Group has research and development of Chinese medicine and Chinese NHPs, Chinese medicine engineering technology including automatic control and online testing, Chinese preparation medicine, supercritical CO₂ extraction, reversal extraction, separation of macroporous resin adsorption, quality control for finger printing of Chinese medicine, synthesis and technology of cephalosporins antibiotic APIs and core technology in national leading position such as sterile powder production technology and preparation agent technology.

Company's Business Profile

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

- F. 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 1 Nobel Prize winner, 8 domestic academicians, 7 foreign academicians, 2 State Council Special Allowance experts in-service, 24 chief expert (scientist), 50 doctor and post doctors. The Group also has nearly 5,000 technology personnel, 1,500 of which have intermediate professional title or above.

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

Report of the Board of Directors

(1) MANAGEMENT DISCUSSION AND ANALYSIS

In 2015, based on the main development concept of “Management Efficiency Year”, the Company endeavoured to make the strategic upgrade in four business segments namely “Great Southern TCM, Great Health, Great Commerce, and Great Medical Care” and make the strategic layout for three new businesses of “E-commerce, Capital Finance, and Medical Apparatus”, further strengthened the marketing, risk control, production quality, technological research and development, and capital operation, positively coped with the influence of increased macro-economic downward pressure, tighter medical industry policies, unchanged price reduction trend in the new round of bidding, increased medical insurance cost control strength and increasingly fierce market competition, and has further improved the scale and benefit.

In 2015, the Group’s revenue amounted to RMB19,124,658,000, increased by 1.63% year-on-year; the total profit was RMB1,628,122,000, increased by 10.90% year-on-year; and the net profit attributable to shareholders of the Company was RMB1,300,351,000, increased by 8.89% year-on-year.

During the Reporting Period, the Group accelerated the dual promotion of popularity and reputation of the brand and product by strengthening brand building and charity academic marketing, combined with the activities such as the large series of charity activity “Chinese Sexological Science Popularization Project – Male’s Health in China” carried out around China’s first “Viagra” generic drug – Baiyunshan Jin Ge (Sildenafil Citrate Tablets) and Pan Gao Shou Pharmacy’s charity marketing of Mi Lian Chuan Bei Pi Pa Jelly to prevent and cure lung damage caused by PM2.5.

Secondly, the Group strengthened the bidding for the basic medicines, positively coped with the policies of basic medicine bidding and independent pricing cancellation, adopted the pattern of “One Province, One Policy”, implemented the low-price medicine policy and increased the tender price. During the Reporting Period, the Company and its subordinated enterprises had 24 products with the annual sales exceeding RMB100 million, 3 of which exceeded RMB500 million and 5 of which between RMB300 – 500 million.

Report of the Board of Directors

(1) MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Thirdly, the Group continuously developed the Great Health segment, focused on the three factors of “fashion, technology and cultures”, and constantly reinforced the status of Wang Lao Ji in the herbal tea industry. (1) Intensified the strategic layout nation wide and strengthened the construction of channels, with 90% distribution rate in traditional channels in 31 provinces of the country; (2) explored the overseas markets and achieved a breakthrough. The Group has explored markets in more than 50 countries and regions; (3) accomplished the legal rights protection and safeguarded rights and interests in order to safeguard the future development; (4) launched the “light-asset model” for capacity planning. The head office of Wang Lao Ji was officially located in Nansha Free Trade Area and Ya’an herbal tea production base was officially put into operation; the innovative industrial base integrating production, scientific research and culture was established in Taizhou of Jiangsu Province and Yichang of Hubei Province; (5) accomplished culture and charity marketing. The Group tapped into the advantage of the rich history of Wang Lao Ji as the herbal tea creator and established its northern headquarter in Beijing. It also initiated an alliance with the Chinese Century-old Time-honored brand; the Wang Lao Ji Campus Development Fund was established to support the development of youth football. In the Customer Satisfaction Survey Report on the Food and Beverage Industry (Tea Beverage) in 2015, Wang Lao Ji Herbal Tea topped the beverage consumer satisfaction list for three consecutive years.

Fourthly, the Group continued promoting the Great Commerce segment, working on both online and offline. (1) Accelerated resources integration, strove for service improvement and optimized the business process to make steady growth of Great Commerce segment; (2) vigorously developed the e-commerce and the e-commerce platform had achieved a breakthrough. During the Reporting Period, the Group entered into strategic cooperation with Ali Health under Alibaba, signed contracts with Jointown Pharmaceutical Group Co., Ltd. and Saibolan Company to jointly build “Medical Cloud Business”; the website of GuangYao Jian Min became the first medical insurance designated online drugstore realizing the payment without bank cards in China; and Jianmin Cross-border E-commerce was officially operated, attracted numerous international famous brands to settle down. (3) The modern medicine logistics extension project made substantial progress. During the Reporting Period, the GP Corp. had newly developed ten cooperation hospitals such as Nanfang Hospital and Guangdong Provincial Hospital of Traditional Chinese Medicine; Cai Zhi Lin entered into the logistics extension service cooperation intention with Guangzhou Baiyunshan Hospital and Community Service Center in Hualin Street, Liwan District. (4) Steadily promoted construction of the commercial logistics system, and the logistics distribution capacity has been further strengthened.

Fifthly, the Group actively explored the Great Medical Care business. Multiple projects including Baiyunshan Hospital Project, the project of Tibet Style Health Preservation Castle, and Siemens Cooperation Project have been started.

Report of the Board of Directors

(1) MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Sixthly, the Group vigorously promoted technological innovation, which had preliminarily reflected the effectiveness. (1) During the Reporting Period, the Group actively introduced the high-end talents, and built scientific research talent strategic cooperation relationship with the famous domestic universities to build talent cultivation channels; (2) increased the investment in science and technology to constantly support the “Great Southern TCM” Innovation Fund, and contributed RMB150 million to participate in the establishment of Guangzhou Sino-Israel Bio-Industry Investment Fund to lay a foundation for introduction of the Israeli Innovative Biological Medicine Project; (3) Preliminarily set up the concentrated, centralized and unified management platform for scientific research, with Guangyao General Institute as the subject; (4) Steadily promoted the major science and technology projects, and great achievements have been made. During the Reporting Period, 5 provincial enterprise engineering and technological research centers were added in a radicalized manner (Guangzhou Hang Fong, Guang Hua, Chen Li Ji, Ming Xing, Xing Qun); 2 provincial enterprise technology centers were certified (Pan Gao Shou and Jing Xin Tang), 1 Provincial Key Laboratory (Baiyunshan General Factory), 1 new research and development institution was certified by the provincial Science and Technology Department Guangyao General Institute. The Group won 1 national science and technology award (HWBYS), 4 provincial science and technology award sand 5 prefectural science and technology awards.

(2) CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD

(i) Analysis of principal operations

Items	The Reporting Period (RMB'000)	Corresponding period of 2014 (RMB'000)	Increase/ (Decrease) over the same period of 2014 (%)
Revenue	19,124,658	18,818,232	1.63
Include: income from principal operations	18,966,492	18,627,322	1.82
Cost of sales	12,200,500	12,185,665	0.12
Include: cost from principal operations	12,165,563	12,147,803	0.15
Selling and distribution expenses	4,167,681	3,942,804	5.70
General and administrative expenses	1,374,806	1,291,532	6.45
Financial expenses	(21,938)	1,394	(1,673.78)
Profit before tax	1,628,122	1,468,061	10.90
Net profit attributable to shareholders of the Company	1,300,351	1,194,141	8.89
Net cash flow from operating activities	1,941,956	1,751,690	10.86
Net cash flow from investing activities	(806,004)	(290,437)	(177.51)
Net cash flow from financing activities	(347,449)	(363,998)	4.55
Research and development expenses	315,736	279,286	13.05

Report of the Board of Directors

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

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

Notes:

1. The financial expenses decreased as compared with the corresponding period of last year was mainly due to increase in the interest income resulting from the Group's subsidiaries having reasonably allocated funds, made full use of idle funds and optimized the deposit types.
2. Net cash flow from investing activities decreased as compared with the same period of last year, mainly because the Group enlarged external investments and optimized market deployment, and increased investments in production, construction of the research bases and production sites and equipment upgrading.

(1) Analysis of revenue and cost

(i) Analysis of the factors leading to changes in the operation revenue

In 2015, the main factors leading to changes in the revenue of the Group:

The Group had a constant growth in the pharmaceutical sector and focused its resources on the development of the "Great Southern TCM, Great Health, Great Commerce" segment, thereby achieving a rapid growth in its sales revenue.

(ii) Major customers

Goods and services sold to the 5 largest customers amounted to RMB2,047,539,000 (2014: RMB1,637,453,000), representing 10.80% of the total sales (2014:8.70%). Sales to the largest customer amounted to RMB677,692,000 (2014: RMB467,614,000), representing 3.57% of the total sales of the Group (2014: 2.48%).

The Group has maintained good relations with the cooperation customers, both parties effected settlement on normal commercial terms.

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

Report of the Board of Directors

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

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

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

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

Operations	Principal operations by industry				Profit margin of principal operations Profit	
	Income from principal operations		Cost of principal operations		margin of principal operations	Increase/ (Decrease) over 2014
	Income from principal operations	Increase/ (Decrease) over 2014	Cost of principal operations	Increase/ (Decrease) over 2014		
(RMB'000)	(%)	(RMB'000)	(%)	(%)	(Percentage point)	
Great Southern TCM	6,759,160	(0.81)	3,746,800	(4.89)	44.57	An increase of 2.38 percentage points
Great Health	7,768,458	9.48	4,318,442	12.05	44.41	A decrease of 1.27 percentage points
Great Commerce	4,438,327	(5.88)	4,099,881	(5.82)	7.63	A decrease of 0.06 Percentage point
Other	547	(64.62)	440	(65.03)	19.47	An increase of 0.95 percentage point
Total	18,966,492	1.82	12,165,563	0.15	35.86	An increase of 1.07 percentage points

Report of the Board of Directors

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

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

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

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

Types of products	Results of principal operations on products					
	Income from principal operations	Increase/ (Decrease)	Cost of principal operations	Increase/ (Decrease)	Profit margin of principal operations	Profit
	Income from principal operations	over 2014	Cost of principal operations	over 2014	margin of principal operations	Increase/ (Decrease) over 2014
	(RMB'000)	(%)	(RMB'000)	(%)	(%)	(Percentage point)
Chinese patent medicine	3,226,648	(5.75)	1,700,393	(9.89)	47.30	An increase of 2.42 percentage points
Chemical medicine	3,532,512	4.17	2,046,407	(0.29)	42.07	An increase of 2.59 percentage points
Total of Great Southern TCM	6,759,160	(0.81)	3,746,800	(4.89)	44.57	An increase of 2.38 percentage points

Report of the Board of Directors

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

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

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

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

Regions	Principal operations by regions				Profit margin of principal operations	
	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
	Income from principal operations	Increase/ (Decrease) over 2014	Cost of principal operations	Increase/ (Decrease) over the same period of 2014	margin of principal operations	Profit Increase/ (Decrease) over 2014
	(RMB'000)	(%)	(RMB'000)	(%)	(%)	(Percentage point)
Southern China	9,877,336	(1.59)	6,650,628	(3.93)	32.67	An increase of 1.65 percentage points
Eastern China	3,705,871	9.12	2,289,385	18.87	38.22	A decrease of 5.07 percentage points
Northern China	2,408,726	14.88	1,342,841	9.05	44.25	An increase of 2.98 percentage points
North-Eastern China	294,498	20.12	180,234	32.76	38.80	A decrease of 5.82 percentage points
South-Western China	1,993,507	21.93	1,239,776	21.87	37.81	An increase of 0.03 percentage point
North-Western China	487,747	(19.58)	272,581	(22.26)	44.11	An increase of 1.92 percentage points
Exports	198,807	(67.48)	190,118	(66.30)	4.37	A decrease of 3.35 percentage points

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

Report of the Board of Directors

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

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

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

(iv) Analysis on quantities of production and sales

Main products	Production	Sales	Inventory	Production increase/ (Decrease) over 2014 (%)	Sales increase/ (Decrease) over 2014 (%)	Inventory increase/ (Decrease) over 2014 (%)
Xiao Ke Pill (ten thousand bottles)	4,094	3,784	566	(11.11)	(11.64)	56.14
Qing Kai Ling Granules (ten thousand packs)	45,447	45,233	3,445	7.00	0.00	7.00
Cephathiamidine for Injection (ten thousand bottles)	7,878	8,425	256	10.00	5.80	3.40
Cefixime Capsules (ten thousand bits)	10,974	11,241	132	(8.11)	(1.92)	(79.58)
Cefixime Granules (ten thousand packs)	12,396	12,622	956	8.16	9.34	(36.28)
Sildenafil Citrate Tablets (ten thousand tablets)	1,589	1,495	45	351.38	412.09	33.92
Xiao Chai Hu Granules (ten thousand packs)	31,719	29,679	41,725	(11.10)	(11.53)	46.14
Amoxicillin capsules (ten thousand bits)	128,565	117,517	31,867	(14.31)	(17.27)	47.19
Ke Te Ling capsules (ten thousand bits)	113,744	113,744	0	(14.32)	(21.45)	0
Paracetamol Caffeine and Aspirin Powder (ten thousand packs)	2,283	2,272	1,381	0.42	0.00	21.56

Report of the Board of Directors

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

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

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

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

Description on changes on production, sales and ending inventory of products:

- ① The ending inventory of Xiao Ke Wan increased by 56.14% year on year, which was mainly because that sale of Xiao Ke Wan was lower than its production as a result of price rise, which caused the increase in ending inventory of Xiao Ke Wan.
- ② The ending inventories of cefixime Capsules and cefixime granules decreased by 79.58% and 36.28% year on year respectively, mainly because the manufacturing enterprise of such products strengthened product validity management, optimized channel inventories, and appropriately controlled inventory of the products.
- ③ The production of Sildenafil Citrate Tablets increased by 351.38% year on year, and its sales increased by 412.09% year on year, mainly because the product recorded a low base in 2014 as it went on sale in October 2014. The ending inventory of Sildenafil Citrate Tablets increased by 33.92% year on year, mainly because its normal stock increased following the increase in its production and sales, as compared with a small production and sales in 2014.
- ④ The ending inventory of Xiao Chai Hu granules increased by 46.14% year on year, and the ending inventory of amoxil capsules increased by 47.19% year on year, mainly because the manufacturing enterprise of the products appropriately increased their inventories to ensure the normal sales of the products, which caused the ending inventories to increase accordingly.

Report of the Board of Directors

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

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

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

(v) Analysis of cost

Principal Operation	Items of constitute	2015		Division of industry 2014		Changes in amount (%)
		Amount (RMB'000)	Percentage of the proportion of operation cost (%)	Amount (RMB'000)	Percentage of the proportion of operation cost (%)	
Great Southern TCM	Raw materials	2,564,685	68.45	2,733,187	69.38	(6.17)
	Fuel	94,419	2.52	104,001	2.64	(9.21)
	Labor costs	270,894	7.23	279,701	7.10	(3.15)
	Others	816,802	21.80	822,556	20.88	(0.70)
Great Health	Raw materials	3,410,274	78.97	3,069,748	79.65	11.09
	Fuel	3,455	0.08	—	—	—
	Labor costs	4,318	0.10	—	—	—
	Others	900,395	20.85	784,299	20.35	14.80
Great Commerce	Procurement costs	4,099,881	100.00	4,353,052	100.00	(5.82)
Other	Other costs	440	100.00	1,259	100.00	(65.03)

(vi) Major suppliers

During the Year, purchases of goods and services from the 5 largest suppliers amounted to RMB2,101,636,000 (2014: RMB1,521,126,000), representing approximately 20.05% of the total purchases (2014: 16.84%). The purchases from the largest supplier amounted to RMB726,458,000 (2014: RMB377,685,000), representing 6.93% of the total purchases (2014: 4.18%).

The Group keeps good relations with its suppliers, both parties effected settlement on normal commercial terms.

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 suppliers mentioned above.

Report of the Board of Directors

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

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

(2) Expenses

During the Reporting Period, the Group's selling distribution expenses was approximately RMB4,167,681,000 (2014: RMB3,942,804,000), with a growth of 5.70% as compared with last year, mainly due to the Group's active marketing efforts to increase sales revenue in the Year. Sales associated expenses and other expenses increased during the Year.

During the Reporting Period, the Group's general and administrative expenses was approximately RMB1,374,806,000 (2014: RMB1,291,532,000), representing a growth of 6.45% as compared with last year, mainly due to the increase in sales revenue, remuneration of the employees, research and development expenses of the Group following its sales growth.

During the Reporting Period, the Group's financial expense was approximately minus RMB-21,938,000, representing a decrease of 1,673.78% as compared with last year, mainly due to the subsidiaries of the Company had a great increase in interest income through allocated funds accordingly and improved efficiency of operating funds.

During the Reporting Period, the Group's income tax expenses was approximately RMB282,835,000, with a growth of 10.25% as compared with last year, mainly due to the increase in profit of the Company's subsidiaries.

(3) Research and development expenses

Current cost of research and development expenses (RMB'000)	313,848
Current capitalization of research and development expenses (RMB'000)	1,888
Total research and development expenses (RMB'000)	315,736
Total research and development expenses accounted for the proportion of net assets (%)	3.64
Research and development expenses to total operating income (%)	1.65
Ratio of research and development expenses to income from principal operations of the Great Southern TCM (%)	4.67

Report of the Board of Directors

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

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

(4) Cash flow

Items	The Reporting Period (RMB'000)	Last reporting period (RMB'000)	Change over the same period (%)	Reasons for the changes
Net cash flow generated from operating activities	1,941,956	1,751,690	10.86	Increase was mainly due to that the Group actively developed high quality suppliers, obtained more favourable credit policy and received government support funds and subsidies during the Reporting Period.
Net cash flow generated from investing activities	(806,004)	(290,437)	(177.51)	During the Reporting Period, the Group strengthened its investment and merger business, and increased its injection into construction of production and R & D bases, production sites and equipment upgrading.
Net cash flow generated from financing activities	(347,449)	(363,998)	4.55	The Company paid a special dividend for year 2013 in 2014.

Report of the Board of Directors

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

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

Applicable Not applicable

(iii) Analysis on Financial Conditions

A. Liquidity

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

B. Financial resources

As at 31 December 2015, cash and cash equivalents of the Group amounted to RMB3,837,604,000 (2014:RMB3,049,529,000), of which approximately 99.32% and 0.68% were denominated in Renminbi and foreign currencies, like Hong Kong dollar, respectively.

As at 31 December 2015, the Group had bank borrowings of RMB669,439,000 (31 December 2014: RMB560,530,000), including short-term borrowings of RMB629,684,000 (31 December 2014: RMB560,530,000) and long-term borrowings of RMB39,755,000 (31 December 2014: Nil).

C. Capital structure

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

D. Capital expenditure

The Group expects that the capital expenditure for 2016 to be approximately RMB907 million (2015: RMB593 million), which would be mainly applied in construction of production sites, and information system construction, etc.. The Group will raise funds to meet the capital requirements of capital expenditure by resorting to its internal funds, bank loans, etc.

Report of the Board of Directors

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

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

E. Assets and liabilities

Item	As at 31 December 2015 (RMB'000)	% of the total assets	As at 31 December 2014 (RMB'000)	% of the total assets	Increase/ (Decrease) over the end of 2014 (%)	Reasons for the changes
Financial assets based on fair value to confirm profit or loss	6,500	0.04	4,686	0.03	38.71	The increase was due to price rise in shares of Zhong Zhi and Ha Yao held by the Company.
Other receivables	209,264	1.32	306,793	2.15	(31.79)	The decrease was mainly due to the decrease in cash deposits of the Group at 31 December 2015.
Other current assets	108,318	0.68	20,082	0.14	439.37	As at 31 December 2015, the VAT input tax without deduction of the Group increased.
Available-for-sale financial assets	328,372	2.07	133,964	0.94	145.12	The increase was mainly due to the investment in Chongqing Pharmaceutical and Chuangmei Pharmaceutical by the Company.
Intangible assets	540,175	3.40	395,202	2.77	36.68	The increase was mainly due to the Company's acquisition of land use rights of Guangyao General Institute and lands purchased by the Company's subsidiaries.
Goodwill	2,283	0.01	0	0.00	—	It was due to the difference between the fair value and the cost of the purchase of equity interest in Guangyao Haima.

Report of the Board of Directors

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

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

E. Assets and liabilities *(Continued)*

Item	As at 31 December 2015 (RMB'000)	% of the total assets	As at 31 December 2014 (RMB'000)	% of the total assets	Increase/ (Decrease) over the end of 2014 (%)	Reasons for the changes
Long-term prepaid expenses	24,112	0.15	10,333	0.07	133.35	As at 31 December 2015, the renovation costs from the subsidiaries of the Company increased.
Taxes payable	74,514	0.47	176,729	1.24	(57.84)	As at 31 December 2015, the decrease was mainly due to the decrease in the enterprise income tax which had not been paid by the Group.
Interests payable	360	0.00	237	0.00	51.96	As at 31 December 2015, the increase was mainly due to the increase in interest which had not been paid by the Group.
Long-term borrowings	39,755	0.25	0	0.00	—	As at 31 December 2015, the increase was mainly due to the increase in bank loans of the subsidiaries of the Company.
Deferred tax liabilities	29,064	0.18	15,500	0.11	87.51	As at 31 December 2015, it is mainly due to the increase in the difference of the income tax payable in the future.
Other comprehensive income	(733)	0.00	11,901	0.08	(106.16)	As at 31 December 2015, the decrease was mainly due to the fall in the price of the available-for-sale financial assets of the Group.

Report of the Board of Directors

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

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

F. 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.

G. Main cash resources and applications

As at 31 December 2015, cash and cash equivalents of the Group were amounted to RMB3,837,604,000, with an increase of RMB788,075,000 as compared with the beginning of 2015. The net cash inflow derived from operating activities amounted to RMB1,941,956,000, with an increase of RMB190,266,000 as compared with 2014. The increase was mainly due to the Group actively developed high quality suppliers, achieved good commercial credit policy, and received government support funds and subsidies.

H. Contingent liabilities

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

I. Charge on the Group's assets

As at 31 December 2015, Guangyao Baiyunshan Hong Kong Company, a wholly-owned subsidiary of the Company, had a general banking facility of HK\$300,000, a letter of credit and a letter of trust with total limit of HK\$100,000,000 and drew up an unearned credit with US\$232,000, granted by Bank of China (Hong Kong) Limited with a charge over its fixed assets, properties and buildings with original value of HK\$8,893,000 and net value of HK\$6,473,000 and investment properties with original value of HK\$6,843,000 and net value of HK\$3,993,000.

J. Bank loans, overdraft and other borrowings

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

Report of the Board of Directors

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

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

K. Gearing ratio

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

L. Material investment

As at 31 December 2015, the Group did not have any other material additional investment.

(iv) Analysis of pharmaceutical manufacturing industry operation information

A. Basic information of the industry and main medicine (products)

(A) Basic information of industry

Applicable Not applicable

In recent years, the pharmaceutical production industry has entered the phase of development featuring continuous and steady growth. In the Thirteenth Five-year Plan, Health China was incorporated, into the national strategy for the first time. From a long-term perspective, benefited from the upgrade of health care consumption, reform of the health care system, and the convergence of domestic innovation in pharmaceutical technologies with the standards of international practices, the pharmaceutical industry is expected to maintain its growth momentum. However, in the face of pressure arising from policies on reform of governmental hospitals, lowering of the tender price of pharmaceutical products, strict medical supervision, the growth of revenue and accelerated diversification in differentiated industries.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(A) *Basic information of industry (Continued)*

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

Before 2012, Chinese medicine industry was affected by national implementation of traditional Chinese medicine modernization and driven by the New Medical Reform and had kept growing rapidly. As the policies penetrates, such as controlling expenses by medical insurance and drug purchase by public bidding, since 2012, the growth rate of Chinese medicine industry slowed down. From January to October 2015, the growth rate of Chinese patent drug at 6.07% is the slowest in drug manufacturing sub-industries. On 22 February 2016, the State Council printed and issued the Outline of Development Strategies of Traditional Chinese Medicine (2016-2030), which was the first time for preparing development planning at national level, listing development of traditional Chinese medicine into national development strategies. The outline proposed that, by 2020, everyone will enjoy traditional Chinese medicine services, and its total production will account for more than 30% of the total output of medical industry. The traditional Chinese medicine will embrace new opportunities.

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.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(A) *Basic information of industry (Continued)*

② Chemical medicine

In recent years, under influence of restriction on antibiotics, drug bidding and healthcare effects and other factors, the growth rate of the chemical medicine industry revenue and profit continuously had slowed down. Since there are many chemical medicine production enterprises in China, the competition is intense, complicated ANDA and innovative medicines are supported by national policy due to smaller competitive pressure, the future will become the direction of the industry development and the important source of profit for the industry.

The Group had complete industry chain from raw material medicines to prepared antibodies, and its product groups covered fight bacterium diminish inflammation class. Integrated and built a market image of the first brand of domestic oral antibacterial anti-inflammatory drugs under our well-known trademark of “Kang Zhi Ba (抗之霸)”. In addition, the Group had put more efforts into strengthening innovative medicine R&D and simulation in recent year and achieved better profits since the launch of the imitation of Baiyunshan Jin Ge (Sildenafil Citrate Tablets) at the end of October 2014, with the sales in 2015 exceeding RMB200 million.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

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

In 2015, the state government promulgated a number of major policies, which focused on issues such as monitoring of the production of pharmaceutical products, reform on prices of medicines, tendering of pharmaceutical products, tighter restriction on spending of medical insurance, hierarchical diagnosis and treatment, as well as registration and supervision. Such regulatory changes were followed by a series of policies and regulations related to pharmaceutical products and health care, such as laws and regulations on advertisement and environmental protection. Further details are set out below:

- 1) Changes in policies and regulations related to the supervision and reform on pharmaceutical industry and health care organisations and their impact and corresponding measures

① Policies on tendering of medicines

The Guiding Opinions of the General Office of the State Council on the Improvement of Centralised Procurement of Medicines by Public Hospitals (《國務院辦公廳關於完善公立醫院藥品集中採購工作的指導意見》) and the Notice of the National Health and Family Planning Commission of the PRC (“NHFPC”) on the Implementation of the Guiding Opinions on the Improvement of Centralised Procurement of Medicines by Public Hospitals (《國家衛生計生委關於落實完善公立醫院藥品集中採購工作指導意見的通知》) were released by the General Office of the State Council and the NHFPC in February and June 2015, respectively. These policies aimed to improve the centralised procurement of medicines by public hospitals through various specific measures, such as the direction for centralised procurement of medicines online by the unit of province (district, municipality), including one platform, bottom-up interconnection, openness and transparency, classified procurement, through the implementation of a number of measures, such as tendering for production companies, combination of tendering and procurement, volume and price linkage, two-envelop system and monitoring throughout the whole process. Such measures are designed to regulate the order of circulation of medicines, and effectively ensure the quality and supply of medicines.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

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

- 1) Changes in policies and regulations related to the supervision and reform on pharmaceutical industry and health care organisations and their impact and corresponding measures *(Continued)*

① Policies on tendering of medicines *(Continued)*

Subsequent to the release of the policies, the Group faced more challenging general situations in the new round of tendering, and most enterprises will continue to face the downward pressure of pricing in tendering process.

Corresponding measures: in response to the pressure arising from the changes in policies related to tendering of medicines, the Group will further consolidate its tendering efforts, and continue to implement the model of “one policy for one province”. Meanwhile, the Group will take advantage of the opportunities brought by the policies on the catalogue of low-price medicines, to increase the bid-winning price of medicine and the share of the Group’s medicines in community-level medical institutions.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

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

- 1) Changes in policies and regulations related to the supervision and reform on pharmaceutical industry and health care organisations and their impact and corresponding measures *(Continued)*

② Policies related to the price of medicine

The National Development and Reform Commission (“NDRC”) released the Notice of the Issues Related to Improving the Management of the Pricing System of Low-price Medicines (國家發展改革委關於改進低價藥品價格管理有關問題的通知) and the Catalogue of Low-price Medicines Within the Pricing Range Prescribed by the NDRC (《發改委定價範圍內的低價藥品目錄》) in April and May 2014, respectively, for improving the management of the pricing of low-price medicines and for the purpose of encouraging pharmaceutical enterprises to produce low-price medicines and relieving the burden on patients in using high-price medicines. On 5 May 2015, the NDRC issued the Notice of Printing and Distributing the Opinions on Further Reform on Price of Medicine (《關於印發推進藥品價格改革意見的通知》). According to this document, with the exceptions of narcotic pharmaceutical and Class I psychotropic substance, the original prices mandated by the government will be abrogated. The market will be operated in a vigorous and regulated environment. The regulatory control on medical insurance expenses will be fully utilised, while the supervision on health care practices and pricing practices will be strengthened, the actual prices of drugs will be dependent on market competitions.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

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

- 1) Changes in policies and regulations related to the supervision and reform on pharmaceutical industry and health care organisations and their impact and corresponding measures *(Continued)*

② Policies related to the price of medicine *(Continued)*

According to the Catalogue of Low-price Medicine Within the Pricing Range Prescribed by the NDRC", over 300 individual quality specifications of the Company and its subordinated enterprises were selected for inclusion in the List of Medicine at Low Price of the State, including some main products with sales revenue of hundreds of million of RMB and four exclusive products. The release of the List of Medicine at Low Price of the State and the subsequent Opinions on Further Reform on Price of Medicines creates room for price increase of the low-price medicine and competitive OTC products of the Company and its subordinated enterprises, and is beneficial in enhancing the profitability of relevant products.

Corresponding measures: the Group will push forward with its efforts related to low-price medicine, make greater efforts in the research and analysis on key OTC products, and raise the market price of its products based on market conditions, with a view to leveraging on the benefits of relevant policies to the maximum extent.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

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

- 1) Changes in policies and regulations related to the supervision and reform on pharmaceutical industry and health care organisations and their impact and corresponding measures *(Continued)*

③ Reasonable prescription and hierarchical diagnosis and treatment

On 17 May 2015, the General Office of the State Council issued the Guiding Opinions on the Pilot Programme for Comprehensive Reform of Urban Public Hospitals (《關於城市公立醫院綜合改革試點的指導意見》), according to which the overall percentage of medicines (excluding prepared slices of Chinese medicine) in public hospital located in pilot cities will be reduced to around 30%. On 6 November, NHFPC issued the Notice of Printing and Distributing Several Opinions on the Control of the Unreasonable Growth in Health Care Expenses of Public Hospitals (《關於印發控制公立醫院醫療費用不合理增長的若干意見的通知》), which reiterated and specified the target of assessment of the percentage of medicines. These opinions aimed to control the unreasonable growth in health care expenses of public hospitals, reduce the deceptively high price of drugs and medical disposables, thus relieving the burden of expenses on medicines. Looking into the future, pharmaceutical production companies will face some challenges arising from a number of factors, such as decline in price and limitation on quantities of consumption of pharmaceutical products used in hospitals, as well as slowdown in sales to hospitals.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(B) *Policies related to the industry*

- 1) Changes in policies and regulations related to the supervision and reform on pharmaceutical industry and health care organisations and their impact and corresponding measures *(Continued)*

③ Rational prescription and hierarchical diagnosis and treatment *(Continued)*

On 11 September 2015, the General Office of the State Council issued the Guiding Opinions on the Establishment of System for Hierarchical Diagnosis and Treatment (《關於推進分級診療制度建設的指導意見》), which required gradual improvement of the system for hierarchical diagnosis and treatment. Comprehensive enhancement in capacity of hierarchical diagnosis and treatment should be achieved and the system of hierarchical diagnosis and treatment which is in line with the conditions of the PRC should be preliminarily established by 2020. Under the system of hierarchical diagnosis and treatment, in terms of the number of patient visits, community-level medical institutions will make significantly greater contribution to the total number. Further market expansion of health care services in community-level organisations will be achieved. In addition, the development of industry of medicines for chronic diseases such as cardiovascular diseases and diabetes and proprietary Chinese medicines will also be fuelled by these favourable factors.

Corresponding measures: the Group will step up its efforts in expansion in the community-level medical market, increase the sales of various medicines (including general medicines, medicines for gynaecology, paediatrics, cardiovascular and cerebrovascular diseases, diabetes). Meanwhile, it will take effective measure to shorten the intermediate channels, reduce costs, control expenses and boost growth.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

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

- 1) Changes in policies and regulations related to the supervision and reform on pharmaceutical industry and health care organisations and their impact and corresponding measures *(Continued)*

④ Policies of restrictions on antibiotics

On 27 August 2015, the NHFPC issued the Notice of Printing and Distributing the Guiding Principles for the Clinical Application of Antibiotics (2015 version) (《關於印發抗菌藥物臨床應用指導原則(2015年版)的通知》) and the Notice of Further Strengthening the Management of the Clinical Application of Antibiotics (《關於進一步加強抗菌藥物臨床應用管理工作的通知》), which stipulated the management throughout the processes of selection, procurement, prescription, dispense, clinical application and assessment of antibiotic products and product specifications. The release of the policies of restrictions on antibiotics will further restrict the usage of injectable antibiotics in hospitals, and it is expected that the sales of the Group's antibiotic products in hospitals will be affected.

Corresponding measures: the Group will take a proactive approach to the adjustment of product structures, step up its marketing efforts, increase the contribution of other main products, with the aim of securing sustainable future development of the Company.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

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

- 2) Changes in policies and regulations related to aspects such as research and development and quality of production and their impact and corresponding measures

- ① Policies and regulations on the registration, review and approval and supervision of medicines

In 2015, relevant authorities of the state government issued a number of regulatory policies on the registration of medicines, including the Opinions of the State Council on the Reform on the System for Review and Approval of Medicines and Medical Apparatus (《國務院關於改革藥品醫療器械審評審批制度的意見》), the Announcement of the China Food and Drug Administration on Certain Policies Related to the Review and Approval of Registration of Medicines (《國家食品藥品監督管理總局關於藥品註冊審評審批若干政策的公告》), the Announcement of the China Food and Drug Administration on the Self-check and Verification of Data of Clinical Trials of Medicines (《國家食品藥品監督管理總局關於藥品註冊審評審批若干政策的公告》), and the announcement of the Opinions on the Consistency Assessment of the Quality and Efficacy of Generic Medicines (Consultation Draft) (《關於開展仿製藥品質和療效一致性評價的意見(徵求意見稿)》).

As a consequence of the promulgation and implementation of relevant policies and regulations, a number of initiatives will be undertaken, which include self-check of clinical trials carried out by enterprises, reform on the method of classification of medicines, and the consistency assessment of generic medicines will be pushed forward gradually. Thanks to these initiatives, the situation of repeated applications and long waiting duration in respect of approval for clinical trials of medicines will be alleviated to some extent, the process of research and development and registration and approval will be optimised, while the quality of generic medicines will be further enhanced. In addition, the implementation of a number of incentive measures, such as the trial implementation of holders of license for the launch of drugs and encouragement of development of medicines which are in urgent need in clinical practices, will guide the development of innovative medicines.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

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

- 2) Changes in policies and regulations related to aspects such as research and development and quality of production and their impact and corresponding measures *(Continued)*

- ① Policies and regulations on the registration, review and approval and supervision of medicines *(Continued)*

Higher costs and risks for research and development may arise due to the implementation of new regulatory policies and specific rules. However, from a long-term perspective, such development will shorten the waiting time for approval of medicines, further accelerate the review and approval process of pharmaceutical enterprises, lift the standards for the approval and assessment of quality of medicines, strengthen the quality management of clinical trials, and promote the upgrade of quality of generic medicines.

Corresponding measures: the Group will pay close attention to the policies on the approval and registration of drugs, and apply strict criteria of selection at the point of project formation, step up its efforts in the approval and risk assessment on the application of projects for new products, reinforce management in different phases of research and development, enhance the quality of and reduce this risk involved in research and development. Meanwhile, the assessment on consistency will be pushed forward in an orderly manner, while efforts in research and development of chemical drugs will be speeded up. In addition to consistent development, acceleration on the R&D and generic and of new products, assessment on consistency in respect of the quality and efficacy of generic medicines will also be conducted vigorously.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

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

2) Changes in policies and regulations related to aspects such as research and development and quality of production and their impact and corresponding measures *(Continued)*

② Policies and regulations related to the supervision of production quality

In 2015, relevant authorities of the state government issued certain policies to create a more robust system for the supervision of quality of medicines, including the Methods for Unannounced Inspection on Medicines and Medical Apparatus (《藥品醫療器械飛行檢查辦法》) and the Notice of China Food and Drug Administration on the Strengthening of the Supervision and Management of Extracting and Extracts in the Production of Chinese Medicines (《食品藥品監管總局關於加強中藥生產中提取和提取物監督管理的通知》).

The Methods for Unannounced Inspection on Medicines and Medical Apparatus (《藥品醫療器械飛行檢查辦法》) has the most far-reaching effect among the regulatory documents related to the monitoring of the quality of medicines issued in 2015. Under the Methods for Unannounced Inspection on Medicines and Medical Apparatus, the whole process of the research and development, production, operation and use has been incorporated into the scope of unannounced inspections, and the principle of "two not-to-dos and two direct actions" in unannounced inspections has also been specified. In 2015, the GMP certificates of a total of 144 enterprises in 19 provinces in the PRC were recalled.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

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

- 2) Changes in policies and regulations related to aspects such as research and development and quality of production and their impact and corresponding measures *(Continued)*

- ② Policies and regulations related to the supervision of production and quality *(Continued)*

Corresponding measures: the Group will further enhance its standards of quality management; establish the quality management information system, improve the early warning system for quality risk points. On the basis of regulating day-to-day production practices and improving infrastructures for production, and ensuring that the quality of the Group's products meet the GMP specifications, the Group will always be well-prepared for any unannounced inspection. At the same time, monitoring during the whole course of the management of the Group's pre-treatment of Chinese medicine plants and treatment prior to extraction will be strengthened. The Group will also endeavour to complete the filing for the application of Chinese medicines purchased from external sources for use.

- 3) Changes in the new Advertisement Law and their impact and corresponding measures

The newly revised Advertisement Law became effective on 1 September 2015. Significant changes were made in this round of amendments to the Advertisement Law. Rules related to the advertisements of functional food, medicine, health care, medical apparatus, etc. were improve. Contraindications and adverse effects are also required to be specified in advertisements for medicines. It also provided that except for advertisements on health care, medicines and medical apparatus, it is not permitted to promote any healing function in any other advertisement. Endorsement by popular stars has also been provided for in the law, which clearly stipulates that no individual is allowed to endorse medicines in any advertisement.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

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

- 3) Changes in the new Advertisement Law and their impact and corresponding measures *(Continued)*

The implementation of the new advertisement law will result in more regulated operation of the market for drugs, functional foods, health care and medical apparatus, and further safeguard the food and drugs safety for the people. However, it objectively imposed certain impacts on the brand promotion of the Company. During the 4th quarter of 2015, we suspended to launch the advertisements for part of our products since the related approvals for advertising were required to be renewed.

Corresponding measures: the Group has studied the new Advertisement Law seriously and ensure the compliance of the Group's promotional campaigns for relevant products. At the same time, the management of advertising media was further strengthened, and publicity of the advertisement was increased at the end of 2015 and the beginning of 2016 to further enhance the brand awareness.

- 4) Changes in environmental protection policies and their impact and corresponding measures

In 2015, the new Environmental Protection Law (《環境保護法》) came into force, a number of policies on environmental protection such as the Action Plan for Prevention and Control of Water Pollution (《水污染防治行動計劃》) and the new Atmospheric Pollution Prevention Law (《大氣污染防治法》) had also been successively promulgated. The implementation of the above policies on environmental protection has promoted the improvement of the systems for environmental monitoring, assessment on environmental impact, control on total emission of major pollutants and system for restriction on cross-region approval, and supplemented the current regime with system for control on total emission, and called for more regulations and remedial efforts towards environmental protection.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

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

- 4) Changes in environmental protection policies and their impact and corresponding measures *(Continued)*

With the implementation of more stringent regulatory policies for environmental protection promulgated by the state government, pharmaceutical production companies will face even higher costs in the area of environmental protection. The process of transformation and upgrading as well as merger and acquisition in the industry is expected to accelerate as a consequence of these changes.

Corresponding measures: the Group will reinforce its efforts in energy conservation and environmental protection, and actively carry out initiatives on energy optimisation, energy conservation, emission and pollutant reduction, while playing an active role in the implementation of environmental protection policies.

(C) Basic information of principal medicine (products)

Applicable Not applicable

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

Applicable Not applicable

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information (Continued)

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

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

Subdivided sub-industry	Product name	Indications/ Functions	Term of invention patent	Classification of drug registration	Whether protected traditional medicine	Whether prescription drugs	Whether new product	Production quantity during the Reporting Period	Sales during the Reporting Period	
							Whether during the Reporting Period			
	Xiao Ke Pill	Diabetes caused by deficiency of both qi and yin Type-II diabetes	From 30 August 2004 to 30 August 2024	Traditional Chinese medicine, natural medicine	No	Yes	No	ten thousand bottles	4,093.73	3,784.35
	Qingkailing Granules	Clearing heat, removing toxicity, tranquilizing and allaying excitement	None	Traditional Chinese medicine	No	No	No	ten thousand bags	45,477.00	45,233.00
	Xiaochaihu Granules	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	ten thousand little bags	31,718.85	29,679.24
Chinese patent medicine	Xiasanju Granules	Clearing liver, improving vision, dispelling wind and heat, alleviating Bi-syndrome induced by dampness, and removing sore-toxin	From 27 June 2008 to 27 June 2028	Chinese patent medicine	No	No	No	ten thousand bags	30,129.46	32,173.16
	Milian ChuanBei-Pipa Confection	Clearing heat, moistening lungs, relieving cough and asthma, regulating qi-flowing for eliminating phlegm	From 21 March 2008 to 20 March 2028	Traditional Chinese medicine	No	No	No	ten thousand bottles	920.90	923.41
	Keteling Capsules	Relieving cough and asthma, eliminating phlegm, and diminishing inflammation	None	Traditional Chinese medicine	No	No	No	ten thousand capsules	113,743.74	113,743.62

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information (Continued)

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

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

Subdivided sub-industry	Product name	Indications/ Functions	Term of invention patent	Classification of drug registration	Whether protected traditional medicine	Whether prescription drugs	Whether new product during the Reporting Period	Production quantity during the Reporting Period	Sales during the Reporting Period	
Chinese patent medicine	Huatuo Zaizao Pills	Promoting blood circulation, removing blood stasis and phlegm, dredging collaterals, facilitating qi circulation, and relieving pain	None	Traditional Chinese medicine	No	No	No	ten thousand boxes	505.85	586.85
	Angong Niu Huang Pills	Clearing heat, removing toxicity, relieving convulsion and inducing resuscitation	None	Traditional Chinese medicine, natural medicine	No	Yes	No	ten thousand plus	292.45	284.32
	Zhuangyao Jianshen Pills	Strengthening the loin, invigorating the kidney, nourishing blood, and expelling wind-damp	None	Category IX	No	No	No	ten thousand bottles	1,222.63	1,399.71
	Shujin Jianyao Pills	Tonifying the liver and kidney, strengthening the tendons & bones, expelling wind-damp, dredging collaterals, and relieving pain	From 30 March 2010 to 29 March 2030	Category IX	No	No	No	ten thousand bottles	1,865.27	1,417.24

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(C) Basic information of principal medicine (products) *(Continued)*

Subdivided sub-industry	Product name	Indications/ Functions	Term of invention patent	Classification of drug registration	Whether protected traditional medicine	Whether prescription drugs	Whether new product during the Reporting Period	Production quantity during the Reporting Period	Sales during the Reporting Period	
							Unit			
	Cephathiamidine for Injection	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.	None	Chemical drugs	No	Yes	No	ten thousand bottles	7,878.01	8,424.70
	Sildenafil Citrate Tablets	The product is indicated for treatment of erectile dysfunction (ED).	From 29 April 2002 to 28 April 2020	Chemical drugs	No	Yes	No	ten thousand tablets	1,588.86	1,495.21
Chemical medicinal preparation	Medium and long chain fat emulsion injection (C8-24)	Parenteral nutrition drug; energy supplement.	None	Category-IV new drug	No	Yes	No	ten thousand bottles	600.00	574.00
	Amoxicillin capsules	The product is indicated for infection caused by sensitive bacteria (none- β -lactamase-producing strains).	None	Chemical drugs	No	Yes	No	ten thousand capsules	128,565.41	117,516.92
	Paracetamol Caffeine and Aspirin Powder	The product is indicated for treatment of fever caused by common cold or influenza, and alleviation of mild to moderate pain.	None	Chemical drugs	No	No	No	ten thousand bags	2,283.00	2,272.22

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information (Continued)

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

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

Subdivided sub-industry	Product name	Indications/ Functions	Term of invention patent	Classification of drug registration	Whether protected traditional medicine	Whether prescription drugs	Whether new product during the Reporting Period	Production quantity during the Reporting Period	Sales during the Reporting Period	
	Cefixime Capsules	The product is indicated for bacterial infectious diseases caused by streptococcus (except enterococcus) sensitive to cefixime.	None	Chemical drugs	No	Yes	No	ten thousand capsules	10,973.60	11,240.83
	Cefixime Granules	The product is indicated for bacterial infectious diseases caused by streptococcus (except enterococcus) sensitive to cefixime.	None	Chemical drugs	No	Yes	No	ten thousand bags	12,395.73	12,622.41
Chemical drugs	Cefuroxime sodium for injection	Diseases caused by sensitive bacteria	From 20 January 2009 to 19 January 2029	Category IV	No	Yes	No	ten thousand bottles	5,825.43	5,875.25
	Cephathiamidine for Injection	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.	None	Category VI	No	Yes	No	ten thousand bottles	2,458.95	2,449.95
	Cefprozil Dispersible Tablets	1. Upper respiratory tract infection; 2. Lower respiratory tract infection; 3. Infection of skin and its soft tissues	None	Category-V chemical drug	No	Yes	No	ten thousand tablets	7,862.03	8,219.85

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

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information (Continued)

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

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

Basic information of main medicine (products) partition in therapeutic area

The main therapeutic area	Product name	Indications/ Functions	Term of invention patent	Classification of drug registration	Whether protected traditional medicine	Whether prescription drugs	Whether new product during the Reporting Period	Production quantity during the Reporting Period	Sales during the Reporting Period	
										Unit
Drugs used in internal medicine department	Xiao Ke Pill	Diabetes caused by deficiency of both qi and yin Type-II diabetes	From 30 August 2004 to 30 August 2024	Traditional Chinese medicine, natural medicine	No	Yes	No	ten thousand bottles	4,093.73	3,784.35
	Qingkailing Granules	Clearing heat, removing toxicity, tranquilizing and allaying excitement	None	Traditional Chinese medicine	No	No	No	ten thousand bags	45,447.00	45,233.00
	Xiaochaihu Granules	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	ten thousand little bags	31,718.85	29,679.24
	Xiasangu Granules	Clearing liver, improving vision, dispelling wind and heat, alleviating Bi-syndrome induced by dampness, and removing sore-toxin	From 27 June 2008 to 27 June 2028	Chinese patent medicine	No	No	No	ten thousand bags	30,129.46	32,173.16
	Milian	Clearing heat, moistening lungs, relieving cough and asthma, regulating qi-flowing for eliminating phlegm	From 21 March 2008 to 20 March 2028	Traditional Chinese medicine	No	No	No	ten thousand bottles	920.90	923.41
	ChuanBeiPipa Confection	Clearing heat, moistening lungs, relieving cough and asthma, regulating qi-flowing for eliminating phlegm	From 21 March 2008 to 20 March 2028	Traditional Chinese medicine	No	No	No	ten thousand bottles	920.90	923.41

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information (Continued)

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

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

Basic information of main medicine (products) partition in therapeutic area (Continued)

The main therapeutic area	Product name	Indications/ Functions	Term of invention patent	Classification of drug registration	Whether protected traditional medicine	Whether prescription drugs	Whether new product	Production quantity during the Reporting Period	Sales during the Reporting Period	
							Whether during the Reporting Period			
							Unit			
Antimicrobial drugs	Cephalthiamidine for Injection	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 drugs	No	Yes	No	ten thousand bottles	7,878.01	8,424.70
	Amoxicillin capsules	The product is indicated for infection caused by sensitive bacteria (none- β -lactamase-producing strains).	None	Chemical drugs	No	Yes	No	ten thousand capsules	128,565.41	117,516.92
	Cefixime Capsules	The product is indicated for bacterial infectious diseases caused by streptococcus (except enterococcus) sensitive to cefixime.	None	Chemical drugs	No	Yes	No	ten thousand capsules	10,973.60	11,240.83
	Cefixime Granules	The product is indicated for bacterial infectious diseases caused by streptococcus (except enterococcus) sensitive to cefixime.	None	Chemical drugs	No	Yes	No	ten thousand bags	12,395.73	12,622.41
	Cefuroxime sodium for injection	Diseases caused by sensitive bacteria	From 20 January 2009 to 19 January 2029	Category IV	No	Yes	No	ten thousand bottles	5,825.43	5,875.25
Drugs for men	Sildenafil Citrate Tablets	The product is indicated for treatment of erectile dysfunction (ED).	From 29 April 2002 to 28 April 2020	Chemical drugs	No	Yes	No	ten thousand tables	1,588.86	1,495.21

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information (Continued)

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

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

Basic information of main medicine (products) partition in therapeutic area (Continued)

The main therapeutic area	Product name	Indications/ Functions	Term of invention patent	Classification of drug registration	Whether protected traditional medicine	Whether new product		Production quantity during the Reporting Period	Sales during the Reporting Period
						Whether prescription drugs	Whether during the Reporting Period		
Drugs for easing pain, clearing heat, and resisting inflammation, wind-damp and gout	Paracetamol Caffeine and Aspirin Powder	The product is indicated for treatment of fever caused by common cold or influenza, and alleviation of mild to moderate pain.	None	Chemical drugs	No	No	No	ten thousand bags	2,283.00 2,272.22
Drugs used in dermatological department	Essential balm	Cooling, alleviating pain, expelling wind, and relieving itching	None	Traditional Chinese medicine	No	No	No	ten thousand bottles	4,721.00 5,042.63
Drugs used in orthopedics and traumatology department	Pain Relieving Plaster	Promoting blood circulation, relieving pain, eliminating stasis, subduing swelling and clearing wind-damp	None	Traditional Chinese medicine	No	No	No	ten thousand bags	1,065.00 1,042.05
Drugs used in gynecology department	Zishen Yutai Pills	Tonifying kidney and spleen, benefiting qi, strengthening primordial qi, nourishing the blood, preventing abortion and building strong body	From 27 August 2004 to 27 August 2014	Traditional Chinese medicine, natural medicine	No	Yes	Yes	ten thousand bottles	279.22 287.10

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) *Admission, new entrance and logout of the main products of the Essential Drugs List and the Directory of Insured Drugs*

Applicable Not applicable

As at the end of the Reporting Period, a total of 736 varieties and 583 product specifications of the Group and the joint ventures were included into the Essential Drugs List, and 359 varieties were included in the national Basic Medical Insurance, Industrial Injury Insurance and Maternity Insurance Drug List. In addition, there were 258 varieties included into the provincial Basic Medical Insurance, Industrial Injury Insurance and Maternity Insurance Drug List. During the Reporting Period, the Group had never included, newly entered into and exited from any main drugs covered in the Essential Drugs List and the National Reimbursement Drug List.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) Admission, new entrance and logout of the main products of the Essential Drugs List and the Directory of Insured Drugs *(Continued)*

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

Name of enterprises	Product name	Registered classification	Indications/Functions
Zhang Yi	Xiao Ke Pill	Traditional Chinese medicine	Tonifying qi and yin, and clearing heat and fire The product is indicated for diabetes caused by yin deficiency, dryness-heat or deficiency of both qi and yin, manifested as thirst, frequent drinking, polyphagia, polyuria, emaciation, breath shortness, weakness, and feverishness in palms and soles; Type-II diabetes with above symptoms.
Zhang Yi	Angong Niu Huang Pills	Traditional Chinese medicine	Clearing heat, removing toxicity, relieving convulsion and inducing resuscitation The product is indicated for calenture, invasion of pericardium by evil, hyper pyretic convulsion, coma and delirium; Apoplectic coma, encephalitis, meningitis, toxic encephalopathy, cerebral hemorrhage and septicemia with above symptoms
Zhang Yi	Zhangyanming Tablets	Traditional Chinese medicine	Tonifying liver and kidney, removing nebula and improving eyesight. The product is indicated for dry eye, monocular diplopia, waist and knees weakness, or mild visual loss caused by deficiency of liver and kidney; Early and medium-term senile cataract with above symptoms
Guang Hua	Cephadrine capsules	Chemical drugs	The product is indicated for respiratory tract infections (e.g. acute pharyngitis, amygdalitis, otitis media, bronchitis, and pneumonia), urogenital tract infections, skin and soft tissue infections, and etc. caused by sensitive bacteria.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) Admission, new entrance and logout of the main products of the Essential Drugs List and the Directory of Insured Drugs *(Continued)*

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

Name of enterprises	Product name	Registered classification	Indications/Functions
HWBYS	Kouyanqing Granules	Traditional Chinese medicine	Nourishing yin, clearing heat, detoxifying and alleviating swelling
HWBYS	Compound Danshen Tablets	Traditional Chinese medicine	Promoting blood circulation, removing blood stasis, regulating qi and relieving pain
HWBYS	Banlangen Granules	Traditional Chinese medicine	Clearing heat, detoxifying and cooling blood
Jing Xiu Tang	Zhuifeng Tougu Pills	Traditional Chinese medicine	Repelling wind-damp, clearing and activating the channels and collaterals, eliminating cold and relieving pain The product is indicated for Bi syndrome induced by wind, cold and dampness, limb pain, limb numbness.
Pan Gao Shou	Shedan Chuanbei Oral Liquid	Traditional Chinese medicine	Dispelling wind, alleviating cough, eliminating phlegm, and removing stasis The product is indicated for wind-heat-associated coughing, excessive phlegm, asthma, chest distress, difficult expectoration or persistent cough.
Wang Lao Ji	Po Chai Pills	Category-VI traditional Chinese medicine	Relieving exterior syndrome, eliminating dampness, and regulating the middle warmer The product is indicated for cold caused by summer-heat and damp, with symptoms such as fever, headache, bellyache, diarrhea, nausea, vomit and gastrointestinal discomfort; It is also indicated for motion sickness.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) Admission, new entrance and logout of the main products of the Essential Drugs List and the Directory of Insured Drugs *(Continued)*

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

Name of enterprises	Product name	Registered classification	Indications/Functions
Wang Lao Ji	Baoji Oral Liquid	Category-VI traditional Chinese medicine	Relieving exterior syndrome, eliminating dampness, and regulating the middle warmer. The product is indicated for cold caused by summer-heat and damp, with symptoms such as fever, headache, bellyache, diarrhea, nausea, vomit and gastrointestinal discomfort; It is also indicated for motion sickness.
Xing Qun	Motherwort Granules	Category-IX traditional Chinese medicine	Promoting blood circulation and regulating menstruation The product is indicated for irregular menstruation caused by blood stasis, which is manifested as hypomenorrhea.
Xing Qun	Shidishui Tincture	Category-IX traditional Chinese medicine	Invigorating stomach and dispelling summer heat The product is indicated for dizziness, nausea, bellyache and gastrointestinal discomfort caused by heatstroke.
Baiyunshan General Factory	Amoxicillin capsules (0.125g, 0.25g, 0.5g)	Chemical drugs	The product is indicated for upper respiratory tract infections, urogenital tract infections, skin and soft tissue infections, lower respiratory tract infections, acute uncomplicated gonorrhoea and etc. caused by sensitive bacteria (none- β -lactamase-producing strains).
Baiyunshan General Factory	Levofloxacin hydrochloride tablets 0.1g (in C18H20FN3O4)	Chemical drug	The product is indicated for hospital acquired pneumonia, community acquired pneumonia, acute bacterial sinusitis, acute bacterial attack of chronic bronchitis, complicated skin and skin structure infections, uncomplicated skin and skin soft-tissue infections, chronic bacterial prostatitis, complicated urinary tract infection, acute pyelonephritis and uncomplicated urinary tract infection, inhalational anthrax (after exposure) and etc. caused by sensitive bacterial strains in adults (≥ 18 years) (for details see the Instructions of product).

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) Admission, new entrance and logout of the main products of the Essential Drugs List and the Directory of Insured Drugs *(Continued)*

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

Name of enterprises	Product name	Registered classification	Indications/Functions
Baiyunshan General Factory	Cefuroxime sodium for injection (0.25g, 0.5g, 0.75g, 1.0g, 1.25g, 1.5g, 1.75g, 2.0g, 2.25g)	Chemical drugs	The product is indicated for respiratory tract infections, ENT infections, urinary tract infection, skin and soft tissue infection, septicemia, meningitis, gonorrhea, bone and joint infections and etc. caused by bacteria sensitive to cefuroxime. It is also used for preventing growth of sensitive pathogenic bacteria before or during surgery and reducing infections induced by contamination during or after surgery.
Qi Xing	Huatuo Zaizao Pills	Traditional Chinese medicine	Promoting blood circulation, removing blood stasis and phlegm, dredging collaterals, facilitating qi circulation, and relieving pain The product is indicated for stroke recovery stage and sequela of phlegm-stasis-blocking collaterals, with symptoms such as hemiplegia, spasm, numbness, facial paralysis and alalia.
Ming Xing	Qingkailing Injection	Traditional Chinese medicine	Clearing heat, detoxifying, eliminating phlegm, dredging collaterals, awakening consciousness and inducing resuscitation. The product is indicated for calenture, coma, stroke, hemiplegia and obnubilation; Acute hepatitis, upper respiratory tract infection, pneumonia, cerebral thrombosis, and cerebral hemorrhage, accompanied by above symptoms.
Ming Xing	Qingkailing Granules	Traditional Chinese medicine	Clearing heat, removing toxicity, tranquilizing and allaying excitement The product is indicated for fever, restlessness, and swollen sore throat induced by exogenous wind-heat: Upper respiratory tract infection, viral cold and acute pharyngitis belong to those symptoms above.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) Admission, new entrance and logout of the main products of the Essential Drugs List and the Directory of Insured Drugs *(Continued)*

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

Name of enterprises	Product name	Registered classification	Indications/Functions
Ming Xing	Qingkailing Capsule	Traditional Chinese medicine	Clearing heat, removing toxicity, tranquilizing and allaying excitement The product is indicated for hyperpyrexia, dysphoria, swollen sore throat, crimson tongue, yellow tongue fur and raid pulses caused by exogenous wind-heat and seasonal toxin and endogenous fire toxin; Upper respiratory tract infection, viral influenza, acute suppurative tonsillitis, acute pharyngitis, acute bronchitis and hyperpyrexia belong to those symptoms above.
Tian Xin	Cefuroxime sodium for injection	Category IV chemical drug	The product is indicated for upper respiratory tract infection, lower respiratory tract infection, urinary tract infection, skin and soft tissue infection caused by sensitive bacteria.
Tian Xin	Ceftazidime for Injection	Category IV chemical drug	The product is indicated for septicemia; lower respiratory tract infection, abdominal and biliary tract infection, complicated urinary tract infection and severe skin and soft tissue infection caused by sensitive gram-negative bacilli.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) Admission, new entrance and logout of the main products of the Essential Drugs List and the Directory of Insured Drugs *(Continued)*

As at the end of the Reporting Period, information about products included in the national Basic Medical Insurance, Industrial Injury Insurance and Maternity Insurance Drug List or the provincial Basic Medical Insurance, Industrial Injury Insurance and Maternity Insurance Drug List:

Product name	Registered classification	Indications/Functions	Is it classified to the catalogue of national medical insurance	Is it classified to the catalogue of provincial medical insurance
Zishen Yutai Pills	Traditional Chinese medicine	Tonifying kidney and spleen, benefiting qi, strengthening primordial qi, nourishing the blood, preventing abortion and building strong body The product is indicated for habitual abortion (prevention and treatment of habitual abortion and premonitory abortion) resulting from both spleen and kidney deficiency and unstable chong-ren meridians.	Yes	Yes
Qianlietong Tablets	Internal medicine- Qingretonglin Agent	Clearing dampness and turbidity, removing blood stasis. The product is indicated for mild and moderate dysuria resulting from heat and stasis being latent in lower jiao, including symptoms of urination difficulty, weak urinary stream and frequent urination, maybe accompanied with urgency of urination, dysuria and lumbago; Prostatitis and prostatic hyperplasia belong to those symptoms above.	Yes	Yes

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) Admission, new entrance and logout of the main products of the Essential Drugs List and the Directory of Insured Drugs *(Continued)*

Product name	Registered classification	Indications/Functions	Is it classified to the catalogue of national medical insurance	Is it classified to the catalogue of provincial medical insurance
Ruhasanjie Tablets	Gynecology-Xiaozhongsanjie Agent	Smoothing liver and activating blood, eliminating phlegm and softening hard masses. The product is indicated for nodules of breast caused by liver depression and qi stagnation, obstruction of phlegm and stasis, including symptoms of breast lumps or nodules in different quantity and size, with soft nature or medium hardness, or breast distending pain and aggravated premenstrual pain; Hyperplasia of mammary glands belong to those symptoms above.	Yes	Yes
Cephadrine capsules	Chemical drugs	The product is indicated for respiratory tract infections (e.g. acute pharyngitis, amygdalitis, otitis media, bronchitis, and pneumonia), urogenital tract infections, skin and soft tissue infections, and etc. caused by sensitive bacteria.	Yes	No
Ankahuangmin Capsule	Chemical drugs	The product is indicated for fever, headache, limbs pain, sneeze, runny nose, nasal congestion and pharyngalgia caused by common cold or influenza.	Yes	No

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) Admission, new entrance and logout of the main products of the Essential Drugs List and the Directory of Insured Drugs *(Continued)*

Product name	Registered classification	Indications/Functions	Is it classified to the catalogue of national medical insurance	Is it classified to the catalogue of provincial medical insurance
Naoluo Tong Capsule	Traditional Chinese medicine	Tonifying qi and activating blood, clearing and activating the channels and collaterals. With effects of expanding blood vessels and increasing the cerebral blood flow. The product is indicated for headache, dizziness, hemiplegia, limb numbness and fatigue caused by cerebral thrombosis, cerebral arteriosclerosis, sequela of apoplexy and so on various cerebrovascular diseases and qi deficiency and blood stasis syndromes.	No	Yes
Qiangli Pipa Syrup	Traditional Chinese medicine	Nourishing yin and astringing lung, relieving cough and eliminating phlegm. Applied to bronchitis and cough.	Yes	No
Xiaochaihu Granules	Traditional Chinese medicine	Relieving exterior syndrome, dispelling heat and soothing the liver and regulating stomach. Applicable to exogenous febrile diseases, pathogenic invasion shaoyang syndrome, including symptoms of alternating spells of chill and fever, fullness and discomfort in chest and hypochondrium, loss of appetite, being perturbed and vomiting, bitter taste and dry throat.	Yes	No

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) Admission, new entrance and logout of the main products of the Essential Drugs List and the Directory of Insured Drugs *(Continued)*

Product name	Registered classification	Indications/Functions	Is it classified to the catalogue of national medical insurance	Is it classified to the catalogue of provincial medical insurance
Cefprozil Capsule	Chemical drugs	The product is indicated for upper respiratory tract infection resulting from sensitive bacteria: Pharyngitis/tonsillitis, otitis media, acute sinusitis, lower respiratory tract infection, secondary bacterial infection by acute bronchitis, acute attacks of chronic bronchitis and so on mild and moderate infection caused by streptococcus pyogenes.	Yes	No
Clotrimazole Suppositories (0.15g*10)	Chemical drugs	The product is indicated for candidal vulvovaginal diseases	Yes	No
Compound Dexamethasone Acetate Cream (10g:7.5mgm 20g:15mg)	Chemical drugs	The product is indicated for local pruritus, neurodermatitis, contact dermatitis, seborrhoeic dermatitis and chronic eczema.	No	Yes
Pain Relieving Plaster (10cm*7cm*4, 10cm*40cm, 10cm*7cm*8)	Traditional Chinese medicine	Promoting blood circulation, relieving pain, eliminating stasis, subduing swelling and clearing wind-damp Used for acute and chronic sprain and contusion, chronic lumbocrural pain and rheumatoid joint pain.	No	Yes

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) *Admission, new entrance and logout of the main products of the Essential Drugs List and the Directory of Insured Drugs (Continued)*

Product name	Registered classification	Indications/Functions	Is it classified to the catalogue of national medical insurance	Is it classified to the catalogue of provincial medical insurance
Kouyangqing Granules	Traditional Chinese medicine	Nourishing yin, clearing heat, detoxifying and alleviating swelling	Yes	No
Compound Danshen Tablets	Traditional Chinese medicine	Promoting blood circulation, removing blood stasis, regulating qi and relieving pain	Yes	No
Banlangen Granules	Traditional Chinese medicine	Clearing heat and detoxifying, cooling blood and relieving sore throat	Yes	No
Xiaoyan Lidan Tablets	Traditional Chinese medicine	Clearing heat, eliminating dampness, and benefiting gallbladder	Yes	No
Guxian Tablets	Traditional Chinese medicine	Replenishing essence and nourishing marrow, strengthening the loins and invigorating the kidney, strengthening bones and muscles, relaxing tendons and activating collaterals, nourishing blood and relieving pain	Yes	No

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) Admission, new entrance and logout of the main products of the Essential Drugs List and the Directory of Insured Drugs *(Continued)*

Product name	Registered classification	Indications/Functions	Is it classified to the catalogue of national medical insurance	Is it classified to the catalogue of provincial medical insurance
Zhongfeng Huichun Pills	Traditional Chinese medicine	Promoting blood circulation and removing stasis, relaxing muscles and tendons and dredging collaterals. Applicable to stroke resulting from stagnation of sputum and stasis, including symptoms of hemiparalysis, extremities numbness, stuttering, deviation of eye and mouth.	Yes	No
Tianghuang Houzao Powder	Traditional Chinese medicine	Eliminating phlegm and relieving convulsion, dispelling wind and clearing heat. Used for infantile phlegm, cough and asthma; continuous fever, palpitation and sleepless, etc.	Yes	No
Zhufeng Tougu Pills	Traditional Chinese medicine	Repelling wind-damp, clearing and activating the channels and collaterals, eliminating cold and relieving pain. The product is indicated for Bi syndrome induced by wind, cold and dampness, limb pain, limb numbness.	Yes	No
Dieda Wanhua Oil	Traditional Chinese medicine	Dissipating blood stasis and detumescence; relaxing tendons, activating collaterals and relieving pain. Applied to treat traumatic injuries, sprain, mild burns and scalds.	Yes	No
Enema Glycerini (containing glycerin)	Traditional Chinese medicine	The product is indicated for constipation.	Yes	No
Qingrexiaoyanning Capsule	Traditional Chinese medicine	Heat-clearing and detoxifying, anti-inflammation and relieving pain. Applied to cold and acute pharyngitis.	No	Yes

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) Admission, new entrance and logout of the main products of the Essential Drugs List and the Directory of Insured Drugs *(Continued)*

Product name	Registered classification	Indications/Functions	Is it classified to the catalogue of national medical insurance	Is it classified to the catalogue of provincial medical insurance
Huazhi Suppository	Traditional Chinese medicine	Clearing heat and expelling dampness, hemostasis with astringents. Applicable to internal and external hemorrhoid and mixed hemorrhoid resulting from large intestine damp-heat.	No	Yes
Shexiang Dieda Fengshi Paste	Traditional Chinese medicine	Dispelling wind and eliminating dampness, removing blood stasis and relieving pain. Used for rheumatalgia, traumatic injuries, swelling.	No	Yes
Milian ChuanBeiPipa Confection	Traditional Chinese medicine	Clearing heat, moistening lungs, relieving cough and asthma, regulating qi-flowing for eliminating phlegm Applicable to cough, phlegm, chest distress, throat hurts and hoarse voice caused by lung dryness.	Yes	Yes
Shedan Chuanbei Pipa Syrup	Traditional Chinese medicine	Moistening lung for arresting cough, eliminating phlegm and relieving asthma. Used for cough, phlegm, chest distress, asthma, nasal dryness, throat hurts, dry pharynx and throat itching caused by dryness affecting lung.	Yes	Yes
Zhike Chuanbei Pipa Syrup	Traditional Chinese medicine	Clearing heat, resolving phlegm and relieving pain. Applied to cold and bronchitis that belong to syndrome of retention of phlegm-heat in the lung, including symptoms of cough, sticky or yellow phlegm.	Yes	Yes
Xiaer Qingre Lifei Oral Liquid	Traditional Chinese medicine	Clearing heat and freeing lung, relieving cough and asthma Used for infantile cough that belongs to syndrome of wind-heat invading lung, including symptoms of fever, cough or expectoration, running nose or nasal obstruction, sore throat and thirst.	Yes	Yes

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) Admission, new entrance and logout of the main products of the Essential Drugs List and the Directory of Insured Drugs *(Continued)*

Product name	Registered classification	Indications/Functions	Is it classified to the catalogue of national medical insurance	Is it classified to the catalogue of provincial medical insurance
Shedan Chuanbei Oral Liquid	Traditional Chinese medicine	Dispelling wind, alleviating cough, eliminating phlegm, and removing stasis. The product is indicated for wind-heat-associated coughing, excessive phlegm, asthma, chest distress, difficult expectoration or persistent cough.	Yes	Yes
Po Chai Pills	Category-VI traditional Chinese medicine	Relieving exterior syndrome, eliminating dampness, and regulating the middle warmer. The product is indicated for cold caused by summer-heat and damp, with symptoms such as fever, headache, bellyache, diarrhea, nausea, vomit and gastrointestinal discomfort; It is also indicated for motion sickness.	Yes	No
Baoji Oral Liquid	Category-VI traditional Chinese medicine	Relieving exterior syndrome, eliminating dampness, and regulating the middle warmer. The product is indicated for cold caused by summer-heat and damp, with symptoms such as fever, headache, bellyache, diarrhea, nausea, vomit and gastrointestinal discomfort; It is also indicated for motion sickness.	Yes	No
Fuke Tiaojing Capsule	Category-VI traditional Chinese medicine	Nourishing blood, regulating menstruation and relieving pain. Used for irregular menstruation and abdominal pain during menstruation.	Yes	Yes
Pipa Zhike Particles	Category-IX traditional Chinese medicine	Stopping cough and reducing phlegm. Applied to cough and bronchitis-induced cough.	Yes	Yes

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) Admission, new entrance and logout of the main products of the Essential Drugs List and the Directory of Insured Drugs *(Continued)*

Product name	Registered classification	Indications/Functions	Is it classified to the catalogue of national medical insurance	Is it classified to the catalogue of provincial medical insurance
Motherwort Granules	Category-IX traditional Chinese medicine	Promoting blood circulation and regulating menstruation The product is indicated for irregular menstruation caused by blood stasis, which is manifested as hypomenorrhea.	Yes	No
Juhong Tanke Particles	Category-IX traditional Chinese medicine	Regulating qi and eliminating phlegm, moistening lung for arresting cough. Used for cold, bronchitis, faucitis-induced phlegm, cough and asthma.	Yes	Yes
Huoxiang Zhengqi Liquid	Category-IX traditional Chinese medicine	Relieving exterior syndrome, eliminating dampness, and regulating qi and the middle warmer Applicable to cold caused by exogenous cold and endogenous damp stagnation or summer-heat dampness, including symptoms of headache and confusion, stuffy sensation in the chest and diaphragm, gastric distension and pain, vomiting and diarrhea. Gastrointestinal cold belongs to the above-mentioned symptoms.	Yes	Yes
Shidishui Tincture	Category-IX traditional Chinese medicine	Invigorating stomach and dispelling summer heat The product is indicated for dizziness, nausea, bellyaches and gastrointestinal discomfort caused by heatstroke.	Yes	Yes

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) Admission, new entrance and logout of the main products of the Essential Drugs List and the Directory of Insured Drugs *(Continued)*

Product name	Registered classification	Indications/Functions	Is it classified to the catalogue of national medical insurance	Is it classified to the catalogue of provincial medical insurance
Anshenbunao Syrup	Category-IX traditional Chinese medicine	Caring the brain and soothing the nerves, recovering vigour and tonifying marrow, reinforcing qi and nourishing blood; used for neurasthenia, insomnia, amnesia, dizziness and fatigue.	Yes	Yes
Xiaoer Qingre Zhike Oral Liquid	Category-IX traditional Chinese medicine	Clearing heat and dispersing lung, relieving asthma and relieving sore throat. Applied to cold caused by pediatric exogenous wind-heat, including symptoms of fever and aversion to cold, cough and yellow phlegm, shortness of breath and asthma, dry mouth and hoarse voice, swelling and sore throat.	Yes	Yes
Xiasangju Granules	Category VI Traditional Chinese Medicines	Clearing liver, improving vision, dispelling wind and heat, alleviating Bi-syndrome induced by dampness, and removing sore-toxin The product is indicated for treatment of wind-heat type cold, with symptoms of red eyes, headache, dizziness, tinnitus, swollen sore throat, furuncle swollen poison and so on. It can also be enjoyed as a cooling drink.	No	Yes
Xiaoer Qingyan Granules	Category-IX traditional Chinese medicine	Relieving exterior syndrome, clearing away internal heat or fever and relieving sore throat. Used for treatment of fever, headache, cough, hoarse voice, and swollen sore throat.	No	Yes

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) Admission, new entrance and logout of the main products of the Essential Drugs List and the Directory of Insured Drugs *(Continued)*

Product name	Registered classification	Indications/Functions	Is it classified to the catalogue of national medical insurance	Is it classified to the catalogue of provincial medical insurance
Tongqiap Jiuxin Oil	Category VI Traditional Chinese Medicines	Inducing resuscitation with herbal aromatics and regulating qi to alleviate pain. Used for treatment of chest stuffiness and pains, phlegm syncope, sudden epigastric abdominal pain, epidemic infectious disease and malaria.	No	Yes
Compound Guaiacol Potassium Sulfate Oral Liquid	Category VI chemical drug	The product is indicated for treatment of colds and irritable bronchitis accompanied with cough and excessive phlegm.	No	Yes
Jianer Xiaoshi Oral Liquid	Category-IX traditional Chinese medicine	Tonifying spleen and stomach, regulating qi and promoting digestion The product is indicated for poor appetite, abdomen fullness, feverishness in palms and soles, spontaneous perspiration, weakness, irregular defecation and anorexia due to splenic and gastric injuries caused by children's improper diet.	No	Yes
Ofloxacin (Tablets: 0.1g)	Chemical drugs	used for treatment of urogenital system infection, respiratory tract infection, alimentary infection, typhoid fever, bone and joint infections, skin and soft-tissue infection, septicemia and other syndromes associated with sensitive bacteria.	Yes	Yes

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) Admission, new entrance and logout of the main products of the Essential Drugs List and the Directory of Insured Drugs *(Continued)*

Product name	Registered classification	Indications/Functions	Is it classified to the catalogue of national medical insurance	Is it classified to the catalogue of provincial medical insurance
Cefixime (Dispersible Tablets: 0.1g; 0.2g) (Capsules: 50mg; 0.1g) (Granules: 50m) (Tablets: 50mg; 0.1g)	Chemical drugs	Used for treatment of bronchitis, bronchiectasis(with infection), secondary infection caused by chronic respiratory infection and pneumonia caused by streptococcus(except enterococcus), pneumococcus, gonococcus, branhamella catarrhalis, colibacillus, klebsiella, serratia, proteus and bacillus influenzae that are sensitive to cefixime. Nephropylitis, urocystitis and gonococcal urethritis; Cholecystitis, cholangitis; Scarlet fever; Otitis media, paranasal sinusitis and so on.	Yes	Yes
Cefradine (Capsules: 0.125g; 0.25g) (Granules: 0.125g)	Chemical drugs	The product is indicated for respiratory tract infections (e.g. acute pharyngitis, amygdalitis, otitis media, bronchitis, and pneumonia), urogenital tract infections, skin and soft tissue infections, and etc. caused by sensitive bacteria.	Yes	Yes
Cefprozil (Dispersible Tablets: 0.25g) (Granules: 0.125g, 0.25g)	Chemical drugs	Used for treatment of such mild and moderate infections as upper respiratory infection, suppurative streptococcal pharyngitis/ amygdalitis, acute nasosinusitis, lower respiratory infection, secondary bacterial infection caused by acute bronchitis and acute episode of chronic bronchitis, skin and skin soft tissue infection, non-complicated skin and skin soft tissue infection that are caused by sensitive bacteria.	Yes	Yes

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) Admission, new entrance and logout of the main products of the Essential Drugs List and the Directory of Insured Drugs *(Continued)*

Product name	Registered classification	Indications/Functions	Is it classified to the catalogue of national medical insurance	Is it classified to the catalogue of provincial medical insurance
Cefathiamidine (Injection: 0.5g, 1.0g, 2.0g)	Chemical 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.	Yes	Yes
Ceftazidime (Injection: 0.5g, 1.0g, 2.0g)	Chemical drugs	The product is indicated for septicemia; lower respiratory tract infection, abdominal and biliary tract infection, complicated urinary tract infection and severe skin and soft tissue infection caused by sensitive gram-negative bacilli.	Yes	Yes
Cefuroxime Sodium (Injection: 0.25g, 0.5g, 0.75g, 1.0g, 1.25g, 1.5g, 1.75g, 2.0g, 2.25g)	Chemical drugs	This product can be used for treatment of respiratory tract infection, ear-nose-throat infection, urinary tract infection, skin and soft tissue infection, septicemia, meningitis, gonorrhoea, bone and joint infection caused by bacteria that are sensitive to cefuroxime.	Yes	Yes
Amoxicillin (Capsules: 0.125g, 0.25g, 0.5g) (Granules: 0.125g)	Chemical drugs	The product is indicated for upper respiratory tract infections, urogenital tract infections, skin and soft tissue infections, lower respiratory tract infections, acute uncomplicated gonorrhoea and etc. caused by sensitive bacteria (none- β -lactamase-producing strains).	Yes	Yes
Ganmaoqing Capsules (YILI) (Each capsule weights 0.5g (containing 24mg of acetaminophen), Each tablet weights 0.22g (containing 12mg of acetaminophen))	Traditional Chinese medicine	Dispelling wind diaphoresis, and clearing heat and detoxifying. Used for treatment of such symptoms as fever, headache, rhinobyon, running nose, sneezing, swollen sore throat, and muscular stiffness associated with wind-heat type cold.	Yes	Yes

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) Admission, new entrance and logout of the main products of the Essential Drugs List and the Directory of Insured Drugs *(Continued)*

Product name	Registered classification	Indications/Functions	Is it classified to the catalogue of national medical insurance	Is it classified to the catalogue of provincial medical insurance
Yinqiao Jiedu Tablets	Traditional Chinese medicine	Dispelling wind diaphoresis, and clearing heat and detoxifying. Used for treatment of fever, headache, cough, dry mouth and sore throat associated with wind-heat type cold.	Yes	Yes
Keteling Capsules (YILI) (Each capsule contains 0.36g of ficus microcarpa dry extract and 1.4mg of chlorpheniramine maleate)	Traditional Chinese medicine	Relieving cough and asthma, eliminating phlegm, and diminishing inflammation Used for treatment of cough and cough associated with chronic bronchitis.	No	Yes
Keteling Tablets (YILI) (Each tablet contains 0.18g of ficus microcarpa dry extract and 0.7mg of chlorpheniramine maleate)	Traditional Chinese medicine	Relieving cough and asthma, eliminating phlegm, and diminishing inflammation Used for treatment of cough and cough associated with chronic bronchitis.	No	Yes

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) Admission, new entrance and logout of the main products of the Essential Drugs List and the Directory of Insured Drugs *(Continued)*

Product name	Registered classification	Indications/Functions	Is it classified to the catalogue of national medical insurance	Is it classified to the catalogue of provincial medical insurance
Fukean Tablets	Traditional Chinese medicine	Clearing heat and promoting diuresis, astringing and relieving pain. For treatment of stomachache, diarrhea and vomiting caused by dyspepsia.	No	Yes
Xiaoei Kechuanling Granules (electuary) (each _ bag weights 2g)	Traditional Chinese medicine	Facilitating lung, clearing heat, relieving cough and eliminating phlegm. Used for treatment of cough caused by upper respiratory infection.	No	Yes
Xuhanting Granules	Traditional Chinese medicine	Tonifying qi and yin to strengthen superficial body resistance and arrest sweating. Used for treatment of spontaneous sweating, night sweating associated with deficiency of both qi and yin as well as pediatric night sweating.	Yes	Yes
Shedan Chuanbei Powder	Traditional Chinese medicine	Clearing lung, alleviating cough and eliminating phlegm. Used for treatment of cough and excessive phlegm associated with lung heat.	Yes	Yes
Shedan Chenpi Powder	Traditional Chinese medicine	Regulating qi for eliminating phlegm, dispelling wind-evil and invigorating stomach.	Yes	Yes
Xinxue Granules	Traditional Chinese medicine	Clearing heat and detoxifying Used for relieving fever accompanied with such febrile illnesses as amygdalitis, upper respiratory tract infection, pharyngitis and trachitis.	Yes	Yes
Xinxue Tablets	Traditional Chinese medicine	Clearing heat and detoxifying Used for relieving fever accompanied with such febrile illnesses as amygdalitis, upper respiratory tract infection, pharyngitis and trachitis.	Yes	Yes

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) Admission, new entrance and logout of the main products of the Essential Drugs List and the Directory of Insured Drugs *(Continued)*

Product name	Registered classification	Indications/Functions	Is it classified to the catalogue of national medical insurance	Is it classified to the catalogue of provincial medical insurance
Houzao Niu Huang Powder	Traditional Chinese medicine	Eliminating phlegm, relieving convulsion and inducing resuscitation. Used for treatment of child infantile convulsions and excessive phlegm.	No	Yes
Qingkailing Injection	Traditional Chinese medicine	Clearing heat, detoxifying, eliminating phlegm, dredging collaterals, awakening consciousness and inducing resuscitation. The product is indicated for calenture, coma, stroke, hemiplegia and obtundation; Acute hepatitis, upper respiratory tract infection, pneumonia, cerebral thrombosis, and cerebral hemorrhage, accompanied by above symptoms.	Yes	Yes
Qingkailing Granules	Traditional Chinese medicine	Clearing heat, removing toxicity, tranquilizing and allaying excitement The product is indicated for fever, restlessness, and swollen sore throat induced by exogenous wind-heat: Upper respiratory tract infection, viral cold and acute pharyngitis belong to those symptoms above.	Yes	Yes
Qingkailing Capsule	Traditional Chinese medicine	Clearing heat, removing toxicity, tranquilizing and allaying excitement The product is indicated for hyperpyrexia, dysphoria, swollen sore throat, crimson tongue, yellow tongue fur and rapid pulses caused by exogenous wind-heat and seasonal toxin and endogenous fire toxin; Upper respiratory tract infection, viral influenza, acute suppurative tonsillitis, acute pharyngitis, acute bronchitis and hyperpyrexia belong to those symptoms above.	Yes	Yes

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) Admission, new entrance and logout of the main products of the Essential Drugs List and the Directory of Insured Drugs *(Continued)*

Product name	Registered classification	Indications/Functions	Is it classified to the catalogue of national medical insurance	Is it classified to the catalogue of provincial medical insurance
Qingkailing Oral Liquid	Traditional Chinese medicine	Clearing heat, removing toxicity, tranquilizing and allaying excitement The product is indicated for hyperpyrexia, dysphoria, swollen sore throat, crimson tongue, yellow tongue fur and raid pulses caused by exogenous wind-heat and seasonal toxin and endogenous fire toxin; Upper respiratory tract infection, viral influenza, acute suppurative tonsillitis, acute pharyngitis, acute bronchitis and hyperpyrexia belong to those symptoms above.	No	Yes
Cefuroxime sodium for injection	Category IV chemical drug	The product is indicated for upper respiratory tract infection; lower respiratory tract infection, urinary tract infection, skin and soft tissue infection caused by sensitive bacteria.	Yes	No
Ceftazidime for Injection	Category IV chemical drug	The product is indicated for septicemia; lower respiratory tract infection, abdominal and biliary tract infection, complicated urinary tract infection and severe skin and soft tissue infection caused by sensitive gram-negative bacilli.	Yes	No

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(E) The Company's Well-known or Famous Trademark

Applicable Not applicable

The Group currently has 9 famous trademarks of China, 20 famous brands of Guangdong province, and 26 famous brands of Guangzhou City. Among them, the brand awareness and reputation of "Baiyunshan" has greater influence and appeal among the consumers throughout the country, which makes it one of most valuable medicine brands in China.

The main use of the trademarks by the Group are 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
Zhongyi -Well-known		Category V Medicine for human purposes	Xiao Ke Pill	Traditional Chinese medicine, natural medicine	Diabetes caused by deficiency of both qi and yin Type-II diabetes	No	Yes
Pan Gaoshou- Well-known		Category V Medicine for human purposes	Milian ChuanBeiPipa Confection	Traditional Chinese medicine	Clearing heat, moistening lungs, relieving cough and asthma, regulating qi-flowing for eliminating phlegm	No	No
Baiyunshan- Well-known		Category V Medicine for human purposes	Keteling Capsules	Traditional Chinese medicine	Relieving cough and asthma, eliminating phlegm, and diminishing inflammation	No	No
Qixing-Well-known		Category V Medicine for human purposes	Huatuo Zaizao Pills	Traditional Chinese medicine	Promoting blood circulation, removing blood stasis and phlegm, dredging collaterals, facilitating qi circulation, and relieving pain	No	No

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information (Continued)

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

(E) The Company's Well-known or Famous Trademark (Continued)

Well-known/ famous trademark	Trademark graph	Trademark registration class	Product general name	Classification of drug registration	Indications/Functions	Protected traditional medicine	Prescription drugs
Zhongyi-Well-known		Category V Medicine for human purposes	Angong Niu Huang Pills	Traditional Chinese medicine, natural medicine	Clearing heat, removing toxicity, relieving convulsion and inducing resuscitation	No	Yes
Chen Liji-Well-known		Category V Medicine for human purposes	Zhuangyao Jianshen Pills	Category IX	Strengthening the loin, invigorating the kidney, nourishing blood, and expelling wind-damp	No	No
Chen Liji-Well-known		Category V Medicine for human purposes	Shujin Jianyao Pills	Category IX	Tonifying the liver and kidney, strengthening the tendons & bones, expelling wind-damp, dredging collaterals, and relieving pain	No	No
He Ji Gong-Well-known		Category V Medicine for human purposes	Paracetamol, Caffeine and Aspirin Powder	chemicals	Analgesia, antipyretic, anti-inflammatory, antirheumatic, anti gout	-	No
Tian Xin-well-known		Category V Medicine for human purposes	Cefuroxime Sodium for Injection	chemicals	For the disease caused by sensitive bacteria	-	Yes

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information (Continued)

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

(E) The Company's Well-known or Famous Trademark (Continued)

Well-known/ famous trademark	Trademark graph	Trademark registration class	Product general name	Classification of drug registration	Indications/Functions	Protected traditional medicine	Prescription drugs
Kang Zhi Ba- Well-known		Category V Medicine for human purposes	Amoxicillin Capsules	chemicals	For the disease caused by sensitive bacteria	-	Yes
Ming Xing- Famous		Category V Medicine for human purposes	Qingkailing Granules	Traditional Chinese medicine	Clearing heat, removing toxicity, tranquilizing and allaying excitement	No	No
Hesui Brand- Famous		Category V Medicine for human purposes	Xiaochaihu Granules	Traditional Chinese medicine	Relieving exterior syndrome, dispelling heat and soothing the liver and regulating stomach	No	No
Shape of Green Leaves- Famous		Category V Medicine for human purposes	Xiasangju Granules	Chinese patent medicine	Clearing liver, improving vision, dispelling wind and heat, alleviating Bi-syndrome induced by dampness, and removing sore-toxin	No	No

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information (Continued)

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

(F) Important medicinal materials involved in major TCM products

Major TCM products of the Group included Xiao Ke Pill, Qing Kai Ling series, Xia Sang Ju granules, An Gong Niu Huang pill, Xiao Chai Hu granule, Ke Te Ling, Mi Lian Chuan Bei Pi Pa Jelly etc. The important medicinal materials involved and supply are as follows:

Therapeutic area	Major TCM products	Important medicinal material varieties	Purchasing modes	Supply and demand of medicinal material varieties and the influence of price fluctuation on cost
Diabetes	Xiao Ke Pill	Mongolian snake gourd Root	Dominated by order plantation, directional purchase, supported by tendering	Having GAP Planting basis, limited resources, stable price, without huge impact on costs
	Qing Kai Ling	Honeysuckle, isatis root	Purchasing by Invitation to Bid	① Honeysuckle: with the GAP planting base, plentiful, price fell slightly to make cost decrease; ② Isatis root: Having GAP planting basis, sufficient resources, stable price, without huge impact on costs
Heat clearing and detox	Xia Sang Ju granules	Prunella vulgaris, wild chrysanthemum flower, folium mori	Purchasing by Invitation to Bid	① Prunella vulgaris: having planting basis, but due to shrinking planting area, the small retailers keep a lot of them in inventory, making the price increasingly rise, but the resources are sufficient. ② Wild chrysanthemum flower: due to secondhand goods emptied, the price of new goods increases; ③ Folium mori: As labor cost increases, purchasing price slightly rises, but it generally remains stable.
	An Gong Niu Huang pill	In vitro cultured calculus bovis	Directional purchasing	The supply of goods is still sufficient, total price is relatively stable, without any impact on cost

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(F) Important medicinal materials involved in major TCM products *(Continued)*

Therapeutic area	Major TCM products	Important medicinal material varieties	Purchasing modes	Supply and demand of medicinal material varieties and the influence of price fluctuation on cost
Induce sweat to dispel heat	Xiao Chai Hu granule	Chinese thorowax root, Scutellaria baicalensis	Purchasing by Invitation to Bid	① Chinese thorowax root: Supply of goods is almost sufficient, but supply of high-quality medicinal materials is tense, the Group use high-quality medicinal materials, rising market price cause increase in cost. ② Scutellaria baicalensis: Supply of goods is sufficient and price is low.
	Ke Te Ling	Ficus microcarpa	Purchasing by Invitation to Bid	The supply of goods is still sufficient, total price is relatively stable, without any impact on cost
Expectorant and antitussive	Mi Lian Chuan Bei Pi Pa Jelly	Fritillaria cirrhosa, loguat leaf, Platycodon grandiflorum	Purchasing by Invitation to Bid	① Fritillaria cirrhosa: the supply of goods is still sufficient, total price is relatively stable, without any impact on cost
				② loguat leaf: the supply of goods is still sufficient, As labor cost increases, the cost slightly rises.
				③ Platycodon grandiflorum: the supply of goods is still sufficient, total price stably decreases, without any impact on cost

Major medicinal species involved in above main TCM products are principally 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.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

B. Research and development situation of the Company's products

(A) *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 promoted 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 promoted 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 91 products in research, 10 products which had been declared. The main areas included the secondary development of chemical raw medicine, preparations, biological medicine, and legend products of traditional Chinese medicines.

② Approval

During the Reporting Period, the number of the Group and its jointly controlled entities applied for a total of 10 approvals for manufacturing and filed 2 applications for clinical research approval, and acquired 3 approvals for medicine manufacturing.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

B. Research and development situation of the Company's products *(Continued)*

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

③ Science and Technology Awards

During the Reporting Period, the Group and its joint ventures received a total of 10 awards and honors, including 1 state-level science and technology award, 4 province-level science and technology awards, 4 municipal-level science and technology awards, and 1 association and district-level award. These awards and honors including:

Classification level	Company	Projects	Awards
State-level	HWBYS	Basic and Applied Research on Prevention and Treatment of Metabolic Disorders of Glycolipid by Eliminating Dampness Through Harmonised Liver and Smoothed Pivot	2014 National Science & Technology Progress Award (second class), the first National Science & Technology Progress Award
	Pan Gao Shou	Study and application of fritillaria cirrhosa new source fritillaria Taibaiensis listed in Pharmacopoeia of China	2014 Science and Technology Award of Guangdong Province (second class)
	HWBYS	Excellent quality Chinese patent medicine Naoxingqing tablet quality Standard Improvement and quality control key technology industrialization	2014 Science & Technology Progress Awards of Guangdong Province (third class)
Provincial-level	Baiyunshan General Factory	Multiple combination drugs gelatin skeleton sustained release tablet core and micro-dose coating technology platform construction and industrialisation	2014 Science and Technology Award of Guangdong Province (third class)

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

B. Research and development situation of the Company's products *(Continued)*

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

③ Science and Technology Awards *(Continued)*

Classification level	Company	Projects	Awards
Provincial	Xing Qun	Xia Sang Ju Particle Quality standard research and its industrialized application	2014 Hunan Province Science Technology Award (third class) and the Traditional Chinese Medicine Science and Technology Progress Awards (first class)
	Zhong Yi	Study and overall application of the MES in the management and control for the production process of Chinese patent medicine	second class in the 2014 Science and Technology Award of Guangzhou
	Chen Li Ji	Technology Improvement and Application Research of Technique and Quality Control of TCM Sub-Melting Double Gastrointestinal Pill (BuPi YiChang Pills)	Secondclass in the 2014 Science and Technology Award of Guangzhou
	Tian Xin	the Research and Development of Key Technology of Manufacturing Sterile Powder and its Application in Cephalosporin Powder for Injection	Third class in the 2014 Science and Technology Award of Guangzhou
Association and district-level	Baiyunshan General Factory	Multiple combination drugs felatin skeleton sustained release tablet core and micro-dose coating technology platform construction and industrialization	Third class in the 2014 Science and Technology Award of Guangzhou
	Jing Xiu Tang	Technical innovation research and application for the excellent quality Chinese patent medicine Clearing Heat and Anti-inflammation series of products	2014 ACFIC Science and Technology Award (third class)

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

B. Research and development situation of the Company's products *(Continued)*

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

④ Patents and Intellectual Property Rights

During the Reporting Period, the Group and its joint ventures had applied for a total of 56 patents, among which, there were 51 patents for invention, 3 utility model patents, 2 overseas patents for invention; 38 licensed patents, which included 34 patent licenses for invention and 4 utility model patents.

During the Reporting Period, 2 companies, namely Baiyunshan General Factory and HWBYS were granted the honor of Leading Enterprise in Intellectual Property Rights in China; HWBYS and Zhong Yi obtained the certification for "Regulation on the IPR Management of Enterprise". The project of "The application of Extract from Jiujiеча in Reducing Susceptibility to Influenza Virus Infection" conducted by Jing Xiu Tang obtained the China Patent Excellence Award.

Accounting policies for research and development:

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

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

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

B. Research and development situation of the Company's products *(Continued)*

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

④ Patents and Intellectual Property Rights *(Continued)*

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

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

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

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

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information (Continued)

B. Research and development situation of the Company's products (Continued)

(B) 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 following table:

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 (%)
Zhong Yi	Zishen Yutai pill	13,939.60	13,939.60	0	1.66	3.79	444.00
Zhong Yi	An Gong Niu Huang pill	1,0374.00	1,037.40	0	0.12	0.28	64.15
Ming Xing	Qing Kai Ling series	8,139.00	8,139.00	0	1.93	2.12	0.90
Baiyunshan General Factory	Sildenafil Citrate Tablets	6,209.00	6,209.00	0	0.29	0.55	(19.67)
Baiyunshan General Factory	Cephalosporin for injection	5,797.00	5,797.00	0	0.27	0.51	23.66
Guang Hua	Xiao Chai Hu granule	4,840	4,840	0	0.94	1.80	(1.4)

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

Explanation:

In 2015, according to the demand of marketing, the Group strengthened to carry out secondary development of An Gong Niu Huang pill, Zishen Yutai pill, Xiao Chai Hu granule and other key products; to carry out top-level design of the secondary development of An Gong Niu Huang pill and use molecular biology and other technical means to study its prevention mechanism against stroke and antiviral. Based on the characteristics of Zishen Yutai pill, the Group carried out national large-scale clinical trials of auxiliary IVF – ET.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information (Continued)

B. Research and development situation of the Company's products (Continued)

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

Comparison within the same industry

Applicable Not applicable

Comparable company in the same industry	Amount of the research and development investment (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.	251,350.30	1.52	2.84
China National Medicines Co., Ltd.	19,123.90	0.17	0.74
Shanghai Pharmaceuticals Holding Co., Ltd.	512,324.30	0.55	1.65
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	684,610.40	5.70	3.60
Tongrentang Chinese Medicine-Since	60,277.00	0.62	0.70
Average amount of the research and development investment (RMB'000)			305,537.20
Amount of the research and development investment of the Company during the Reporting Period (RMB'000)			315,736.00
Research and development investment accounted for the proportion of revenue of the Company during the Reporting Period (%)			1.65
Research and development investment accounted for the proportion of net assets of the Company during the Reporting Period (%)			3.64

Notes:

1. Data extracted from the 2014 Annual Report of comparable companies in the same industry.
2. The average R&D investment amount in the industry is the arithmetic average of the five companies in the same industry.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

B. Research and development situation of the Company's products *(Continued)*

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

The comparison of the same industry *(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 to 1.65% of the revenue. In the face of changing market demand and new drug research and development and registration policy, the Company adjusted research and development strategy actively, strengthened research and analysis and selection of research and development projects initiation, research and development resources investment management, reappraisal of varieties at the stage of research to reduce research and development risks.

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

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

B. Research and development situation of the Company's products *(Continued)*

(C) The basic information of the main research and development project

✓Applicable □Not applicable

R&D Program	Basic information of product	R&D (Register) stage	Progress status	Accumulated research input (RMB'000)	Number of declared manufacturers	Number of approved domestic generic manufacturers
Therapeutic two-plasmid HBV DNA vaccine projects	This vaccine features in improving specific cellular immune, combining with antiviral therapy, and effectively improving HBeAg serological conversion of patients to achieve clinical cure, which is an urgently needed medicine in clinic.	Clinical studies	IIb clinical study has been completed.	38,000	None	None
Research and development of innovative new drug bys-02 of Cefathiamidine me-too	It is the product after Cefathiamidine structure is modified, with similar antimicrobial spectrum and antibacterial activity but prolonged half-life period of blood plasma after modification and possibility of reducing frequency of drug administration daily	Clinical studies	Clinical studies	800	None	None
Raw materials of reduced glutathione and injection	As an important active endogenous substance, reduced glutathione plays a very important role in maintaining biological function of cells. It is widely used in treatment of liver diseases (viral hepatitis, severe hepatitis, liver cirrhosis, fatty liver, alcoholic hepatitis, drug-induced hepatitis and liver fibrosis), gestational detoxication, heavy metals and drug poisoning, adjuvant therapy of chemoradiotherapy, eyesight improvement and treatment of eye diseases, anti-aging and other aspects.	Clinical studies	Research on formulation and technology	1,000	None	7

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

B. Research and development situation of the Company's products *(Continued)*

(C) The basic information of 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
Safety re-evaluation of Qingkailing injection after it appears on the market.	Ming Xing Pharmaceutical Co., Ltd. is one of those earliest enterprises producing Qingkailing, also only one enterprise owning Qingkailing injection, oral liquid, particle, capsules. As the first-class medication for high fever and upper respiratory tract infection to Traditional Chinese Medicine, Qingkailing injection has obvious effect.	Re-evaluation after its appearance on the market	Safety evaluation research has been completed	2,000	None	9
Clinical research on treatment of Zishen Yutai Pills on threatened abortion, recurrent abortion.	Zishen Yutai Pills is a traditional product by Zhongyi Pharmaceutical Co., Ltd, which is a famous complex prescription of professor Luo Yuankai, an authority for Gynecology department of Guangzhou University of Chinese Medicine. It has satisfactory therapeutic effects for miscarriage, infertility, abnormal menstruation and other diseases.	The secondary development	Collection of cases into groups	500	None	Exclusive

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

B. Research and development situation of the Company's products *(Continued)*

(C) The basic information of 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
Technical modification and upgrade of brand-name and high-quality Chinese patent drug Xiasangju granules	Xiasangju Granules is an original product, and also a competitive product. It has had more than 30 years after it appeared which was extracted and prepared by three categories of traditional medicines of Prunella vulgaris, Mulberry Leaf, Wild chrysanthemum. With effect of clearing liver and improving vision, expelling wind and heat dissipation, it is often used for treatment of febrile symptoms in Traditional Chinese Medicine, and it is often used as Chinese herb teas against influenza in daily life.	The secondary development	Completion of quality standard research, main medicinal composition separation, purification, structure identification, conducting anti-viral effect, antibiosis, antipyretic, ease pain, antihypertensive effects and other pharmacodynamic effects	500	None	110

The impact to the Company by the research and development project

Applicable Not applicable

In 2015, the state has introduced a series of policies and regulations to regulate the new drug clinical research. Under this macro environment, the Group proactively adjusted the new product research and development as well as the reporting strategies as to comply with the changes in policies and regulations. It focused on the new product research and development in the professional fields and the in-depth development of the market-oriented products in the subsidiary enterprises, and strengthened development of new products including biological medicine, chemical medicine, TCM and secondary development of famous products, and formed the echelon products; thus providing the scientific and technological support for the development of the Group.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

B. Research and development situation of the Company's products *(Continued)*

(C) *The basic information of the main research and development project (Continued)*

The impact to the Company by the 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 stages for drugs from its previous research to clinical trials and from registration and reporting to the industrialized production cycle are vulnerable to the influence of uncertainty factors. In addition, as the change in national medicines evaluation reform, audit threshold in the field of chemical medicine and biological medicine increased gradually.

Among the projects under research, therapeutic double-plasmid HBV DNA vaccine project has completed clinical research at the IIb phase. Currently, the Company and parties related to the project are studying and developing the next scheme according to the results of clinical research at the IIb phase. The bys-02 project of Cephathiamidine me-too innovative new medicine and the project of Glutathione Reduced raw materials and injection item are in the phase of clinical research. The above projects are exposed to clinical research and technical risks in the future.

The Group will continue to pay attention to changes in the medicines evaluation policies, strengthen the control and management over R&D projects, reduce the influence of uncertain factors, improve R&D quality and reduce R&D risks.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

B. Research and development situation of the Company's products *(Continued)*

(D) *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 three approved pieces for pharmaceutical production, which will further enrich the Company's product varieties, and increase the Company's products reserves. Moreover, the Company will determine the appropriate timing to launch the products into the market based on changes in the market.

Product name	Registered classification	Indications/Functions
Cefoxitin Sodium for Injection 1.0g	Transfer of licenses	It is suitable for upper and lower respiratory tracts infection caused by the bacteria susceptible to this product; Urinary tract infection includes uncomplicated gonorrhea, peritonitis, and other abdominal and pelvic infections; Septicemia (including typhoid fever); Gynecological infections; Infection of bone and joint soft tissues; As for endocarditis, since this product is very effective to anaerobic bacteria, and stable to β -lactamase, it is particularly suitable for anaerobic and aerobic mixed infection and infection caused by β -lactamase susceptible to this product.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

B. Research and development situation of the Company's products *(Continued)*

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

Product name	Registered classification	Indications/Functions
Roxithromycin Capsules	Change of production process	It is suitable for pharyngitis and tonsillitis caused by streptococcus pyogenes, sinusitis, otitis media, acute bronchitis, and acute exacerbation of chronic bronchitis caused by sensitive bacteria, and pneumonia caused by mycoplasma pneumoniae or chlamydia pneumonia. Urethritis and cervicitis caused by chlamydia trachomatis Skin and soft tissue infection caused by sensitive bacteria
Sodium oleate	Pharmaceutical excipients	It is often used as anionic surfactant and fabric waterproof agent

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

B. Research and development situation of the Company's products *(Continued)*

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

Applicable Not applicable

During the Reporting Period, the Group initiated the cancellations of three applications for registration of drugs and no drug registration was unapproved. The accumulative R&D investment of the above three projects amounted to approximately RMB14.50 million. The project cancellation or failure to obtain approval will pose no greater impact on the Group.

In the future, the Group will strictly enforce the system of new product approval and demonstration, and carefully study the national policy, so as to realize the effective support of new products for the Group's future development.

Approval cancellation of R&D projects during the reporting period:

No.	Name of the drug	Registered classification	Functions	Cancellation reasons
1	Enalapril Felodipine Sustained Release Tablets	Category 3.2 chemical drug	Treatment of essential hypertension.	With multi-parties inquiry, original products available on the overseas market have been withdrawn, so it is impossible to complete consistency comparative research. After comprehensive consideration, the registration application for the drug shall be applied for withdrawal.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

B. Research and development situation of the Company's products *(Continued)*

(E) *Situation of the cancellation of the research and development project and the products which were not approved during the Reporting Period (Continued)*

No.	Name of the drug	Registered classification	Functions	Cancellation reasons
2	Balofloxacin Tablets/capsules	Category 3.1 chemical drug	It is used for treatment of staphylococcus, streptococcus, such as cystitis, urethritis etc.	Incomplete original materials and partial materials due to loss or expiry of storage period have been destroyed. During the year of 2005-2006, hospital informationization level was not high. Patients' diagnosis information, drug use information, partial test and assay data cannot be found in hospital computer system. Pharmacokinetics study and check track of test instrument of tablet and capsules BE test analysis cannot be operated.
3	Xintai Tablets	Category-VI Traditional Chinese medicine	Tonifying qi and yin, Tongmai and water retention. The product is indicated for cardiac insufficiency caused by coronary heart disease and hypertension, differentiated as depletion of qi and yin, and blood stasis and dropsy in traditional Chinese medicine, manifested as palpitation, breath shortness, fatigue, being perturbed, and thirst.	Based on the current status of clinical trials in China and the suggestions from clinical test units and contract research organization, the Company took the initiative to cancel the production application of the new drug. The Company will resubmit the production application of the new drug upon the completion of relevant researches in accordance with relevant provisions of CFDA Announcement on Several Policies Pertaining to the Review & Approval of Drug Registration ([2015] No. 230).

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

B. Research and development situation of the Company's products *(Continued)*

(F) *Situation of the important research and development project carrying out in the next year*

Applicable Not applicable

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

Applicable Not applicable

In 2015, the Group received total project subsidies of RMB68,201,900 from related departments. The following table lists the major projects which received subsidies:

Name of enterprise	Item name	Supporting type	Amount of subsidy (RMB'000)	Information on application of the subsidies
The Company	Subsidies after enterprise R&D funds are invested	Special funds after R&D grants by Guangzhou SASAC	7,052.2	According to the relevant regulations, it was allocated to these subordinate enterprise for use: RMB5.2353 million for Baiyunshan Pharmaceutical General Factory, RMB1.4001 million for Chemical Pharmaceutical Factory, and RMB416,700 for Hejigong Pharmaceutical Factory.
The Company	The financial subsidy for enterprise R&D	The provincial-level financial subsidy for enterprise R&D in Guangdong province	2,244.4	According to the relevant regulations, it was allocated to this subordinate enterprise for use: RMB1.666 million for Baiyunshan General Pharmaceutical Factory, RMB0.396 million for Chemical Pharmaceutical Factory, and RMB0.1824 million for Hejigong Pharmaceutical Factory.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

B. Research and development situation of the Company's products *(Continued)*

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

In 2015, the Group received total project subsidies of RMB68,201,900 from related departments. The following table lists the major projects which received subsidies: *(Continued)*

Name of enterprise	Item name	Supporting type	Amount of subsidy (RMB'000)	Information on application of the subsidies
The Company	The special subsidies after enterprise R&D funds are invested in Guangzhou	Subsidies after enterprise R&D funds are invested.	2,822.5	According to the relevant regulations, it was allocated to these subordinate enterprises for use: RMB1.9145 million for Baiyunshan Pharmaceutical General Factory, RMB0.6602 million for Chemical Pharmaceutical Factory, and RMB0.2478 million for Hejigong Pharmaceutical Factory.
The Company	Weighted deduction of enterprise R&D expenses in Guangzhou	Weighted deduction of R&D expenses	2,991.6	According to the relevant regulations, it was allocated to these subordinate enterprises for use: RMB2.2206 million for Baiyunshan Pharmaceutical General Factory, RMB0.5938 million for Chemical Pharmaceutical Factory, and RMB0.1772 million for Hejigong Pharmaceutical Factory.
Jing Xiu Tang	Subsidies after enterprise R&D funds are invested	Special funds after R&D grants by Guangzhou SASAC	3,644.6	Temporarily unused

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

B. Research and development situation of the Company's products *(Continued)*

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

In 2015, the Group received total project subsidies of RMB68,201,900 from related departments. The following table lists the major projects which received subsidies: *(Continued)*

Name of enterprise	Item name	Supporting type	Amount of subsidy (RMB'000)	Information on application of the subsidies
Guangzhou Baidi	Cell strain development and process research of human hyaluronidase for genetic recombination	2015 important special items of industry-university-research collaborative innovation in Guangzhou	2,000	Temporarily unused
Guangyao General Institute	Key common technology research on New Commissioning Pellets industrialization	Important special items of industry-university-research collaborative innovation in Guangzhou (industrial technology research)	1,200	Temporarily unused
Guangyao General Institute	The common platform for pharmaceutical preparation industrial technology innovation	Special items of innovative platform building and sharing	1,500	Temporarily unused

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

B. Research and development situation of the Company's products *(Continued)*

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

In 2015, the Group received total project subsidies of RMB68,201,900 from related departments. The following table lists the major projects which received subsidies: *(Continued)*

Name of enterprise	Item name	Supporting type	Amount of subsidy (RMB'000)	Information on application of the subsidies
Guangyao General Institute	Subsidies after enterprise R&D funds are invested	Subsidy items after R&D funds are invested.	1,377.4	Temporarily unused
Ming Xing	Key technology research of indissoluble drug and sub-micron emulsion injection	Industry-university-research special items	1,200	RMB0.6059 million
Guangzhou Hanfang	R&D, application and industrialization of the raw material and adjunct of lipid for high-end medicines	Trial items of accumulated development of strategic emerging industries of NDRC and Guangdong Province	7,000	Temporarily unused
Guangzhou Hanfang	R&D and industrialization of health products with homology of medicine and food as core raw materials	Special funds for applied technology R&D in Guangdong	5,000	Temporarily unused

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

B. Research and development situation of the Company's products *(Continued)*

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

In 2015, the Group received total project subsidies of RMB68,201,900 from related departments. The following table lists the major projects which received subsidies: *(Continued)*

Name of enterprise	Item name	Supporting type	Amount of subsidy (RMB'000)	Information on application of the subsidies
Guangzhou Hanfang	Traditional Chinese Medicine and Natural Medicine Research Branch of General hospital of Guangzhou Pharmaceuticals	Construction items of Central Research Institute	1,000	Temporarily unused
Baiyunshan General Factory	Preclinical study of PDE9A inhibitor LW33, as Category 1.1 chemical drug for treatment of Alzheimer disease	Special items of applied technology R&D in Guangdong.	1,250	Temporarily unused
Baiyunshan General Factory	Collaborative innovation and industrialization research on Sorafenib and other efficient targeting anti-carcinogen series	Special items of industry-university-research collaborative innovation in Guangzhou	2,000	Temporarily unused

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information (Continued)

C. Situation of the production and sales of the Company's products

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

Applicable Not applicable

The main therapeutic areas	Product name	Operating income RMB'000	Operating costs RMB'000	Rate of 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	571,113.00	214,535.10	62.44	(6.77)	(3.42)	(1.30)
	Qing Kai Ling Granule	245,850.00	103,020.00	58.10	(7.00)	(2.10)	(3.60)
	Xiaochaihu Granule	217,835.10	117,042.60	46.27	(12.72)	(11.68)	(0.64)
	Xia Sang Ju Granule	175,854.10	85,320.90	51.48	0.24	2.91	(0.02)
	Mi Lian Chuan Bei Pi Pa Jelly	103,664.60	62,864.10	39.36	(4.96)	(9.56)	8.51
Antimicrobial drugs	Cefathiamidine for injection	495,558.70	218,461.80	94.94	(5.20)	(5.73)	(0.77)
	Amoxicillin capsule	201,280.00	122,970.00	38.91	(11.65)	(13.86)	1.57
	Cefixime capsule	143,410.00	63,580.00	55.67	(3.10)	(14.49)	5.91
	Cefixime Granule	138,540.00	56,720.00	59.06	6.04	(3.57)	4.08
Andrology medication	citric acid sildenafil	233,780.00	18,180.00	-	314.87	282.74	0.65
Drugs for easing pain, clearing heat, and resisting inflammation, wind-damp and gout	Paracetamol Caffeine Aspirin Powder	147,598.50	71,872.70	51.31	(3.68)	(3.77)	0.05
Drugs used in dermatological department	Essential balm	62,121.90	32,874.00	47.08	(3.63)	(9.94)	(6.53)
Drugs used in orthopedics and traumatology department	Bone-setting and Pain Relief Jelly	58,362.10	25,041.50	57.09	(0.66)	16.89	(6.44)
Gynaecological medication	Zi Shen Yu Tai Pill	55,583.00	35,614.00	35.93	8.89	46.94	(16.59)

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information (Continued)

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

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

Explanation: Applicable Not applicable

During the Reporting Period, the gross profit rate of principal operation of the Company was 35.86%, among which, the gross profit rate of the Great Southern TCM segment was 44.57%. The great distance 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 great distance in the gross profit rate of principal products.

The gross profit rate of other companies in the industry:

Stock code	Abbreviation	Operation revenue (RMB'000)	Gross profit	Overall gross profit rate (%)
			rate of pharmaceutical industry (%)	
600664	Harbin Pharmaceutical Group Co.,Ltd.	16,508,912.50	27.46	27.52
600511	China National Medicines Co.,Ltd.	11,538,342.50	40.50	7.91
601607	Shanghai Pharmaceuticals Holding Co., Ltd.	92,398,893.60	49.25	12.34
600196	Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	12,025,532.00	44.41	44.13
600085	Tongrentang Chinese Medicine-Since	9,685,867.50	47.13	43.17

Notes:

1. Data extracted from the 2014 Annual Report of comparable companies in the same industry.
2. The companies above had not disclosed the gross profit rate of the medicine divided according to the therapeutic areas, therefore the Company could not analyze the data according to the therapeutic areas.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information (Continued)

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

(B) Analysis of the main sales model of the Company

Applicable Not applicable

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

(C) 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
Xiao Ke Pill	52.5g/bottle	24.50-45.65	1,315 ten thousand bottles
An Gong Niu Huang Pill	2 pills/box	89.64-135.66	1.75 ten thousand boxes
Zi Shen Yu Tai Pill	60g/bottle	25.73-42.00	299.5 ten thousand bottles
Hua Tuo Zai Zao Pill	box	35.71-37.56	313.8 ten thousand boxes
Xiao Chai Hu Granule	4g*10 bag/box	9.57-10.59	56.7 ten thousand boxes
Xiao Chai Hu Granule	10g*10 bag/box	8.7-9.5	22.1 ten thousand boxes
Xia Sang Ju Granule	3g*10 bag	Average 12.85	1.21 ten thousand bags
Qing kai Ling Capsule	0.25g*36 grain	19.65-15	329 ten thousand boxes
Qing kai Ling Capsule	0.4g*24 grain	24.15-19.5	253 ten thousand boxes
Qing Kai Ling Granule	3g*9 bag	13.05-11	302 ten thousand boxes
Qing Kai Ling Granule	3g*12 bag	17.69-13.2	384 ten thousand boxes
Qing Kai Ling Granule	3g*24 bag	33.12-30.05	83 ten thousand boxes
Qing Kai Ling Granule	10g*20 bag	28.82-21.99	571 ten thousand boxes
Qing Kai Ling for Injection	10ml*5 piece	12.95-5.015	641 ten thousand boxes
Cephathiamidine for Injection	0.5g/piece	25.05-28.52	3,817 ten thousand pieces
Cephathiamidine for Injection	1g/piece	42.61-48.52	2,113 ten thousand pieces
Cefixime Granules	50mg*6 bag	21.97-26.17	1,738 ten thousand boxes
Cefixime Capsules	100mg*6s box	31.52-37.13	1,217 ten thousand boxes
Cefixime Capsules	0.25g box	28.96-32	1,882 ten thousand boxes

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) *Analysis of the sales expenses*

Components of the sales expenses

Applicable Not applicable

Items	Amount occurred for the current period (RMB'000)	Percentage of amount occurred for the current period in the total sales cost (%)
Employee benefit	1,659,842	39.83
Sales service fee	742,156	17.81
Transportation expenses	149,920	3.60
Office expenses	15,791	0.38
Freight and miscellaneous charges	392,179	9.41
Rental expenses	21,999	0.53
Conference expenses	43,387	1.04
Advertising and promotion fees	1,095,959	26.30
Consulting fees	4,662	0.11
Depreciation charges	3,059	0.07
Others	38,727	0.92
Total	4,167,681	100.00

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) *Analysis of the sales expenses (Continued)*

Comparison within the same industry

Applicable Not applicable

Comparable company in the same industry	Sales expenses (RMB'000)	Sales accounted for the proportion of revenue
Harbin Pharmaceutical Group Co.,Ltd.	2,303,493.80	13.953%
China National Medicines Co.,Ltd.	221,316.30	1.918%
Shanghai Pharmaceuticals Holding Co., Ltd.	4,826,366.90	5.223%
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	2,300,423.70	19.129%
Tongrentang Chinese Medicine-Since	1,749,120.50	18.058%
The average amount of the sales expenses (RMB'000)		2,280,144.20
Total amount of the sales expenses of the Company during the Reporting Period (RMB'000)		4,167,680.00
Sales expenses accounted for the proportion of revenue of the Company during the Reporting Period (%)		21.79

Notes:

1. Data extracted the from 2014 Annual Report of comparable companies in the same industry.
2. The average R&D investment amount in the industry is the arithmetic average of the five companies in the same industry.

Report of the Board of Directors

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

(iv) Analysis of pharmaceutical manufacturing industry operation information *(Continued)*

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

(D) *Analysis of the sales expenses (Continued)*

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

Applicable Not applicable

During the Reporting Period, the Group's total cost of sales amounted to approximately RMB4.168 billion, representing an increase of 5.70% compared with last year, mainly because: (i) staff salaries, travel and other expenses increased with the development of the Group's business; and (ii) in 2015, in the face of fierce market competition, the Group increased investment in the establishment of market channels and brand, resulting in substantial increase in sales service expenses over 2014.

During the Reporting Period, the Group's cost of sales accounted to 21.79% of the operating income. Expenses of the Group in 2015 were lower than the average level of above enterprises in the industry in 2014, mainly because the Group's business structure and business sales model is different from the sales models of the above enterprises.

Report of the Board of Directors

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

(v) Investment situation

A. Foreign equity investment in the overall analysis

At the end of the Reporting Period, the foreign equity investment of the Company amounted to RMB2,111,213,000, with a growth of RMB160,448,000 as compared with last year, mainly due to the increase in the long-term equity investment by investment revenue calculated using the joint venture equity method as adopted by the Company.

Invested units	Principal business	Percentage in the investment units (%)
GP Corp.	Sales of western pharmaceutical products and medical apparatus	50.00
Wang Lao Ji	Manufacturing, processing and sales of Chinese patent medicine; food and medicine homologous drink and candy	48.05
Nuo Cheng	Production of Rabies bacterin, export of goods and technology	50.00
HWBYS	Manufacturing, constructing, research and development, and sales of medicine, NHPs, food and Chinese herbs	50.00
Baxter Qiao Guang	Production of large capacity injection, imports and wholesale of medicine	50.00
Hangzhou Zhe Da Han Fang Chinese Medicine Information Engineering Company Limited	Development of technology and technology service	44.00
Golden Eagle Fund	Fund management	20.00
Guangzhou Goldsum Pharmaceutical technology Co., Ltd.	Research and development; NHPs, Chinese medicine and food	38.25
Wei Yi Co., Ltd.	Medical investment management	50.50

Report of the Board of Directors

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

(v) Investment situation

A. Foreign equity investment in the overall analysis

(A) Investments in stocks

Number	Type of stock	Stock code	Stock name	The initial	Number of	Book value	% of stock	Gain/(Loss)
				amount of investment	shares held as at the end of the Reporting Period	as at the end of the Reporting Period	for the Reporting Period	during the Reporting Period
				(RMB'000)	(share)	(RMB'000)		(RMB'000)
1	A Share of SSE	600038	AVIC Helicopter Co., Ltd.	1,806	57,810	3,048	46.90	882
2	A Share of SSE	600664	Harbin Pharmaceutical Group Co.,Ltd.	3,705	289,310	3,452	53.10	1,229
Other stock investments held as at the end of the Reporting Period				-				
Gain/(Loss) of stock investments sold as at the end of the Reporting Period				-				
Total				5,511		6,500	100.00	2,111

(B) Information on the Company's Interests in the Shares of Other Listed Companies

Stock code	Stock name	Initial investment amount	% of share holding	Book value	Gain/(Loss)	Changes	Accounting item	Sources of shares
				as at the end of the Reporting Period	during the Reporting Period	in equity during the Reporting Period		
		(RMB'000)		(RMB'000)	(RMB'000)	(RMB'000)		
601328	Bank of Communications	525	-	2,541	111	(115)	Available-for-sale financial assets	Acquisition
601818	Everbright Bank	10,725	Approximate 0.02	25,652	1,125	(3,291)	Available-for-sale financial assets	Acquisition
02289	Chuangmei Pharmaceutical	57,540	7.30	48,222	-	(9,318)	Available-for-sale financial assets	Acquisition

Report of the Board of Directors

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

(v) Investment situation (Continued)

A. Foreign equity investment in the overall analysis

(C) Information on the Company's Interests in Non-Listed Financial Institutions

Name	The initial investment amount (RMB'000)	Number of shares held (share)	% of shareholding	Book value as at the end of the Reporting Period (RMB'000)	Gain/(Loss) during the Reporting Period (RMB'000)	Changes in equity during the Reporting Period (RMB'000)	Accounting item	Sources of shares
Golden Eagle Fund	50,000	-	20.00	36,107	7,205	-	Long-term equity investment	Acquisition
Bank of Guangzhou Co., Ltd.	100	-	-	100	19	-	Available-for sale financial assets	Acquisition
Shenzhen Zhong Lian GuangShen Pharmaceutical Group Co.,Ltd.	312	-	0.30	312	12	-	Available-for sale financial assets	Acquisition
Guangzhou Nan Xin Pharmaceutical Co.,Ltd.	7,678	-	13.00	7,678	4,177	-	Available-for sale financial assets	Acquisition

B. Use of Proceeds from the issues of A shares

Applicable Not applicable

C. Details of the main subsidiaries and joint ventures of the Company

Name of enterprises	Business nature	Major products or services	Registered capital (RMB'000)	Equity directly held by the Company (%)	Total assets (RMB'000)	Net assets (RMB'000)	Net profit (RMB'000)
Subsidiaries							
WLJ Great Health	Manufacturing	Production and sales of pre-packaging food, dairy products, etc	100,000	100.00	3,883,795	608,471	390,543

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

During the Reporting Period, the Company did not engage in any other operations which had significant impact on the net profit of the Company.

Report of the Board of Directors

(3) DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT

(I) Competition within, and development trend of, the industry

As a sunrise industry, the biological medical health industry is embracing the era which offers favorable opportunities for strategic development. "Healthy China" is a concept which has been elevated to the level of national strategy, and has been listed in the National "Thirteenth Five Year Plan" and the Government Work Report of the State Council. In the Made in China 2025, the Chinese version of "Industry 4.0" planning, "biopharmaceutics" and "high-performance medical apparatus" is listed as one of the ten major areas for focused development in the next decade. In the next five years, the Group will be exposed to various opportunities such as acceleration of aging of the population, the national initiative of smart manufacturing, relevant policies encouraging the operation of non-public hospitals, promoting nationwide coverage of medical insurance, fueling the development of TCM, as well as the two children policy, further reform of state-owned enterprises, and huge potential of the online pharmacy and healthcare industry.

(II) Development strategy and annual work plan for the year 2016

Year 2016 has been marked as "the year of quality enhancement of enterprises" of the Group. The Group will commit to further promoting the "upgrade of the three major areas", namely industrial upgrade, asset upgrade and talents upgrade. Such upgrade will be achieved by adhering to the three main lines of action, namely scientific management, risk control and driving force of innovation, as well as through dedicated efforts to strengthen the Group's capacity in product competitiveness, production and operational capacity, independent innovation capacity, fundamental management, talent management and organization capacity, global market expansion capacity as well as overall quality of our staff, etc. The Group will also endeavor to optimize "Great Southern TCM" and "Great Health", reinforce "Great Commerce" and "Great Medicare", expand the e-commerce, capital finance and medical apparatus segments, while promoting various key projects in a highly efficient manner, thus achieving the stable, healthy and rapid development of the operation of the Group.

In year 2016, the principal tasks of the Group include:

1. Revitalizing the "Great Southern TCM": to further promote the integration of the sales resources of some pharmaceutical companies, deepen the operation model of "industrial operation + commercial platform" of industrial and commercial enterprises, and forge the advantage of the "Grand Southern TCM" segment; to develop main products and revitalize dormant products, as well as actively foster main pharmaceutical products with market potential and strategic prospect; to further streamline the distribution of production capacity and strengthen the coordination and management of the overall production capacity development of the Group; to focus on the development of our TCM business, and reinforce the implementation of our branding strategy.

Report of the Board of Directors

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

(II) Development strategy and annual work plan for the year 2016 *(Continued)*

2. Developing “Great Health”: to build the global image of Wang Lao Ji based on the principle of “focusing, streamlining”, strengthen the establishment of channels, while focusing on promoting the sales through catering and other channels; to accelerate the establishment of market presence of Wang Lao Ji in Southeast Asia, take an active approach to the formation of overseas sample market; to integrate the “Great Health” business of the Group, and make efforts to facilitate the coordinated development of the “Great Health” segment; to actively develop the “Great Health” product cluster, and materialize the “Great Health” product cluster featuring single core and diversified portfolio.
3. Upgrading “Great Commerce”: to accelerate the deep integration with the “Internet+”; to stimulate the wide coverage of the extended service of modern hospital logistics; to speed up the horizontal expansion of the terminal network; to advance the multi-dimensional construction of modern logistics.
4. Expanding “Great Medicare”: to upgrade the Baiyunshan Hospital based on scientific planning; to step up our efforts in external collaboration and introduction of teams, with the aim of consolidating the base for the development of various segments; to explore effective approach to the gradual development of health nursing industry; to boost the industry of medical apparatus to enhance our strength in the industry and increase the share of medical apparatus products.
5. Capital operation: to complete the directional private placement and the employee stock ownership plan to fuel the appreciation of the capital assets; to continue to proceed with the investment and merger and acquisition of the four major segments, and set up scientific investment management system.
6. Science and technology enhancement: to establish the integrated innovation platform of the Group by following the main guideline of “integration”; to materialize a series of major project for scientific research and innovation with the benefits of “cooperation”; to enhance the level of quality management by leveraging on “management”.
7. Refinement of management: to strength the standardized management, lean management, integrated management and informationized management to enhance corporate governance and reduce operational costs.
8. Going global: to facilitate the development of the industry by promoting the export of industrial, capital and cultural elements.

Report of the Board of Directors

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

(II) Development strategy and annual work plan for the year 2016 *(Continued)*

9. Innovation and entrepreneurship: to establishing “innovation + entrepreneurship” demonstration base; to explore the development model of innovation and entrepreneurship, such as equity participation of operators, internal crowd-funding, with a view to injecting new momentum to the development of the company; to speed up the establishment of system for internal innovation and entrepreneurship to ensure the smooth operation of in-house innovation and entrepreneurship efforts.

(III) Potential challenges and risks

Potential challenges and risks that the Group faces include: (1) the global economy is expected to deliver sluggish performance, while the national economy will enter into the new normal state, which will be accompanied by volatility of the capital market; (2) the overall growth rate of pharmaceutical and healthcare industry will see further slowdown due to a number of factors, such as more restriction on spending of medical insurance, reform on tendering policies, more stringent regulation on the approval of new drugs, and the division of medical consultation and drug dispensary, etc.; (3) the overcapacity and high level of inventory in the society lead to continuous fall in the prices of industrial products; (4) intensification of competition within the industry as a result of the growing trend of profound merger of industrial capital and cross-industry expansion, as well as the rising competition as a result of pharmaceutical enterprises and non-pharmaceutical enterprises tapping into the healthcare industry; (5) continuous decrease in the purchasing power of consumers, and the stalling of growth momentum in consumer products.

(4) OTHER MATTERS

(i) Accounts

The results of the Group for the year ended 31 December 2015 are set out in the consolidated income statement.

The financial conditions of the Group as at 31 December 2015 are set out in the consolidated balance sheet.

The cash flows of the Group for the year ended 31 December 2015 are set out in the consolidated cash flow statement.

The cash flows of the Company for the year ended 31 December 2015 are set out in the cash flow statement.

Report of the Board of Directors

(4) OTHER MATTERS *(Continued)*

(ii) Financial Summary

A summary of the results and of the assets and liabilities of the Group are set out on pages 26 to 40 in the Directors' Report contained in this annual report.

(iii) Reserves

Details of the movements in the reserves of the Group during the Year are set out on pages 327 to 330 of the financial report contained in this annual report.

(iv) Distributable Reserves

The distributable reserves of the Group as at 31 December 2015 calculated in accordance with the PRC Accounting Standards was RMB2,949,215,000.

(v) Fixed Assets

Details of the charge of fixed assets during the reporting period are set out on pages 299 to 301 of the financial report contained in this annual report.

(vi) Ordinary Connected Transactions

Details of connected transactions are set out in Major Events on page 149 to 154 in this annual report.

(vii) 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.

(viii) Corporate Governance

During the Reporting Period, the Company complied with the code provisions of the CG Code except the deviation from code provision A.6.7 mentioned in the section headed "Corporate Governance".

Report of the Board of Directors

(4) OTHER MATTERS (Continued)

(ix) Tax Exemption

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

(x) Retirement Scheme

Details of the retirement scheme and amounts of contributions of the Group are set out on page 317 of the financial report contained in this annual report respectively.

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

(xii) Environmental policy

The environmental policy and its performance of the Group were set out on the Social Responsibility Report in 2015 of the Company, the full text of which had been uploaded to the website of SSE and HKEx.

Major Events

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

(i) Formulation of cash distribution policy and its implementation

The Company attaches great importance to the reasonable investment returns for investors and has explicitly stipulated the distribution policy under Article 217 of the Articles of Association, including the principles 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, the Company's management submitted the proposal on profit distribution and dividend payment of the Company for year 2014 to the Board after considering factors such as profit, investment arrangement, funding needs, cash flow and shareholders' returns planning, etc. in accordance with the relevant provisions of the Articles of Association relating to profit distribution. After having approved by all the Directors, the proposal on profit distribution and dividend payment of the Company for year 2014 was submitted to the 2014 annual general meeting of the Company and approved by more than 1/2 of the shareholders who attended the 2014 annual general meeting.

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

Distribution Year	Distributions of every 10 shares (including tax) (RMB)	Amount of profit distribution in cash (including tax) (RMB)	Net profit	Proportion of payout distribution in the net profit as shown in the consolidated financial statements (%)
			attributable to the shareholders of the listed Company for the distribution year as shown in the consolidated financial statements (After restatement) (RMB)	
2015	–	–	1,300,351,292.59	–
2014	2.80	361,575,382.00	1,194,141,273.24	30.28
2013	2.30	297,008,349.50	979,376,028.73	30.33

Note: The Company acquired 100% equity interest in Guangyao General Institute under the same parent company in the third quarter of 2015, and restated the previous financial statements in accordance with the accounting standards.

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

- (iii) **The parent company make profit and undistributed profit is positive but it did not propose a scheme of profit distribution during the Reporting Period, the Company should disclose the reason and the scheme of undistributed profit.**

Applicable Not applicable

As audited and confirmed by BDO China Shu Lun Pan Certified Public Accountants LLP: the net profit attributable to the shareholders of the Group of 2015 amounted to RMB1,300,351,292.59. Based on the net profit of the Company of RMB1,150,350,559.84 in 2015, a 10% statutory surplus reserve in the amount of RMB115,035,055.98 is provided, with the addition of the undistributed profit carried over from last year in the amount of RMB2,275,474,523.03, and after deducting the cash dividends of 2014 by RMB361,575,382.00, the actual distributable profits amounted to RMB2,949,214,644.89.

The Company's application for non-public offering of A shares was approved by the Issuance Audit Committee of China Securities Regulatory Commission on 9 December 2015, but it has not yet obtained the offering approving document from CSRC. According to Article 18 of the Measures for Administration of Securities Issuance and Underwriting issued by China Securities Regulatory Commission (2015 Revision), listed companies shall not issue securities until implementation of profit distribution plan (if any) or plan (if any) of carrying over reserved funds to equity shares if such plan has not been submitted to general meeting of shareholders for a vote or has not been implemented after being voted by general meeting of shareholders. To avoid the impact of distribution of dividend on progress of the Company's non-public offering of A shares, the Board of Directors of the Company proposed: (1) not to distribute dividend for year 2015, nor carrying over reserved funds to equity shares; and (2) after completion of the non-public offering of A shares, the Company will consider a special dividend.

The profit distribution plan will be submitted to the 2015 Annual General Meeting of Shareholders for approval. The independent non-executive directors of the Company have expressed their independent opinions on aforesaid matters.

Major Events

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

(i) Equity incentive implemented by listed companies

Item	Content
Background of the undertaking	Undertakings in connection with equity division reform
Party given the undertaking	Controlling shareholder
Details of undertaking	<p>In order to improve the value of the listed company, after the reform, the controlling shareholder of the Company, GPLH will, to the extent permitted by laws and regulations and subject to the approval of the supervision authority, the Company to set up an equity incentive mechanism as the prerequisite for management to fulfill their rights of options based on the performance growth of the listed company.</p> <p>Upon the original undertakings, GPLH made further undertaking: In order to fully mobilize the initiative and creativity of the management team of the listed company, realize the sustainable development and improve the value of the listed company, GPLH undertakes that it will, to the extent permitted by laws and regulations and subject to the approvals of the supervisory authorities, urge and support the Company to set up incentive scheme for medium to long term within three years from the date of this undertaking letter, which scheme shall stipulate the growth in profits of the Company as a condition and link to market value.</p>
Time and period of undertaking	The original undertaking was given in March 2006. On 25 June 2014, GPLH supplemented the original undertaking. The undertaking remains valid until it has been fully performed.
Valid period for performance	Up to 25 June 2017
Whether strictly and timely performed	Being performed
Specification	Yes

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

(ii) Independence of listed company

Item	Content
Background of undertakings	Undertakings related to Major Assets Reorganization
Party given the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none"> 1. After completion of the Major Assets Reorganization, GPLH, controlling shareholder of the Company, will comply with requirements of relevant laws and regulations, regulatory documents and the Articles of Association of the Company, and exercise shareholder's right according to laws and will not affect the independence of the Company by exerting its influence as a controlling shareholder and will maintain the integrity and independence of the Company in respect of assets, employees, finance, organisation and business. 2. The undertaking letter will remain effective so long as GPC legally and validly exists and GPLH owns controlling interest in the Company.
Time and period of the undertaking	The undertaking was given on 29 February 2012 and is valid permanently.
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Specification	Yes

Major Events

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

(iii) Avoiding competition

Item	Content
Background of undertakings	Undertakings related to Major Assets Reorganization
Party given the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none"> 1. After completion of the Major Assets Reorganization, GPHL and its controlled subsidiaries should avoid engaging in business and operations which substantially compete with those of the subsisting the Company after completion of the Major Assets Reorganization ("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. GPHL 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, GPHL will voluntarily and vigorously procure its subsidiaries to give up competition with new GPC if GPHL and its subsidiaries will bring unfair impact on new GPC in respect of market shares, business opportunities and allocation of resources. 2. GPHL is willing to 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. 3. The undertaking letter will remain effective so long as GPC legally and validly exists and GPHL owns controlling interest in GPC.
Time and period of the undertaking	The undertaking was given on 29 February 2012 and is valid permanently.
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Specification	Yes

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

(iv) Regulating connected transactions

Item	Content
Background of the undertakings	Undertakings related to Major Assets Reorganization
Party given the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none"> 1. After completion of the Major Assets Reorganization, GPLH and its subsidiaries should minimize and regulate connected transactions with 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 legal procedures. They will also fulfill the information disclosure obligations and pursue the reporting and approval procedures according to the requirements of relevant laws and regulations, the Listing Rules of SSE and the Listing Rules of HKEx and the Articles of Association of Guangzhou Pharmaceutical Company Limited, and warrant that it will not harm the legitimate rights and interests of the subsisting GPC after completion of the Major Assets Reorganization and its other shareholders. 2. The undertaking letter will remain effective so long as GPC legally and validly exists and GPLH owns controlling interest in GPC.
Time and period of the 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
Specification	Yes

Major Events

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

(v) Restricting the sale of shares

Item	Content
Background of the undertakings	Undertakings related to Major Assets Reorganization
Party given the undertaking	Controlling shareholder
Undertakings	Within 36 months from the registration date of such shares, GPLH and its associated companies will not transfer the shares they acquired as a result of GPC's acquisition of assets from GPLH through issue of shares. After such period, any transfer of the shares will be made according to relevant requirements of CSRC and SSE.
Time and period of the undertaking	The undertaking was given on 29 February 2012 and remains valid until it has been fully performed.
Valid period for performance	The Company completed the registration of its newly issued shares on 5 July 2013 with its share registrar, and the performing period is up to 5 July 2016.
Whether timely and strictly performed	Being performed
Specification	Yes

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

(vi) Undertakings related to trademark

Item	Content
Background of the undertakings	Undertakings related to Major Assets Reorganization
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"> 1. 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 <ol style="list-style-type: none"> (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. 2. 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
Specification	Yes

Major Events

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

(vii) Undertakings related to properties with legal defects

Item	Content
Background of the undertakings	Undertakings related to Major Assets Reorganization
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
Specification	Yes

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

(viii) Undertakings related to trademarks which did not complete the transfer procedures

Item	Content
Background of the undertakings	Undertakings related to Major Assets Reorganization
Party given the undertaking	Controlling shareholder
Undertakings	<p>As at 28 June 2013, the registration formalities for the transfer of 388 trademarks within the assets to be acquired to the Company were not yet completed. The consideration for these trademarks was RMB51.1416 million, mainly including two categories: GPLH's grant of use of 54 major trademarks under its six major series namely "Chen Li Ji", "Pan Gao Shou", " Xing Qun", "Zhong Yi", "Qi Xing" and "Jing Xiu Tang" to the Company and its subsidiaries, and GPLH's 334 trademarks which are registered domestically and overseas for joint or defensive purpose (including 277 domestic trademarks and 57 overseas trademarks).</p> <p>With respect to the trademarks being acquired under the Major Assets Reorganization but still pending for registration of transfer, GPLH undertook to:</p> <ol style="list-style-type: none"> 1. process the transfer of those trademarks to the Company as soon as possible; 2. ensure that the Company can use these trademarks without having to pay consideration before the transfer of those assets; 3. to fully indemnify the Company and other third parties (including but not limited to the share registrar and SSE) in cash in respect of the losses incurred by the Company and other third parties within two days from the date on which such losses actually incurred, if due to any reasons, the Company cannot use the above trademarks without paying any consideration or if those trademarks cannot be transferred to the Company, including but not limited to all economic losses incurred from any civil, administrative and criminal liabilities.

Major Events

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

(viii) Undertakings related to trademarks which did not complete the transfer procedures *(Continued)*

Item	Content
Background of the undertakings	Undertakings related to Major Assets Reorganization
Party given the undertaking	Controlling shareholder
Undertakings	<p>Upon the original undertakings, GPLH made further undertaking:</p> <ol style="list-style-type: none"> 1. The transfer of all those trademarks to GYBYS will be completed within 3 years from the date of this undertaking letter was issued. The Company ensures that GYBYS can use these trademarks without having to pay consideration before the transfer of those trademarks; 2. If the transfer of those trademarks has not been completed by the end of the above mentioned undertaking period, the Company will pay compensation to GYBYS in cash within 10 working days according to the valuation of the trademarks which has not been transferred (in accordance with the Asset valuation on the properties and trademarks held by GPLH intended to be acquired through private placement of additional shares by Guangzhou Pharmaceutical Company Limited (Zhong Tian Heng Ping Ping Zi [2012] No. 26) issued by China Valuer International Co., Ltd.)." 3. to fully indemnify the Company and other third parties in cash in respect of the losses incurred by the Company and other third parties within two days from the date on which such losses actually incurred, if due to any reasons, the Company cannot use the above trademarks without paying any consideration or if those trademarks cannot be transferred to the Company, including but not limited to all economic losses incurred from any civil, administrative and criminal liabilities.
Time and period of the undertaking	The original undertaking was given on 28 June 2012. GPLH gave a supplemental undertaking in respect of the relevant contents on 23 April 2014. The undertaking remains valid until it has been fully performed.
Valid period for performance	Performing period is up to 23 April 2017
Whether timely and strictly performed	Basically fully performed
Specification	Yes

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

(ix) Undertakings related to trademarks

Item	Content
Background of the undertakings Party given the undertaking Undertakings	<p>Undertakings related to Major Assets Reorganization</p> <p>Controlling shareholder</p> <ol style="list-style-type: none"> GPHL undertakes that, within two years from the date of satisfaction of any one of the conditions set out below, it will legally transfer the trademarks in Wang Lao Ji series (25 in total) and 4 other trademarks (comprising trademarks with registration numbers of 125321, 214168, 538308 and 5466324) to the Company according to the requirements of laws and regulations then in force: (i) Upon the expiry on 1 May 2020, or earlier when the license agreement and its supplemental agreement were invalidated/void/terminated as determined by the arbitration institution, or earlier when the agreement was terminated or released as agreed between the parties; or (ii) Hung To (Holdings) Company Limited (鴻道(集團)有限公司) legally ceases to own the right of pre-emption On the basis of the original undertaking letter, GPHL has further made the promise as follows: After all of the legal disputes regarding the trademark of Wang Lao Ji have been resolved and within two years commencing from the transferable day, GPHL shall, pursuant to the provisions of the effective laws and regulations then and after the relevant procedures regarding the reporting for approval have been processed, legally transfer to the Company such 29 trademarks of the series of "Wang Lao Ji" together with such other trademarks related to Wang Lao Ji and 4 trademarks obtained and owned in legal manner by GPHL after the Execution Day (inclusive of today) for the "Supplementary Agreement to the Agreement of Trademark Custody". The Company may obtain such by cash or by issuing shares for purchasing assets wherein the transfer price shall be legally confirmed based on such appraisal value as issued by an appraisal institute possessing the professional qualification of engaging in securities and as confirmed in the asset appraisal report verified by the State-owned assets authority.
Time and period of the undertaking	The original undertaking was given on 29 February 2012. GPHL gave a supplemental undertaking in respect of the relevant contents on 15 June 2012. The undertaking remains valid until it has been fully performed.
Performance period Whether timely and strictly performed	<p>No</p> <p>In December 2014, the Company received the Letter of Amendment to the Undertakings of Injection of Wang Lao Ji Trademark Series from GPHL, which proposed to amend the performance period of the former undertakings to "two years since the commencing date of the judgment on the law case of red can decoration", due to the disputes of red can decoration. As approved at the 8th meeting of the sixth session of the Board of the Company, the resolution on the amendment to the performance period of injection of Wang Lao Ji trademark series was submitted to the first extraordinary general meeting in 2015 held on 13 March 2015 for consideration and was approved.</p>
Specification	Yes

Major Events

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

(x) Undertakings related to Guangyao General Institute

Item	Content
Background of the undertakings	Undertakings related to Major Assets Reorganization
Party given the undertaking	Controlling shareholder
Undertakings	For resolving potential competition completely, GPLH undertakes that it will transfer 100% equity interest of Guangyao General Institute to GPC within two years from the date General Institute completes the ownership reform (公司改制) and its shares become transferable in accordance with the requirements of the laws and regulations then in force.
Time and period of the undertaking	The undertaking was given on 29 February 2012 and remains valid until it has been fully performed.
Valid period for performance	Guangzhou Pharmaceutical Research Institute Co., Ltd. was established on 27 June 2013 and the performance period was ended on 27 June 2015.
Whether timely and strictly performed	Fully performed
Specification	Yes

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

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

Applicable Not applicable

Major Events

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

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

Applicable Not applicable

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

Applicable Not applicable

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

Applicable Not applicable

(5) APPOINTMENT, DISMISSAL OR CHANGE OF AUDITORS

Appointed

Name of domestic Certified Public Accountants	BDO China Shu Lun Pan CPAs LLP	
Remuneration of domestic Certified Public Accountants in domestic (RMB’000)		2,043
Including: Expenses on audit financial report (RMB’000)		1,663
Expenses on review financial report (RMB’000)		380
Term of office of the domestic Certified Public Accountants		3
Name of overseas Certified Public Accountants		/
Remuneration of overseas Certified Public Accountants (RMB’000)		/
Term of office of the overseas Certified Public Accountants		/

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

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

Major Events

(5) APPOINTMENT AND RESIGNATION OF AUDITORS

Explanatory notes on the of appointment of auditors:

- A. As approved at the 1st meeting of the Audit Committee in 2015, BDO China Shu Lun Pan CPAs LLP was appointed as the auditor of the Company for year 2015.
- B. The 10th meeting of the sixth session of the Board passed the resolution in relation to the appointments of BDO China Shu Lun Pan CPAs LLP as the auditor of the Company for year 2015 and the internal control auditor of the Company for year 2015.
- C. Pursuant to the approval given at the annual general meeting of 2014, BDO China Shu Lun Pan CPAS LLP was appointed as the auditor of the Company for year 2015 and the internal control auditor of the Company for year 2015.

(6) RELEVANT MATTERS OF BANKRUPTCY REORGANIZATION

Applicable Not applicable

(7) MATERIAL LITIGATION, ARBITRATION OR MATTERS SUBJECT TO DOUBT BY MEDIA

- (i) **The Group had neither been engaged in any material litigation or arbitration nor subject to any doubts by media during the Reporting Period.**
- (ii) **Litigation, arbitration or matters in respect of the Wang Lao Ji brand of the Group during the Reporting Period.**

1. In the Reporting Period, the Company received the Civil Ruling “(2014) Sui Zhong Fa Min Si Chu Zi No. 57” from Intermediate People’s Court of Guangzhou, Guangdong Province (“Guangzhou Intermediate Court”), setting out that, the Company, as one of the shareholders of Wang Lao Ji, requested for arbitration of South China International Economic and Trade Arbitration Commission (Shenzhen Court of International Arbitration) (the “Arbitration Commission”), and required Golden Force Pharmaceutical Co., Ltd. (“Golden Force”) to fulfill the obligation to transfer equity as agreed in the Shareholders’ Agreement i.e. to transfer 48.0465% shares in Wang Lao Ji to the Company. The Arbitration Commission accepted the case (Case No.: SHEN T2014811). The dissolution or the continuing existence of Wang Lao Ji was subject to the result of the arbitration, Guangzhou Intermediate Court suspended the litigation regarding “Company dissolution dispute” between Golden Force and Wang Lao Ji.

For more details, please refer to the announcement dated 14 January 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) and on the website of the SSE (www.sse.com.cn) and the HKEx (www.hkex.com.hk).

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

(ii) Litigation, arbitration or matters in respect of the Wang Lao Ji brand of the Group during the Reporting Period. (Continued)

2. GPLH, the controlling shareholder of the Company, applied to Guangdong Higher People's Court ("Guangdong Higher Court") for modification of claim, requesting change of the claim for economic losses caused by the infringement of the "Wang Lao Ji" registered trademark of GPLH by the defendants including Guangdong Jiaduobao Co., Ltd. ("Guangdong Jiaduobao") during the period from 2 May 2010 to 19 May 2012 of RMB1 billion to RMB2.93 billion, which was accepted by Guangdong Higher Court.

For more details, please refer to the announcement dated 27 February 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) and on the website of the SSE (www.sse.com.cn) and the HKEx (www.hkex.com.hk).

3. The Company received from China International Economic and Trade Arbitration Commission ("CIETAC") a notice in relation to the Disputes over Shareholder's Contract No. V20140834 ([2015] Zhong Guo Mao Zhong Jing Zi No. 006303), enclosing and forwarding therewith with a copy of the letter ((2014) Shen Zhong Fa She Wai Zhong Zi No. 291) from Shenzhen Intermediate People's Court of Guangdong Province ("Shenzhen Intermediate Court") to CIETAC and a letter from Golden Force Pharmaceutical requesting to increase the amount claimed, which set out that: (1) Shenzhen Intermediate Court notified CIETAC for suspension of arbitration of the arbitration case; and (2) Golden Force Pharmaceutical requested for modification of claim for economic losses from RMB130 million to RMB4 billion.

For more details, please refer to the announcement dated 31 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) and on the website of the SSE (www.sse.com.cn) and the HKEx (www.hkex.com.hk).

4. In the Reporting Period, the Company received from CIETAC the "Letter of Suspension of Procedures for the Arbitration Case in relation to Disputes over Shareholder's Contract No. V20140834" ([2015] Zhong Guo Mao Zhong Jing Zi No. 012946), which notified the Company of the suspension of arbitration procedures.

For more details, please refer to the announcement dated 6 May 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) and on the website of the SSE (www.sse.com.cn) and the HKEx (www.hkex.com.hk).

Major Events

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

(ii) Litigation, arbitration or matters in respect of the Wang Lao Ji brand of the Group during the Reporting Period. (Continued)

5. In the Reporting Period, GPLH, the controlling shareholder of the Company, received from Guangdong Higher Court the Civil Case Judgment “(2014) Yue Gao Fa Min San Chu Zi No. 1-1”, according to which the Guangdong High Court ruled that the counterclaim made by six companies including Guangdong Jiaduobao Beverage & Food Co., Ltd in relation to the civil action initiated by GPLH for economic losses caused by the infringement of the “Wang Lao Ji” registered trademark of GPLH by the defendants not be accepted.

For more details, please refer to the announcement dated 6 May 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) and on the website of the SSE (www.sse.com.cn) and the HKEx (www.hkex.com.hk).

6. In the Reporting Period, Wang Lao Ji, a joint venture of the Company, received the Civil Case Judgment “(2015) Sui Zhong Fa Min Qing Zi No. 3” from the Guangzhou Intermediate Court, which ruled that the application made by Golden Force Pharmaceutical for compulsory liquidation of Wang Lao Ji not be accepted.

For more details, please refer to the announcement dated 6 May 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) and on the website of the SSE (www.sse.com.cn) and the HKEx (www.hkex.com.hk).

7. In the Reporting Period, GPLH, the controlling shareholder of the Company, received a notice of case acceptance regarding the case filed by it against Fujian Jiaduobao Co., Ltd., Wuhan Jiaduobao Co., Ltd. and Jiaduobao (China) Drink Co., Ltd. (加多寶(中國)飲料有限公司) in relation to the claim of RMB300 million each for economic losses caused by their infringement of the unique packaging and decorations of “Wang Lao Ji” Herbal Tea.

For more details, please refer to the announcement dated 2 July 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) and on the website of the SSE (www.sse.com.cn) and the HKEx (www.hkex.com.hk).

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

(ii) Litigation, arbitration or matters in respect of the Wang Lao Ji brand of the Group during the Reporting Period. (Continued)

8. In the Reporting Period, GPLH, the controlling shareholder of the Company, received a case filing notice regarding the claim of RMB300 million each made by it against Hangzhou Jiaduobao Co., Ltd. and Zhejiang Jiaduobao Co., Ltd. in relation to the economic losses caused by their infringement of the unique packaging and decorations of “Wang Lao Ji” Herbal Tea.

For more details, please refer to the announcement dated 6 July 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) and on the website of the SSE (www.sse.com.cn) and the HKEx (www.hkex.com.hk).

9. In the Reporting Period, Wang Lao Ji, a joint venture of the Company, received the Civil Ruling “(2015)Zhe Gao Fa Min Er Qing (Yu) Zhong Zi No. 1” from the Guangdong Higher Court pursuant to which Golden Force appealed to Guangdong Higher Court against the ruling of the Guangzhou Intermediate Court that the application made by Golden Force for the compulsory liquidation of Wang Lao Ji be rejected. After trial, Guangdong Higher Court ruled that the appeal be dismissed and the original ruling be upheld.

For more details, please refer to the announcement dated 6 July 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) and on the website of the SSE (www.sse.com.cn) and the HKEx (www.hkex.com.hk).

10. In the Reporting Period, GPLH, the controlling shareholder of the Company, and WLJ Great Health, a wholly-owned subsidiary of the Company, received a civil case judgment from Beijing Higher People’s Court (“Beijing Higher Court”). GPLH and WLJ Great Health sued Jiaduobao (China) Drink Co., Ltd. (加多寶(中國)飲料有限公司) and Guangdong Jiaduobao Beverage & Food Co., Ltd. (廣東加多寶飲料食品有限公司) at Beijing Third Intermediate People’s Court (“Beijing Third Court”) for false propaganda, and the Beijing Third Court ordered Jiaduobao (China) Drink Co., Ltd. (加多寶(中國)飲料有限公司) and Guangdong Jiaduobao Beverage & Food Co., Ltd. (廣東加多寶飲料食品有限公司) to stop false propaganda, to publish a statement in designated media to eliminate adverse effects and to make a compensation of RMB3 million. Jiaduobao (China) Drink Co., Ltd. (加多寶(中國)飲料有限公司) and Guangdong Jiaduobao Beverage & Food Co., Ltd. (廣東加多寶飲料食品有限公司) appealed to the Beijing Higher Court against the ruling, which, after trial, issued a judgment that the appeal be dismissed and the original ruling be upheld.

For more details, please refer to the announcement dated 27 July 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) and on the website of the SSE (www.sse.com.cn) and the HKEx (www.hkex.com.hk).

Major Events

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

(ii) Litigation, arbitration or matters in respect of the Wang Lao Ji brand of the Group during the Reporting Period. (Continued)

11. In the Reporting Period, GPLH, the controlling shareholder of the Company, received from the Intermediate People's Court of Wuhan, Hubei Province the Civil Case Judgment "(2013) E Wu Han Zhong Zhi Chu Zi No. 02061"(the "Judgment") regarding the dispute case of improper competition that the plaintiff Guangdong Jiaduobao Beverage & Food Co., Ltd. sued the defendants Hubei Daily Media Group and GPLH.

For more details, please refer to the announcement dated 3 August 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) and on the website of the SSE (www.sse.com.cn) and the HKEx (www.hkex.com.hk).

12. In the Reporting Period, given that Jiaduobao (China) Drink Co., Ltd. (加多寶(中國)飲料有限公司) and Guangdong Jiaduobao Beverage & Food Co., Ltd. did not perform the judgment made in the first instance and the second instance in respect of the dispute case of false propaganda, GPLH and WLJ Great Health have delivered application materials to the Beijing Third Court for enforcement and received the Acceptance Notice from Beijing Third Court.

For more details, please refer to the announcement dated 28 August 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) and on the website of the SSE (www.sse.com.cn) and the HKEx (www.hkex.com.hk).

13. In the Reporting Period, GPLH, the controlling shareholder of the Company, and WLJ Great Health, a wholly-owned subsidiary of the Company, received from the Intermediate People's Court of Changsha, Hunan Province (the "Changsha Intermediate Court") the Civil Case Judgment "(2013) Chang Zhong Min Wu Chu Zi No. 00308"(the "Judgment") regarding the dispute case of improper propaganda that the plaintiffs GPLH and WLJ Great Health sued the defendants Wuhan Jia Duo Bao Beverage Company Limited (武漢加多寶飲料有限公司)("Wuhan Jia Duo Bao"), Hunan Fengcai Haorunjia Trading Co., Ltd.("Fengcai Company") and Xiaoxiang Morning Post ("Xiaoxiang Morning Post"). Changsha Intermediate Court decided that the release of advertisement words by Wuhan Jia Duo Bao constituted false propaganda of improper competition, and ordered it to stop such acts and make corresponding compensation. Fengcai Company also was prohibited to sell relevant improper products.

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

(ii) Litigation, arbitration or matters in respect of the Wang Lao Ji brand of the Group during the Reporting Period. (Continued)

13. (Continued)

For more details, please refer to the announcement dated 1 September 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) and on the website of the SSE (www.sse.com.cn) and the HKEx (www.hkex.com.hk).

14. In the Reporting Period, in respect of the compensation case that GPLH sued the defendants Guangdong Jiaduobao Beverage & Food Co., Ltd., Zhejiang Jia Duo Bao Beverage Company Limited, Jia Duo Bao (China) Drink Company Limited, Fujian Jia Duo Bao Beverage Company Limited, Hangzhou Jia Duo Bao Beverage Company Limited and Wuhan Jia Duo Bao Beverage Company Limited (referred as the “Six Jia Duo Bao Companies”) to Guangdong Higher Court, the Six Jia Duo Bao Companies made a counterclaim to Guangdong Higher Court on 15 February 2015, thereafter, Guangdong Higher Court ruled that the counterclaim be rejected. The Six Jia Duo Bao Companies refused to accept the first-instance ruling and appealed to the Supreme People’s Court (the “Supreme Court”). GPLH received the Civil Case Judgment “(2015) Min San Zhong Zi No. 6” from the Supreme Court which rejected the appeal and kept the original judgment unchanged.

For more details, please refer to the announcement dated 9 November 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) and on the website of the SSE (www.sse.com.cn) and the HKEx (www.hkex.com.hk).

15. In the Reporting Period, WLJ Great Health, the wholly owned subsidiary of the Company, and GPLH received the Civil Case Judgment “(2013) Sui Zhong Fa Zhi Min Chu Zi No. 619” from Guangzhou Intermediate Court regarding the dispute case of improper competition that the plaintiffs WLJ Great Health and GPLH sued the defendants Guangdong Jiaduobao Beverage & Food Co., Ltd. and Guangdong Lerun Store Co., Ltd.(廣東樂潤百貨有限公司). Guangzhou Intermediate Court ordered Guangdong Jiaduobao to stop using relevant advertisement words immediately and make compensation.

For more details, please refer to the announcement dated 3 December 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) and on the website of the SSE (www.sse.com.cn) and the HKEx (www.hkex.com.hk).

Major Events

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

(ii) Litigation, arbitration or matters in respect of the Wang Lao Ji brand of the Group during the Reporting Period. (Continued)

16. In the Reporting Period, GPLH received the Civil Case Judgment “(2014) Yue Gao Fa Min San Zhong Zi No. 482” from Guangdong Higher Court. Guangzhou Intermediate Court made the first-instance judgment regarding the dispute case of false propaganda by Guangdong Jiaduobao Beverage & Food Co., Ltd. and Peng Bijuan. GPLH and Guangdong Jiaduobao Beverage & Food Co., Ltd had made appeals against the first-instance judgement by Guangzhou Intermediate Court to Guangdong Higher Court, Guangdong Higher Court made final decision to keep original judgment in respect of such case.

For more details, please refer to the announcement dated 15 December 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) and on the website of the SSE (www.sse.com.cn) and the HKEx (www.hkex.com.hk).

17. In the Reporting Period, GPLH and WLJ Great Health received the Civil Case Judgment “(2014) Sui Zhong Fa Zhi Min Chu Zi No. 2” from Guangzhou Intermediate Court regarding the dispute case of false propaganda and commercial imputation that the plaintiffs GPLH and WLJ Great Health sued the defendants Guangdong Jiaduobao Beverage & Food Co., Ltd. and Jia Duo Bao (China) Drink Co., Ltd.

For more details, please refer to the announcement dated 23 December 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) and on the website of the SSE (www.sse.com.cn) and the HKEx (www.hkex.com.hk).

18. In the Reporting Period, WLJ Great Health, a wholly-owned subsidiary of the Company, received three civil case judgments for the second instance from Chongqing Higher People’s Court, regarding the dispute case of improper competition that the plaintiff Guangdong Jiaduobao Beverage & Food Co., Ltd. sued the defendants, Mr. He and WLJ Great Health and the dispute cases of false propaganda that the plaintiff WLJ Great Health sued the defendant Jiaduobao (China) Drink Co., Ltd. (加多寶(中國)飲料有限公司).

For more details, please refer to the announcement dated 28 December 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) and on the website of the SSE (www.sse.com.cn) and the HKEx (www.hkex.com.hk).

Major Events

(8) No penalty or correction was imposed by CSRC, Stock Exchanges or relevant regulatory authorities were made on the Listed Company, its directors, supervisors, senior management, shareholders holding more than 5% of the shares of the Company, actual controller or the acquirer.

(9) EQUITY INCENTIVE AND THEIR IMPACT

Applicable Not applicable

(10) CONNECTED TRANSACTIONS

(i) Set out below are the details of the ordinary connected transactions disclosed in accordance with the requirements of the CSRC and the SSE:

Connected parties	Relationship with the company	Type of connected transactions	Contents of connected transactions	Pricing principle of the connected transactions	Amounts of connected transactions (RMB'000)	Percentage of similar transactions (%)	Settlement method of connected transactions
HWBYS	Joint Venture	Purchase of goods	Medicine or pharmaceutical products	Market price	726,458	6.93	Cash
GP Corp.	Joint Venture	Purchase of goods	Medicine or pharmaceutical products	Market price	266,634	2.54	Cash
Wang Lao Ji	Joint Venture	Purchase of goods	Medicine or pharmaceutical products	Market price	630,068	6.01	Cash
Sub-total					1,623,160	15.48	
GPHL	Parent company	Sales of products	Medicine or pharmaceutical products	Market price	61	0.00	Cash
HWBYS	Joint Venture	Sales of products	Medicine or pharmaceutical products	Market price	208,870	1.13	Cash
GP Corp.	Joint Venture	Sales of products	Medicine or pharmaceutical products	Market price	472,108	2.54	Cash
Wang Lao Ji	Joint Venture	Sales of products	Medicine or pharmaceutical products	Market price	441,334	2.38	Cash
Nuo Cheng	Joint Venture	Sales of products	Medicine or pharmaceutical products	Market price	9	0.00	Cash
Baxter Qiao Guang	Joint Venture	Sales of products	Medicine or pharmaceutical products	Market price	1,611	0.01	Cash
Sub-total					1,123,993	6.06	
HWBYS	Joint Venture	Provision of service	Advertising agency	Market price	44,095	87.93	Cash
GP Corp.	Joint Venture	Provision of service	Advertising agency	Market price	308	0.61	Cash
Wang Lao Ji	Joint Venture	Provision of service	Advertising agency	Market price	2,517	5.02	Cash
Baxter Qiao Guang	Joint Venture	Provision of service	Advertising agency	Market price	92	0.18	Cash
Wang Lao Ji	Joint Venture	Provision of service	Consigned processing	Market price	17,491	83.99	Cash
HWBYS	Joint Venture	Provision of service	Research and development	Market price	113	1.33	Cash
Sub-total					64,616		
GPHL	Parent company	Acceptance of patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	77,603	85.11	Cash
Wang Lao Ji	Joint Venture	Acceptance of patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	14,702	100.00	Cash
GPHL	Parent company	others	Rental assets	Agreement price	13,815	18.60	Cash
GPHL	Parent company	others	Leased assets	Agreement price	549	0.68	Cash
GP Corp.	Joint Venture	others	Leased assets	Agreement price	2,849	3.51	Cash
Baxter Qiao Guang	Joint Venture	others	Leased assets	Agreement price	3,000	3.70	Cash
Nuo Cheng	Joint Venture	others	Leased assets	Agreement price	1,949	2.40	Cash
HWBYS	Joint Venture	others	Leased assets	Agreement price	73	0.09	Cash
Total					2,926,309		

Major Events

(10) CONNECTED TRANSACTIONS (Continued)

- (i) Set out below are the details of the ordinary connected transactions disclosed in accordance with the requirements of the CSRC and the SSE: (Continued)

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

Set out below are the details of connected transactions disclosed in accordance with the requirements of the HKEx:

	2015 (RMB'000)
Ultimate holding company	
License fee expense of Wang Lao Ji trademark	76,525
License fee expense of Category 32 trademark owned by GPLH	1,078
Rental expense	13,815
Rental income	549
Ultimate Holding Company and its subsidiaries	
Sales of finished goods and raw materials	61

Including: Details of rental expense for year 2015 are as below:

	2015 (RMB'000)
Rental expense	13,815
Including: Rental expense for year 2014	5,207
Rental expense for year 2015	8,608

Restatement of rental expense for year 2014 is as below:

	2014 (RMB'000)
Rental expense stated in the report for year 2014	2,874
Add: Rental expense for year 2014 stated in year 2015	5,207
Subtotal	8,081

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

The annual cap for rental for the lands and real estates leased from GPLH for the year ended 31 December 2015 published on 17 March 2014 amounted to RMB12,000,000.

(10) CONNECTED TRANSACTIONS *(Continued)*

- (i) Set out below are the details of the ordinary connected transactions disclosed in accordance with the requirements of the CSRC and the SSE: *(Continued)*

The Board considered that the above-mentioned connected transactions were conducted in accordance with the terms of the relevant agreements or contracts. The Board confirmed that the annual cap of the “Wang Lao Ji License Agreement” published on 26 April 2013 for 2015 amounted to RMB200,000,000.

The independent non-executive Directors have reviewed the connected transactions and each confirmed that all the transactions were conducted in the ordinary course of the business of the Company and were on normal commercial terms. Such terms were considered normal commercial terms or terms to the Company no less favourable than those available to or from independent third parties. The relevant connected transactions were conducted in accordance with the terms of the agreements, and the terms were fair and reasonable and were in the interests of the Company’s shareholders as a whole and the aggregate amount of license fee for “Wang Lao Ji” trademarks have not exceed the annual cap disclosed in the Company’s announcement dated 26 April 2013. The rental expenses have not exceed the annual cap disclosed in the Company’s announcement dated 17 March 2014.

The Company’s auditor was appointed 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 Listing Rules of HKEx” issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its conclusions in respect of the license fee for Wang Lao Ji trademarks and the rental expense as disclosed in the continuing connected transactions above in accordance with the rule 14A.56 of the Listing Rules of HKEx.

During the Reporting Period, the connected transactions under Chapter 14A of the Listing Rules of HKEx are set out as below:

- (1) Trading in the shares of the Company was suspended from 3 December 2014 to 12 January 2015 for the preparation of non-public issue of A shares. On 12 January 2015, the Board approved the proposed placing, at the 8th meeting of the sixth session of the Board pursuant to which the Company proposed to issue not more than 419,463,087 new A Shares to 5 subscribers in total, being GPLH, Guangzhou State-owned Asset Development Holdings Limited* (廣州國資發展控股有限公司), Guangzhou China Life Insurance Urban Development Industry Investment Enterprises (Limited Partnership)* (廣州國壽城市發展產業投資企業), Shanghai Yunfeng Xinchuang Investment Management Company Limited* (上海雲峰創新投資管理有限公司) and China Universal Asset Management Company Limited* (匯添富基金管理股份有限公司) (as trustee of the Employee Stock Trust) at the subscription price of RMB23.84 per new A Share (RMB23.56 per new A Share after adjustment), representing a maximum amount of gross proceeds of approximately RMB10,000 million (and approximately RMB8.3 billion after adjustment) (the “Proposed Placing”). GPLH is a controlling shareholder of the Company which held approximately 45.23% of the total issued share capital of the Company, thus a connected person of the Company. Therefore, the Proposed Placing of the Company constitutes the connected transactions of the Company under Chapter 14A of the Listing Rules of the HKEx.

Major Events

(10) CONNECTED TRANSACTIONS *(Continued)*

- (i) Set out below are the details of the ordinary connected transactions disclosed in accordance with the requirements of the CSRC and the SSE: *(Continued)*

(1) *(Continued)*

The Proposed Placing was approved by the independent shareholders by poll at the first extraordinary general meeting, the general meeting of holders of A shares and general meeting of holders of H shares held on 13 March 2015. For details of the Proposed Placing, please refer to the announcements of the Company dated 12 January 2015, 17 March 2015 and circulars dated 26 February 2015 and 16 February 2016 respectively.

As approved at the 20th meeting of the sixth session of the Board, the Company respectively convened the first extraordinary general meeting, the general meeting of holders of A shares and general meeting of holders of H Shares for approving the resolution on the extension of the effective period of the Proposed Placing and the authorization on 10 March 2016, due to the reasons that the Company has not yet received written approval document(s) of the Proposed Placing from the CSRC, the implementation will take some time even after the Company has received the written approval document(s) and the effective period of the Shareholders' resolutions for the Proposed Placing will be expired. The resolution on the extension of the effective period of the Proposed Placing and the authorization have been approved at such general meetings. Except for the extension of the effective period, the contents of the former plan and authorization of the Proposed Placing remain unchanged. For details, please refer to the announcement of the Company dated 15 January 2016 published in 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 website of the SSE (www.sse.com.cn) and the website of the HKEx (www.hkex.com.hk), the circular of the shareholders of H Shares dated 16 February 2016 and the poll results announcement of the general meeting dated 10 March 2016.

(10) CONNECTED TRANSACTIONS *(Continued)*

- (i) Set out below are the details of the ordinary connected transactions disclosed in accordance with the requirements of the CSRC and the SSE: *(Continued)*
- (2) In order to motivate the employees of the Group, the Board approved the Employee Stock Ownership Scheme (2015) (“Stock Ownership Scheme”) on 12 January 2015. The target participants of the Stock Ownership Scheme are all employees of the Group as at 1 January 2015, including Directors (excluding independent non-executive Directors), supervisors, senior management and other employees (“Above Parties”) of the Group. The total size of the Stock Ownership Scheme will be no more than the maximum number of A Shares to be subscribed for under the Employee Scheme Subscription, being 21,189,000 A Shares originally and 21,440,821 A Shares after adjustment, and no more than the maximum subscription amount of approximately RMB505 million under the Employee Scheme Subscription. The Above Parties are the connected persons of the Company. Accordingly, the Stock Ownership Scheme constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules of the HKEx.

The Stock Ownership Scheme has been approved through voting by independent shareholders at the 2015 first extraordinary general meeting, the A Share Class Meeting and the H Share Class Meeting respectively held on 13 March 2015. The Company disclosed the Stock Ownership Scheme on the *Shanghai Securities News*, *Securities Times*, *China Securities News*, *Securities Daily*, Shanghai Stock Exchange website and HKEX website.

For more details of the Proposed Placing, please refer to the announcements dated 12 January 2015 and 17 March 2015 and the circulars dated 26 February 2015 and 16 February 2016 respectively.

The Company has not yet received the official written approval from the CSRC relating to the Proposed Placing applied for by the Company. Despite the Company has obtained the official written approval for the Proposed Placing from the CSRC recently, the Company needs a certain period of time to execute the Proposed Placing and the effective period of the resolutions of the general shareholders’ meeting relating to the Proposed Placing will expire. In order to ensure the smooth implementation of the Proposed Placing, the twentieth meeting of the sixth board of directors considered and agreed that the Company held the 2016 first extraordinary general meeting, the A Share Class Meeting and the H Share Class Meeting respectively on 10 March 2016 to approve the extension of resolutions relating to the Proposed Placing and the effective period of the authorized resolutions. In addition to extension of the effective period, the original program (as amended) of the Proposed Placing and other authorized contents remain unchanged. For more details, please refer to the announcements and circulars published by the Company on the Shanghai Stock Exchange website and HKEx website (including the announcement dated 15 January 2016, the circular of H Share Class Shareholders dated 26 February 2015, the announcement dated 28 October 2015, and the circular of H Share Class Shareholders dated 16 February 2016).

Major Events

(10) CONNECTED TRANSACTIONS *(Continued)*

(i) Set out below are the details of the ordinary connected transactions disclosed in accordance with the requirements of the CSRC and the SSE: *(Continued)*

- (3) As approved at the fourth meeting of the Strategic Development and Investment Committee of the Company in 2015, the Company participated in the delisting acquisition of 100% equity of Guangyao General Institute held by GPLH. The Company and GPLH entered into an Equity Transfer Agreement on 7 July 2015. The Company became the transferee of the equity bid and acquired 100% of the equity of Guangyao General Institute at the price of RMB160,197,900. GPLH is a controlling shareholder of the Company and held approximately 45.23% of the total issued share capital of the Company. Therefore, GPLH is a connected person of the Company. Accordingly, the transaction constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules of the HKEx.

For more details, please refer to the announcements dated 7 July 2015 published by the Company on the *Shanghai Securities News*, *Securities Times*, *China Securities News*, *Securities Daily*, Shanghai Stock Exchange website and HKEX website.

In addition to the above disclosure, please refer to the section headed “(12) DISPOSAL OF ASSETS, ENTERPRISE MERGER” of this annual report for details of the Group’s major acquisition and sales.

(10) CONNECTED TRANSACTIONS *(Continued)*

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

A. *The Group's purchase and disposal of assets or enterprise merger and other transactions during the Reporting Period*

- (1) As approved at the 23th meeting of the fifth session of the Board, Wang Lao Ji Great Health, a wholly-owned subsidiary of the Company, proposed to establish Wang Lao Ji herbal tea production base in Ya'an, Si Chuan province to offer more jobs opportunities, the total investment of the project was expected to be RMB298 million for the construction of two canning production lines. The project had succeeded in production line debugging as planned on 20 April 2015 and entered the stage of quantity production. At present, the project is at the stage of auditing in relation to its completion and it's expected to complete before end of October 2016.

For details, please refer to the announcement dated 16 July 2013 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 on the website of the SSE and the HKEx.

- (2) As approved at the 4th meeting of the Strategic Development and Investment Committee in 2014, Wang Lao Ji Great Health, the wholly-owned subsidiary of the Company and Murad Biotechnology Group Ltd. (穆拉德生物科技集團有限公司) established a joint venture, Guangzhou WLJ Murad Biotechnology Co., Ltd. (廣州王老吉穆拉德生物科技有限公司) with 50% equity interest each. Wang Lao Ji Great Health would make a contribution of RMB5 million in cash. The transaction mentioned above is in progress.
- (3) As approved at the 1st meeting of the Strategic Development and Investment Committee in 2015, Guangyao Baiyunshan Hong Kong Company would acquire 25% equity interest of Qi Xing, a wholly-owned subsidiary of the Company, held by Guangyong Financial Co., Ltd. through transfer agreement. The transaction mentioned above has been completed.
- (4) As approved at the 1st meeting of the Strategic Development and Investment Committee in 2015, the Company made additional capital injection of RMB10 million to Medical and Healthcare Industry Company, a wholly-owned subsidiary of the Company. The registered capital of which had been increased from RMB10 million to RMB20 million after the capital injection. The capital injection mentioned above has been completed.

Major Events

(10) CONNECTED TRANSACTIONS *(Continued)*

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

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

- (5) At the 2nd meeting of the Strategic Development and Investment Committee in 2015, the resolution on the additional capital injection from the Company to Wang Lao Ji Great Health and the establishment of Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. ("Nansha Subsidiary") were approved. After the capital injection, the registered capital of Wang Lao Ji Great Health would increase from RMB10 million to RMB100 million. The registered capital of the newly established Nansha Subsidiary is RMB10 million. Wang Lao Ji Great Health held 100% equity interest of that company. At present, the transactions mentioned above have been completed.
- (6) As approved at the 3rd meeting of the Strategic Development and Investment Committee in 2015, Medical and Healthcare Industry Company, a wholly-owned subsidiary of the Company, would acquire equity interest in Baiyunshan Hospital by way of contributing RMB46.5 million in cash into Baiyunshan Hospital and would hold 51% equity interest thereafter. At present, the transaction mentioned above have been completed.
- (7) As approved at the 4th meeting of the Strategic Development and Investment Committee in 2015, the Company contributed RMB25 million in cash as registered capital to Medical and Healthcare Industry Company. Upon completion of the capital injection, the registered capital of Medical and Healthcare Industry Company had increased from RMB20 million to RMB45 million. The transaction mentioned above has been completed.

(10) CONNECTED TRANSACTIONS *(Continued)*

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

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

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

Ming Xing (98.8 mu), He Ji Gong (36 mu), HYBYS (99.7 mu) and GP Corp. (68.5 mu), subordinated enterprises of the Company, have obtained the land use rights of the land available for construction (303 mu) in the first phase, with a total land bidding price of about RMB221.29 million. At present, the relevant work mentioned above is currently in progress.

- (9) As approved at the 5th meeting of the Strategic Development and Investment Committee in 2015, the Company participated in the subscription of 10 million private share placement of Chongqing Pharmaceutical. as a strategic investor at the price of RMB15 per share. The subscription amount is RMB150 million in total, and the Company will hold 2.18% equity interest of Chongqing Medicines. The final shareholding will be subject to the ratio calculated on the basis of the actual paid equity upon the completion of the capital increase of Chongqing Medicines. At present, the transaction mentioned above has been completed. The Company holds 2.22% equity interest in Chongqing Medicines with an capital injection of RMB150 million.
- (10) As approved at the 6th meeting of the Strategic Development and Investment Committee of the Company in 2015, the Company increased RMB46,500,000 as registration capital in Medical and Healthcare Industry Company for the investment and construction of Baiyunshan Hospital. The above capital increase has been completed.

Major Events

(10) CONNECTED TRANSACTIONS *(Continued)*

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

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

- (11) As approved by the 15th meeting of the six session of the Board of Directors, the Company proposed to set up a cooperative company ("Cooperative Company") with Hygiene and Family Planning Commission of Jining (濟寧市衛生和計劃生育委員會), Shenzhen Costone Ventures Investment Management Company Limited* (深圳市基石創業投資管理有限公司) and the Management Committee of the High and New Technology Industry Development Zone of Jining* (濟寧高新技術產業開發區管理委員會), which will act as the main body to carry out investment in hospitals and take part in the construction, operation and management therein. According to the Framework Agreement entered into by all parties, the Company intended to invest in cash of RMB100 million into the Cooperative Company, and was expected to hold 33% equity interest therein. For details, please refer to the announcements dated 20 August 2015, which were published by the Company in Shanghai Securities News, Securities Times, China Securities Journal, Securities Daily and on the websites of SSE and HKEx.
- (12) As approved at the 7th meeting of the Strategic Development and Investment Committee of the Company in 2015, the Company invested RMB150,000,000 to subscribe LP Shares in Guangzhou Sino-Israeli Bio-Industry Investment Fund (or other names approved by the industrial and commercial administrative department) (the "Sino-Israeli Fund") and contributed RMB500,000 (representing 10%) to the establishment of Guangzhou Elim Biotech Industrial Venture Capital Management Company, the ordinary partner of the Sino-Israeli Fund. For more details, please refer to the announcement published by the Company in Shanghai Securities News, Securities Times, China Securities journal, Securities Daily and on the website of the SSE and HKEx on 29 October 2015. Currently, such matters are in progress.
- (13) As approved at the 8th meeting of the Strategic Development and Investment Committee of the Company in 2015, Cai Zhi Lin, a wholly-owned subsidiary of the Company, increased capital of RMB19,199,000 in cash to its wholly-owned enterprise Guangzhou Medicine Company Chinese Herbal Pieces Factory. After the capital increase, the registration capital of Guangzhou Medicine Company Chinese Herbal Pieces Factory will increase to RMB20,000,000. Currently, the above transaction is in progress.

(10) CONNECTED TRANSACTIONS *(Continued)*

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

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

- (14) As approved at the 8th meeting of the Strategic Development and Investment Committee of the Company in 2015, the Company injected capital in Guangyao General Institute in the amount of RMB70,000,000 in cash, of which RMB32,335,378.89 was accounted into paid in capital, and the remaining RMB37,664,622.11 was accounted into capital reserve. After the capital increase, the registered capital of Guangyao General Institute had increased to RMB80,000,000. The aforesaid matter has been completed.
- (15) As approved at the 9th meeting of the Strategic Development and Investment Committee of the Company in 2015, Guangyao Baiyunshan Hongkong Company, a wholly-owned subsidiary of the Company, as a cornerstone investor, subscribed for 7,906,500 H Shares of Chuangmei Pharmaceutical listed in Hongkong by initial offer at a price of HK\$68,691,100, representing 7.3% of the share equity of Chuangmei Pharmaceutical after public offer. For more details, please refer to the announcements published by the Company in Shanghai Securities News, Securities Times, China Securities Journal, Securities Daily and on the website of the SSE and HKEx on 11 December 2015.
- (16) As approved at the 11th meeting of the Strategic Development and Investment Committee of the Company in 2015, the capital of HK\$177,500,000 or the equivalent amount of RMB was injected to Guangyao Baiyunshan Hongkong Company by the Company, which could be paid by installment. Currently, such capital increase is in progress.

Major Events

(10) CONNECTED TRANSACTIONS (Continued)

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

B. Assets acquisition of the Company during the Reporting Period

Counterparty or the ultimate controlling party	Assets being acquired	Date	Assets price (RMB)	Net profit contribution to the Company during the Year (RMB)	Net profit contribution to the Company during the Year (Apply to the business merger under the same control) (RMB)	Whether connected transactions (if so, explain the pricing principle)	Pricing principle of assets acquisition	Whether the property of the assets had been assigned	Whether the debts had been transferred	Net profit contribution to the Company accounted for the proportion of total profit (%)	Connected relationship
The Labour Union Committee of GPLH and The Labour Union Committee of the Headquarter of GPLH	Guangyao Haima	2015.1.	7,000,000.00	1,289,922.99	N/A	No	valuated and negotiated price	Yes	Yes	0.10	N/A
Guangyong Finance Company Limited	25% equity interest in Qi Xing	2015.4.	45,598,100.00	(8,989,338.59)	(12,143,343.79)	No	negotiated price	Yes	Yes	-	N/A
GPLH	Guangyao General Institute	2015.8	161,147,900.00	36,852.14	(335,715.42)	Yes	negotiated price	Yes	Yes	-	Connected parties

Save as disclosed above, the Group did not engage in any material acquisitions or disposals.

(11) DEBTS OF RELATED PARTIES

Related Party	Relationship to the related parties	Funds provided to related parties			Funds provided by related parties to the Company		
		Balance at the beginning of the Reporting Period (RMB'000)	Amount (RMB'000)	Ending balance (RMB'000)	Balance (RMB'000)	Amount (RMB'000)	Ending balance (RMB'000)
Bozhou Baiyunshan	Subsidiary of a joint venture	17,431	708	18,139	-	-	-
Total		17,431	708	18,139	-	-	-

Reasons for the funds provided to/from related parties: The Company's other receivables from HWBYS for the Reporting Period included receivables of RMB18,139,000 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.

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

Impact of the funds provided to/from related parties on the Company's operating results and financial position: No significant impact

(12) MATERIAL CONTRACTS AND THEIR PERFORMANCE

- (i) 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 period.

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

(ii) Guarantees

Guarantees provided to parties other than the Company's subsidiaries						
Guaranteed parties	Date of occurrence (Date of signing of agreements)	Amount involved (RMB'000)	Type of guarantees	Term of guarantees	Performance completed or not	Guarantees for connected parties (yes or no)
			Joint and several liability			
Nuo Cheng	24 November 2013	59,088	guarantee	1 year	Yes	Yes
Accumulated amount of guarantees provided during the Reporting Period (RMB'000)						–
Balance of guarantees as at the end of the Reporting Period (RMB'000)						–
The Company's guarantees provided to its subsidiaries						
Accumulated amount of guarantees provided to the Company's holding subsidiaries during the Reporting Period (RMB'000)						–
Balance of guarantees provided to the Company's holding subsidiaries as at the end of the Reporting Period (RMB'000)						–
The Group's guarantees (including those provided to the Company's subsidiaries)						
Total amount of guarantees provided (RMB'000)						–
Total amount of guarantees provided amount the net assets of the Group (%)						–
Including:						
Amount of guarantees provided to the Company's controlling shareholder and other connected parties (RMB'000)						–
Direct or indirect guarantees provided to entities with a gearing ratio of over 70% (RMB'000)						–
Amount of guarantees provided which exceeds 50% of the total net assets of the Company (RMB'000)						–
Total amount of the above three types of guarantees (RMB'000)						–

Major Events

(12) MATERIAL CONTRACTS AND THEIR PERFORMANCE *(Continued)*

(iii) Situation on cash management by entrusting others

- A. During the Reporting Period, the Group did not have any entrusted investment activities.
- B. During the Reporting Period, the Company's entrusted loans are set out below:

Name of borrower	Entrusted loan amount (RMB'000)	Term of the loan	Lending rates	Whether overdue	Is it a connected transactions	Relationship with the Company
Cai Zhi lin	15,000	One Year	5.60%	No	No	Wholly-owned subsidiary
Cai Zhi lin	120,000	One Year	5.35%	No	No	Wholly-owned subsidiary
Cai Zhi lin	40,000	One Year	5.10%	No	No	Wholly-owned subsidiary
Cai Zhi lin	40,000	One Year	4.85%	No	No	Wholly-owned subsidiary
Cai Zhi lin	85,000	One Year	4.60%	No	No	Wholly-owned subsidiary
Cai Zhi lin	58,000	One Year	4.35%	No	No	Wholly-owned subsidiary
Pharmaceutical Import & Export	5,000	One Year	5.10%	No	No	Wholly-owned subsidiary
Pharmaceutical Import & Export	110,000	One Year	4.35%	No	No	Wholly-owned subsidiary
Guangzhou Bai Di	15,000	One Year	5.60%	No	No	subsidiary
Guangzhou Bai Di	21,000	One Year	5.35%	No	No	subsidiary
Guangzhou Bai Di	24,000	One Year	4.35%	No	No	subsidiary
Guangzhou HanFang	8,000	One Year	5.60%	No	No	subsidiary
Xing Qun	13,000	One Year	5.60%	No	No	subsidiary
Xing Qun	36,200	One Year	5.35%	No	No	subsidiary
Xing Qun	8,000	One Year	5.10%	No	No	subsidiary
Xing Qun	10,000	One Year	4.60%	No	No	subsidiary
Baiyunshan Pharmaceutical Marketing	9,920	One Year	4.60%	No	No	Wholly-owned subsidiary
Total	618,120					

As at 31 December 2015, the Company had provided its subsidiaries with entrusted loan of RMB618,120,000.

(13) As at the end of the Reporting Period, the engineering and equipment expenses that were contracted by the Group but not paid was RMB221,570,000. The lease expenses which were contracted but not paid amounted to RMB299,460,000.

- (14) 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 asset ratio, consideration ratio, earning ratio and income ratio exceed 5% during the Reporting Period.
- (15) 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, etc. except mention below.
- (16) Explanatory notes on other major events

(i) Trading in the shares of the Company was suspended from 3 December 2014 to 12 January 2015 for the preparation of non-public issue of A Shares. Details are set out in (10) "CONNECTED TRANSACTIONS (i)" of the sixth section of this Annual Report.

As approved at the 20th meeting of the sixth session of the Board, the Company respectively convened the first extraordinary general meeting, the general meeting of holders of A Shares and general meeting of holders of H Shares for approving the resolution on the extension of the effective period of the Proposed Placing and the authorization on 10 March 2016, due to the reasons that the Company has not yet received written approval document(s) of the Proposed Placing from the CSRC, the implementation will take some time even after the Company has received the written approval document(s) and the effective period of the Shareholders' resolutions for the Proposed Placing will be expired. The resolution on the extension of the effective period of the Proposed Placing and the authorization have been approved at such general meetings. Except for the extension of the effective period, the contents of the former plan (as revised) and authorization of the Proposed Placing remain unchanged.

For details, please refer to the announcement of the Company dated 15 January 2016 published in 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 website of the SSE (www.sse.com.cn) and the website of the HKEx (www.hkex.com.hk), the circular of the shareholders of H Shares dated 16 February 2016 and the poll results announcement of the general meeting dated 10 March 2016.

(17) PERFORMANCE OF SOCIAL RESPONSIBILITIES

The Company prepared the Social Responsibilities Report of 2015 (full version is available on the website of the SSE) in accordance with the requirements of the Notice on Preparation of the 2014 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 2015 Social Responsibility Report (environmental quality, professional health and safety, environmental protection and social participation).

- (18) During the Reporting Period, the Company did not have any convertible bonds.

Changes in Share Capital and Shareholders

(1) CHANGES IN SHARE CAPITAL

(i) Changes in share capital

A. Changes as set out in the table below:

	Before movement		Increase/Decrease (+, -)					After movement	
	Number of		New issue (share)	Bonus issue (share)	Transfer of capital		Sub-total (share)	Number of	
	Shares (share)	Percentage (%)			reserve (share)	Other (share)		Shares (share)	Percentage (%)
I. Shares subject to selling restrictions									
1. State-owned Shares	-	-	-	-	-	-	-	-	-
2. State-owned legal person shares	34,839,645	2.70	-	-	-	-	-	34,839,645	2.70
3. Other domestic shares	-	-	-	-	-	-	-	-	-
including: domestic non-state-owned legal person shares	-	-	-	-	-	-	-	-	-
Domestic natural person shares	-	-	-	-	-	-	-	-	-
4. Shares held by foreign capital shares	-	-	-	-	-	-	-	-	-
including: shares held by overseas legal entities	-	-	-	-	-	-	-	-	-
Shares held by overseas natural persons	-	-	-	-	-	-	-	-	-
II Shares subject to no selling restrictions									
1. Renminbi-denominated ordinary shares	1,036,601,005	80.27	-	-	-	(261,400)	(261,400)	1,036,339,605	80.27
2. Domestic foreign capital shares	-	-	-	-	-	-	-	-	-
3. Overseas foreign capital shares	219,900,000	17.03	-	-	-	-	-	219,900,000	17.03
Other	-	-	-	-	-	-	-	-	-
III Total shares	1,291,340,650	100.00	-	-	-	(261,400)	(261,400)	1,291,079,250	100.00

B. Changes in shares

As a follow-up matter of the Major Asset Reorganization, GPLH performed its obligations under the Profit Compensation Agreement, the Company repurchased 261,400 A Shares from GPLH at the consideration of RMB1 and cancelled them thereafter (the "Repurchased Shares") on 24 April 2015. The Repurchased Shares had been transferred to the security account of the Company on 27 April 2015. Meanwhile, the Company had cancelled the Repurchased Shares at the Depository Corporation on 7 May 2015, cancelled the repurchase security account and dealt with the industry and commerce registration changes in a timely manner.

Changes in Share Capital and Shareholders

(1) CHANGES IN SHARE CAPITAL *(Continued)*

(ii) Change in shares with selling restrictions *(Continued)*

Name of holders	Number of shares subject to selling restrictions at the beginning of the Reporting Period (share)	Number of shares released from selling restrictions during the Reporting Period (share)	Number of additional shares subject to selling restrictions for the Reporting Period (share)	Number of shares subject to selling restrictions at the end of the Reporting Period (share)	Reasons for selling restrictions	The date on which shares will be released from selling restrictions
GPHL	34,839,645	0	0	34,839,645	Note	5 July 2016

Note: According to "Agreement on Purchase of Assets by Issue of Shares" and the relevant supplementary agreements, the 34,839,645 shares held by GPHL shall not be listed for trading or transferred within the 36 months from 5 July 2013, being the date on which those shares were listed and circulated.

(2) INTERNAL STAFF SHARES

The Company did not have any internal staff shares.

(3) INFORMATION ON SHAREHOLDERS

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

As at 31 December 2015, there were 64,601 shareholders in total, of which 64,574 were holders of domestically listed Renminbi-denominated ordinary shares (A shares) and 27 were holders of overseas listed shares (H shares).

As at 29 February 2016, there were 67,032 shareholders in total, of which 67,005 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

(ii) The top ten shareholders of the Company as at 31 December 2015 were 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	(261,400)	583,966,636	45.23	34,839,645	Nil	Domestic shares
HKSCC Nominees Limited	52,000	219,599,479	17.01	Nil	Unknown	H shares
China Securities Finance Corporation Limited	23,779,677	33,721,611	2.61	Nil	Unknown	Domestic shares
Central Huijin Assets Management Co., Ltd.	15,260,700	15,260,700	1.18	Nil	Unknown	Domestic shares
The Industrial and Commercial Bank of China Co., Ltd. – Southern Consumption Vitality Flexibly Configured Mixed Initiate Securities Investment Funds	7,889,026	7,889,026	0.61	Nil	Unknown	Domestic shares
China Merchants Bank Company Limited – Hui Tian Fu Medical Service Flexibly Configured Mixed Securities Investment Funds	7,776,981	7,776,981	0.60	Nil	Unknown	Domestic shares
Agricultural bank of China Co., Ltd. – Fu Guo Zhong Zheng State-owned Enterprise Reform Index Classification Securities Investment Funds	6,880,821	6,880,821	0.53	Nil	Unknown	Domestic shares
New China life Insurance Co., Ltd. –Dividend– Group Dividends – 018L – FH001 HU	6,380,585	6,380,585	0.49	Nil	Unknown	Domestic shares
The National Social Security Fund – One Two Combination	5,000,000	5,000,000	0.39	Nil	Unknown	Domestic shares
Zhao Xuguang	(1,765,323)	4,968,494	0.38	Nil	47,500	Domestic shares
Explanation on the connection or parties acting in concert among the above shareholders		(1)				According to the information provided by HKSCC Nominees Limited, the H shares held by it were held on behalf of clients.
		(2)				The Company was not aware of any connection among the above top ten shareholders, or whether they were parties acting in concert as provided in the "Rules Governing the Disclosure of Change in Shareholders' Shareholding in Listed Companies".

Changes in Share Capital and Shareholders

(3) INFORMATION ON SHAREHOLDERS *(Continued)*

- (ii) As at 31 December 2015, the top ten shareholders of the Company are set out as follows: *(Continued)*

The top ten shareholders of the Company with selling restrictions

Name of holders whose shares are subject to selling restrictions	Number of shares subject to selling restrictions (share)	Circumstances under which restricted shares can be traded		Selling restrictions undertaken
		Permissible trading time	New number of shares permitted to be traded (shares)	
GPHL	34,839,645	5 July 2016	34,839,645	Note

Note: According to "Agreement on Purchase of Assets by Issue of Shares" and the relevant supplementary agreements, the 34,839,645 shares held by GPHL shall not be listed for trading or transferred within the 36 months from 5 July 2013, being the date on which those shares were listed and circulated.

- (iii) **Shareholders' interests and short positions in the shares and underlying shares of the Company**

As at 31 December 2015, the interests and short positions held by the persons (not being the directors, supervisors and senior management of the Company) in the shares and underlying shares of the Company which were required to be notified to the Company and the HKEx pursuant to Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required maintained by the Company under Section 336 of the SFO were as follows:

Shareholder	Nature of shares	Long Positions		Approximate % of the total issued domestic shares (%)	Approximate % of the total issued H shares (%)
		Number of shares held (share)	Capacity		
GPHL	Domestic shares	583,966,636	Beneficial owner	45.23	–
Value Partners Group Limited	Overseas shares	13,332,000	Interests of the controlled group	–	6.06

As far as the Directors are aware, as at 31 December 2015, 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 be 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

(i) Controlling shareholder

Name of shareholder	Guangzhou Pharmaceutical Holdings Limited
Legal representative	Li Chuyuan
Date of establishment	7 August 1996
Organization code	23124735-0
Registered capital	RMB1,252.8 million
Business scope	To invest in and manage State-owned assets, to sell and manufacture Chinese and western medicine, Chinese raw medicine, bio-tech products, medical apparatus, packing materials for pharmaceutical products, health drinks and food, hygienic materials and pharmaceutical related merchandise; to undertake medicine related import and export affairs and to develop real estate.
Operating results	GPHL recorded an income from sales (unaudited) in 2015 of RMB49.301 billion and its net profit (unaudited) was RMB1.638 billion in 2015.
Financial position	As at 31 December 2015, the total assets (unaudited) was RMB32.971 billion and net assets was RMB11.911 billion.
Cash flow and future development strategy	Upon the completion of the Major Assets Reorganization, all assets from the pharmaceuticals manufacturing of GPHL were incorporated into the Group. Without violating the independence maintained by the Group and avoidance of competitions among the peers, GPHL will fully utilize its advantages in branding, resources and financial condition while at the same time GPHL, according to the market principles, will nurture the business or assets which will be suitable for the development of the Group but not yet for implementation. When GPHL transfers the matured business operations, the Group will be given the right of pre-emption under the same conditions.
Shareholding information of other domestic and overseas listed companies during the Reporting Period	Not applicable

Changes in Share Capital and Shareholders

(4) INFORMATION ON CHANGES OF THE COMPANY'S CONTROLLING SHAREHOLDER AND ITS BENEFICIAL OWNER *(Continued)*

(ii) Beneficial owner

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").

Guangzhou SASAC	
100%	
GPLH	
45.23%	
The Company	

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

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

(6) REPURCHASE, DISPOSAL OR REDEMPTION OF THE COMPANY'S SHARES BY THE COMPANY OR ITS SUBSIDIARIES DURING OR ITS SUBSIDIARIES DURING THE REPORTING PERIOD

As a follow-up matter of the Major Asset Reorganization, GPLH performed its obligations under the Profit Compensation Agreement, the Company repurchased 261,400 A Shares from GPLH at the consideration of RMB1 and cancelled them thereafter (the "Repurchased Shares") on 24 April 2015. The Repurchased Shares had been transferred to the security account of the Company on 27 April 2015. Meanwhile, the Company had cancelled the Repurchased Shares at the Depository Corporation on 7 May 2015, cancelled the repurchase security account and dealt with the industry and commerce registration changes in a timely manner.

Changes in Share Capital and Shareholders

(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 provision or requirement right which would require the Company to issue new shares to existing shareholders on a pro-rata basis.

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) Executive directors

Mr. Li Chuyuan, aged 50, postgraduate degree, EMBA degree, senior economist and is a senior engineer of professor grade. Mr. Li is a national labour model and enjoys special government allowances from the State Council, top ten innovative characters of Guangdong province, top ten Economic Person of the Year of Guangdong province, the deputy director of the Science and Education, Sanitation and Sport Committee of Guangdong Political Consultative Conference, member of the People's Congress of Guangzhou City, a representative of Guangzhou party congress and Outstanding City Management Expert of Guangzhou City and received the award named "Ding Ying Technology Award" which was the top award of in Guangdong Scientific community since February 2014. Mr. Li started his career since July 1988 and had been deputy director of operation department of Baiyunshan General Factory, deputy general manager of Baiyunshan and general manager, vice chairman, deputy secretary the Party Committee of GPLH, and vice chairman of the Company. Mr. Li has been a director of the Company since 28 June 2010. Mr. Li has extensive experience in the fields of corporate management and marketing.

Mr. Chen Mao, aged 52, holds a bachelor degree in Medicine and is a pharmaceutical engineer. Mr. Chen started his career since November 1985, and served as deputy director of Guangzhou Baiyunshan Pharmaceutical Factory the chairman of Pharmaceutical Technology, general manager of Baiyunshan, factory manager of Baiyunshan General Factory, chairman of Guang Hua and deputy general manager of GPLH. Mr. Chen has been the vice chairman of the Company since January 2014, is the general manager, vice-chairman and deputy secretary of the party committee of GPLH, deputy secretary of the party committee and vice chairman of the Company, chairman of Baxter Qiao Guang and chairman of WLJ Great Health. Mr. Chen has extensive experience incorporate management and marketing.

Ms. Liu Juyan, aged 51, holds a master degree and a doctorate degree in medicine and is a senior engineer of professor grade. Ms. Liu started her career since July 1990 and served as chairman and general manager of Guangzhou Han Fang and director of technology and quality department of GPLH. Ms. Liu has served as chief engineer of GPLH since August 2005 and chief technical officer of the Company, deputy general manager of GPLH since January 2011. Ms. Liu has served as chairman of Guangzhou Gang Yao Yi Gan Biological Product Co., Ltd. since January 2012 and served as chairman of Guangyao General Institute since May 2013 and the director of the Company since December 2013. She is also enjoys special government allowances from the State Council, member of the People's Congress of Guangzhou City, Outstanding City Management Experts of Guangzhou City and a Guangzhou "121" reserved talent. Ms. Liu has extensive experience in scientific research and development, technological management and co-ordination management.

Directors, Supervisors, Senior Management and Staff

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

(i) Executive directors *(Continued)*

Ms. Cheng Ning, aged 50, is of tertiary education, accountant, is a PRC certified public accountant and PRC certified tax consultant. Ms. Cheng started her career in August 1986 and has served as an officer of the finance section of Guangzhou Baiyunshan Pharmaceutical General Factory, a deputy section chief of the finance section of Guangzhou Baiyunshan Bao De Pharmaceutical Factory, and a chief of the finance section of Guangzhou Baiyunshan Veterinary Medicines Factory, a accounting and cashier of the settlement center of Baiyunshan, a deputy manager of the finance department of Baiyunshan, a member and secretary of the Supervision Committee of Baiyunshan, a deputy manager, and a director of the financial resources department and a director of the finance department of Guangzhou Baiyunshan Enterprise Group and a deputy manager of finance department of GPLH. Ms. Cheng has been a financial controller and manager of the finance department of GPLH since May 2010. Ms. Cheng has been a director of the Company since 19 September 2012, deputy general manager and financial director of GPLH, director of Zhong Yi, director of Qi Xing, director of Cai Zhi Lin, convenor of the board of directors of Guanyao Baiyunshan Hong Kong Company and supervisor of GP Corp., chairman of the supervisory committee of WLJ Great Health. Ms. Cheng has extensive experiences in finance management and internal control of enterprises.

Mr. Ni Yidong, aged 44, holds a master degree and a doctorate degree in medicine and is a senior engineer. Mr. Ni started his career since July 1994 and served as the director of market planning department of GPLH, the chairman of Zhong Yi and secretary of the party committee. He has been the director of the Company since January 2014, is the deputy general manager, director of thegr and health office and chief officer of grand health plate of GPLH and standing vice-chairman of WLJ Great Health. Mr. Ni has extensive experience in corporate management and marketing.

Mr. Wu Changhai, aged 50, a bachelor degree, a master's degree of EMBA, economist, a member of the National People's Congress of Guangzhou city. Mr. Wu started his career in July 1989 and has served as a deputy general manager, acting general manager, general manager, chairman and secretary of the Party Committee of Zhong Yi, chairman of Qi Xing, chairman of Xing Qun, chairman of WLJ Great Health and the general manager of GPC. Mr. Wu has been a director of the Company since 28 June 2010, and is currently a deputy manager of the Company, vice chairman of WLJ Great Health, chairman of WLJ Great Health of Meizhou, chairman of WLJ Great Health of Yaan. He has extensive experience in operational management, marketing and scientific research.

Directors, Supervisors, Senior Management and Staff

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

(i) Executive directors *(Continued)*

Mr. Wang Wenchu, aged 49, a bachelor degree and is an assistant engineer and economist. Mr. Wang started his career since July 1988 and served as deputy factory manager of Baiyunshan General Factory and general manager of Baiyunshan. Mr. Wang has been as a director of the Company since January 2014, is the executive director and deputy general manager of the Company, chief of Grand Southern TCM segment of GPLH, the standing deputy factory manager of Guangzhou Baiyunshan Pharmaceutical General Factory, chairman of Guang Hua, chairman of Pharmaceutical Technology, chairman of Jing Xiu Tang and, chairman of Pharmaceutical Marketing. Mr. Wang has extensive experience in corporate management and marketing.

(ii) Independent non-executive directors

Professor Patrick Wong Lung Tak, B.B.S., JP, aged 68, has been an independent non-executive Director since 28 June 2010. He is a Certified Public Accountant (Practising) in Hong Kong, a Chartered Secretary, Certified Tax Adviser in Hong Kong and the executive director of Patrick Wong CPA Limited. He has over 40 years experience in the accountancy profession. Prof. Wong obtained a Doctor of Philosophy Degree in Business and was awarded a Badge of Honour by the Queen of England. He has been appointed as a Justice of the Peace and was awarded a Bronze Bauhinia Star (B.B.S.) by the Government of the Hong Kong Special Administrative Region. He was appointed as Adjunct Professor, School of Accounting and Finance of the Hong Kong Polytechnic University from 2002 to 2013. Professor Wong participates in many types of community services and is holding posts in various organisations and committees in voluntary agencies. Professor Wong is an independent non-executive director of China Precious Metal Resources Holdings Co., Ltd., C C Land Holdings Limited, Galaxy Entertainment Group Limited, Water Oasis Group Limited, Real Nutraceutical Group Limited, Sino Oil and Gas Holdings Limited, National Arts Entertainment and Culture Group Limited and Winox Holdings Limited. He resigned as an independent non-executive director of Excel Development (Holdings) Limited on 10 August 2015. The above companies are all listed on the HKEx.

Directors, Supervisors, Senior Management and Staff

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

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

Mr. Qiu Hongzhong, aged 59, a master degree postgraduate and professor, has served as an independent non-executive Director since 28 June 2010. He graduated in 1981 with a degree in clinical medicine and was a master degree postgraduate in 1988. He was a senior visiting scholar of anthropology of the Sun Yat-sen University and completed courses of strategic management training class in Party School of the Central Committee of the Chinese Communist Party. Mr. Qiu had been the head of the Medical Department of the Eighth Engineering Bureau, ministry of Water Conservancy of DongJiang Hospital, deputy director of Department of Social Science of Guangzhou University of Traditional Chinese Medicine, deputy head of Huodao Town, Gaoyao County of Guangdong Province, standing vice president, president and the secretary of the Communist Party Committee of School of Economic and Management of Guangzhou University of Traditional Chinese Medicine. Mr. Qiu is currently the president, tutor of Ph.D. students, professor and chief physician of School of Economic and Management of Guangzhou University of Traditional Chinese Medicine, and is also a member of the Medicine Teaching and Guidance Committee of Higher Education Institution under the Ministry of Education of China, deputy director of Psychology of TCM in Chinese Medical Association of Guangdong Province, editor of the national core journal – Journal of Medicine and Philosophy, standing director of the Society of Chinese Medicine and Health Economics, deputy officer of the hygiene policy committee, Society of Hygiene Economics of Guangdong Province, standing vice-chairman of School of Management of Hospital of Traditional Chinese Medicine of Guangdong Provincial Association of Chinese Medicine. Mr. Qiu has extensive experience in economic management and pharmaceutical industry.

Mr. Chu Xiaoping, aged 60, holds a PhD in management and is a professor and a tutor of doctorate candidate. Mr. Chu graduated from Xi'an Jiaotong University. He was a lecturer, associate professor, professor, associate dean and dean of Business School, Shantou University, Guangdong, and a visiting scholar of the University of Hong Kong. He has been an independent director of Guangdong Shengyi Technology Co., Ltd. for 6 years. He is currently a professor and a tutor of doctorate candidate of Lingnan College of SunYatsen University. Mr. Chu has extensive experience in organisation, leadership, innovation and sustainable development of enterprises.

Directors, Supervisors, Senior Management and Staff

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

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

Mr. Jiang Wenqi, aged 58, is a master degree postgraduate, second-grade professor and tutor of Ph.D. students and has been an independent non-executive director of the Company since 17 March 2015. Mr. Jiang graduated from medical science of Shanghai Medical University in 1982 and graduated as a master degree postgraduate of oncology of SunYat-sen University of Guangzhou in 1988. He was a physician, medical superintendent and the deputy head of medical department of the affiliated cancer hospital of Sun Yat-sen University of Guangzhou, and dean of the school of medicine of Shenzhen University. Mr. Jiang was the head of medical department of the cancer affiliated hospital of Sun Yat-sen University of Guangzhou. Mr. Jiang has comprehensive knowledge and understanding in the medical industry and health sectors.

(iii) Supervisors

Mr. Xian Jiaxiong, aged 56, holds a bachelor degree and a master degree in Business Administration, economist and senior political engineer. Mr. Xian started his career in September 1976 and had been a general secretary of the party committee of Guangzhou Grandbuy Co., Ltd. and assistant to the deputy manager and the secretary of the disciplinary committee of Guangzhou Department Store Enterprises Group Co., Ltd.. Mr. Xian has been the deputy secretary of the party committee and secretary of the disciplinary committee of the Company since October 2013. He is currently the secretary of the disciplinary committee and party committee of GPL, and the secretary of Disciplinary Committee and deputy secretary of the Party Committee of the Company. Mr. Xian has extensive experience in economic management and party affairs.

Mr. Wu Quan, aged 59, is an undergraduate, senior political engineer, and a member of people's congress of Liwan District. Mr. Wu started his career in February 1976. Mr. Wu acted as chief officer of Cannon Camp and vice company commander of Guangdong Independent Division, advisor at deputy company commander level and advisor at company commander level or military equipment section under the command of Guangdong Zhangjiang Military Subarea, advisor at a deputy battalion level, advisor at a battalion level, deputy section chief and section chief for military equipment section under the command of Guangdong Military Area, deputy secretary of the Party Committee, secretary of the Discipline Commission and secretary of the Party Committee of Cai Zhi Lin and Minister of the Ministry of Personnel (Organization Department). Mr. Wu has been as a supervisor since 15 June 2007. He is current as secretary of the Party Committee of Guang Hua.

Ms. Wu Yan, aged 47, graduated from Murdoch University in Australia with a master degree in business administration and has been as a supervisor since 28 January 2014. Ms. Wu is currently the vice president of the Guangdong University of Foreign Studies Audiovisual Press, and office director, party branch committee member and chairlady of the labour union.

Directors, Supervisors, Senior Management and Staff

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

(iv) senior management

Mr. Zhang Chunbo, aged 39, a bachelor degree, holds a master degree of EMBA, a druggist. Mr. Zhang graduated from China Pharmaceutical University in July 2000 and started his career in the same year. In December 2010, he received a master degree of EMBA from Lingnan (University) College of Sun Yat-Sen University. He has served as the vice manager of second zone, the assistant manager of sales department, the vice general manager of sales department, the manager of sales department, the vice director of marketing department of HWBYS, the vice manager and the vice general manager of Zhong Yi. Mr. Zhang currently serves as the vice general manager of the Company, chairman and the general manager of Zhong Yi, chairman and the general manager of Qi Xing. Mr. Zhang has extensive experience in corporate management and marketing.

Mr. Chen Jing, aged 32, served as the secretary to the Board of the Company since 28 January 2014. He graduated from the School of Management of Huazhong University of Science and Technology in July 2008 with a master degree of accounting. Mr. Chen previously served in the Investment Banking Department of Guotai Junan Securities Co., Ltd.

Directors, Supervisors, Senior Management and Staff

(2) CHANGES IN INTERESTS AND EMOLUMENTS

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

All directors, supervisors and senior management of the Company received the annual total emoluments from the Group, the Company's shareholder or other connected company amounted to RMB10,019,890 in 2015.

Name	Position	Sex	Age	Commencement date of term of office	Ending date of term of office	Shares held as at the beginning of the Reporting Period (share)	Shares held as at the end of the Reporting Period (share)	Change in shares during the Reporting Period	Reason 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)
1. Interest (A shares) and emoluments of current directors, supervisors and senior management of the Company											
Li Chuyuan	Chairman	male	50	2010-06-28	2017-01-28	0	0	0	/		1,088.40
Chen Mao	Vice chairman	male	52	2014-01-28	2017-01-28	0	0	0	/		949.57
Liu Juyan	Executive director	female	51	2014-01-28	2017-01-28	0	0	0	/		850.10
Cheng Ning	Executive director	female	50	2012-09-19	2017-01-28	0	0	0	/		818.84
Ni Yidong	Executive director	male	44	2014-01-28	2017-01-28	0	0	0	/		959.45
Wu Changhai	Executive director	male	50	2010-06-28	2017-01-28	0	0	0	/	1,122.54	
Wang Wenchu	Executive director, deputy general manager	male	49	2014-01-28	2017-01-28	0	0	0	/	995.54	
Wong Lung Tak Patrick	Independent non-executive director	male	68	2010-06-28	2017-01-28	0	0	0	/	80.00	
Qiu Hongzhong	Independent non-executive director	male	59	2010-06-28	2017-01-28	0	0	0	/	80.00	
Chu Xiaoping	Independent non-executive director	male	60	2014-01-28	2017-01-28	0	0	0	/	80.00	
Jiang Wenqi	Independent non-executive director	male	58	2015-03-17	2017-01-28	0	0	0	/	63.33	
Xian Jiaxiong	Chairman of the Supervisory Committee	male	56	2014-01-28	2017-01-28	0	0	0	/		857.89
Wu Quan	Supervisor	male	59	2007-06-15	2017-01-28	0	0	0	/	723.87	
Wu Yan	Supervisor	female	47	2014-01-28	2017-01-28	0	0	0	/	30.00	
Zhang Chunbo	Deputy general manager	male	39	2015-01-12	2017-01-28	0	0	0	/	755.30	
Chen Jing	Secretary to the Board	male	32	2014-01-28	2017-01-28	0	0	0	/	548.39	
2. Interest (A shares) and emoluments of resigned directors, supervisors and senior management of the Company											
Fang Shuting	Independent non-executive director	male	68	2014-01-28	2015-03-17	0	0	0	/	16.67	
Total	/	/	/	/	/	0	0	0	/	4,495.64	5,524.25

Directors, Supervisors, Senior Management and Staff

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

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

Notes:

1. The emoluments of Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong and Mr. Xian Jiaxiong for the year were the emoluments they received from the Company's shareholder, including the remuneration for 2015, clearing amounts of annual salaries in previous years, etc.
2. The emoluments of Mr. Wu Changhai, Mr Wang Wenchu, Mr. Zhang Chunbo and Mr. Wu Quan for the Year was the total emolument they received from the Company and its subsidiaries, including the remuneration for 2015, clearing amounts of annual salaries in previous years, etc.
3. The emoluments of Mr. Wong Lung Tak Patrick, Mr. Qiu Hongzhong, Mr. Chu Xiaoping, Mr. Jiang Wenqi, Ms. Wu Yan, Mr. Fang Shuting and Mr. Chen Jing for the Year were the emoluments they received from the Company.

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

Applicable Not applicable

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

As at 31 December 2015, none of the directors, supervisors, senior management and their associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which were required, pursuant to the Model Code of the Listing Rules, to be notified to the Company and the HKEx.

Directors, Supervisors, Senior Management and Staff

(3) INFORMATION ON THE OFFICE HOLDING OF CURRENT AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

(i) Positions in the Company's shareholder

Name	Company	Position in shareholder	Commencement date of term of office	Ending date of term of office
Li Chuyuan	GPHL	Chairman	July 2013	/
		Secretary of the party committee	June 2013	/
Chen Mao	GPHL	Vice chairman, 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, Discipline inspection commission secretary	November 2012	/

(4) INFORMATION ON EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

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 emoluments and method of payment for services of the Company's directors and supervisors. The amount of 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 APPOINTMENT OR RESIGNATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE REPORTING PERIOD AND AFTER THE REPORTING PERIOD

- (i) The 8th meeting of sixth session of the Board resolved to appoint Mr. Wu Changhai, Mr. Wang Wenchu and Mr. Zhang Chunbo as the deputy general manager of the Company, the term of office of each was from 12 January 2015 up to the date on which members of the new session of the Board are elected.
- (ii) The first extraordinary general meeting in 2015 held on 13 March 2015 resolved to appoint Mr. Jiang Wenqi as the independent non-executive director of the Company, the term of office was from 17 March 2015 up to the date on which members of the new session of the Board are elected.

The 9th meeting of sixth session of the Board resolved to appoint Mr. Jiang Wenqi as the member of Audit Committee, Nomination and Remuneration Committee and Budget Committee, the term of office was from 17 March 2015 to the date of members of the new session of the Board.

No changes in the information of Directors requires to be set out after the publication of the interim report as of 30 June 2015 of the Company under Rule 13.51(B)(1) of the Listing Rules.

(6) SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the directors and supervisors of the sixth session (except for Mr. Jiang Wenqi, an independent non-executive director) has entered into a service contract with the Company. The contract term commenced from 28 January 2014 up to the date of on which members of HKEX of the seventh session of the Board or the supervisory committee are elected.

The term of office of Mr. Jiang Wenqi, an the independent non-executive director of the Company, was from 17 March 2015 up to the date of members on which the new 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 to the date of election of the new sessions of the Board and the Supervisory Committee. The term of each session of the Board or the Supervisory Committee is three years. All directors and supervisors are eligible to offer themselves for re-election.

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

(7) INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS

There was no contract of significance in relation to the business of the Group to which the Company, its subsidiaries or its holding company was a party and in which a director or supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

Directors, Supervisors, Senior Management and Staff

(8) SITUATION ON PUNISHMENT FROM SECURITIES REGULATORY INSTITUTION IN THE PAST THREE YEARS

Applicable Not applicable

(9) MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company adopted Appendix 10 of the Listing Rules entitled “Model Code for Securities Transactions by Directors of Listed Issuers” and “Measures for the Administration of Trading Shares of the Company by directors, supervisors and senior management” as stipulated by the Company as the code and criteria for securities transactions by directors and supervisors of the Company. After making specific inquiry of 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 regulations and criteria during the Reporting Period.

(10) EMPLOYEES OF THE GROUP

(i) Situation of the employees

Employees of the headquarter of the Company	175
Employees of the major subsidiaries	14,721
Total	14,896
Retires of the Company and its major subsidiaries whose expenses were assumed by the Company and its major subsidiaries	10,975
Gross payroll of the Group	RMB1.315 billion

Category	Component	Number
Production staff		4,942
Sales personnel		5,135
Technical staff		2,245
Finance staff		443
Administrative staff		2,131
Total		14,896

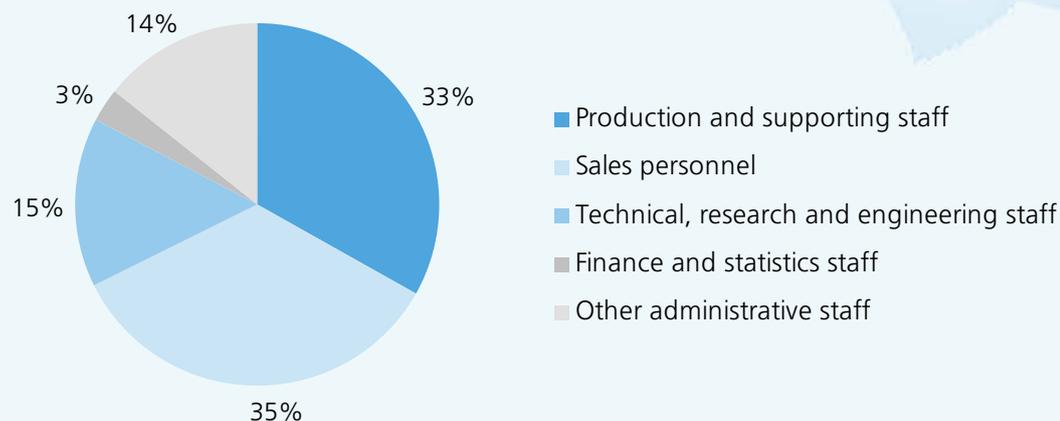
Category	Educational Level	Number
Graduate		380
Post-Bachelor		4,337
Junior college		4,140
Secondary and below		6,039
Total		14,896

Directors, Supervisors, Senior Management and Staff

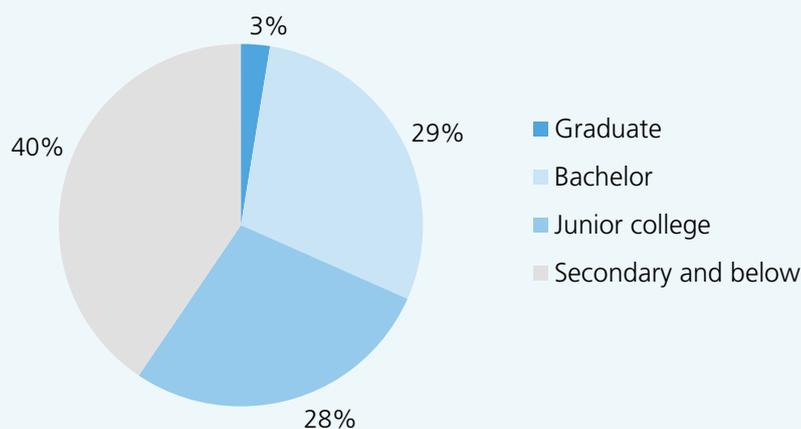
(10) EMPLOYEES OF THE GROUP *(Continued)*

(i) Situation of the employees *(Continued)*

Statistics on the number of employees (according to their professional skills)



Statistics on the number of employees (according to their educational level)



(ii) Emolument policy

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

Directors, Supervisors, Senior Management and Staff

(10) EMPLOYEES OF THE GROUP *(Continued)*

(iii) Training program

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

The Group realized the great importance to improving the overall quality of its staff and has formulated various plans for talent training, thereby constantly enhancing corporate management standards and market competitiveness. In 2015, the Group carried out relevant training in accordance with the integrated management system and ensured the normal operation of various systems as required.

In 2016, the Group will, on the basis of “talent upgrading” strategy, carry out more training in respect of knowledge, skill and professional ability for the staff to constantly enhance their comprehensive quality and operational ability, so as to provide powerful talent support for the Group to achieve transformation and upgrading and to complete the strategic objectives. Firstly, the Group will focus on corporate need and carry out training respectively for senior management talents and diverse professional talents, so as to improve the quality of talents at all levels. Secondly, the Group will train all staff and carry out pre-job training for college graduates to improve the enthusiasm, initiative and teamwork ability of the staff. Thirdly, the Group will raise the integrated quality of its internal trainer team and build a continuing education platform for professionals to promote staff development through multiple channels.

(iv) Employee stock ownership scheme

In order to motivate the employees of the Group, the Board approved the Employee Stock Ownership Scheme (2015) (“Stock Ownership Scheme”) on 12 January 2015. The target participants of the Ownership Scheme are all employees of the Group as at 1 January 2015, including Directors (excluding independent non-executive Directors), supervisors, senior management and other employees of the Group. Total size of the Ownership Scheme will be no more than the maximum number of A Shares to be subscribed for under the Employee Scheme Subscription, being 21,189,000 A Shares (initially 21,189,000 A Shares and subsequently adjust to 21,440,821 A Shares) and no more than the maximum subscription amount of approximately RMB505 million under the Employee Scheme Subscription. Details were set out in the section 6(x) headed “Connected Transactions (i)” of this annual report.

Up to now, the ownership scheme has not been initiated yet.

(1) CORPORATE GOVERNANCE AND INSIDERS REGISTRATION MANAGEMENT

- (i) The Company has been strictly complying with the Company Law of the PRC, the Securities Law of the PRC, related laws and regulations of the CSRC and the Listing Rules of the SSE and the Listing Rules of the HKEx to continuously improve 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 requirement of CSRC.

During the Reporting Period, the Company complied with the Code on Corporate Governance Code 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) Ms. Cheng Ning, Ms. Liu Juyan, executive directors of the Company and Mr. Chu Xiaoping, an independent non-executive director, were unable to attend the annual general meeting in 2014 due to business which constituted deviation from code provision A.6.7, and (ii) an independent non-executive director, namely Mr. Wong Lung Tak Patrick, was unable to attend the extraordinary general meeting in 2015 due to business which constituted a deviation from code provision A.6.7.

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

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

The review of the business and financial position of the Company for 2015 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)*

(ii) The works related to corporate governance of the Company during the Reporting Period are as follows:

1. The Company performed review on its internal control and fulfillment of social obligations for the year 2014 pursuant to the requirements of the "Notice on Proper Preparation of the 2014 Annual Report by Listed Companies" issued by the SSE. Accordingly, the Company prepared the "Self-assessment Report of the board of directors of the Company on Internal Control for 2014" and the "Report on Performance of Social Responsibilities for 2014", both of which were disclosed after being considered and duly passed at the Board meeting of the Company on 19 March 2015.
2. To improve the Company's bonus system and proposed placing, the Company amended the related articles of the Company's Articles of Association, and the amendments were subject to approval at the board meeting held on 12 January 2015 and the first Extraordinary General Meeting in 2015 held on 13 March 2015. For the details of the amendments, please refer to the circular dated 23 February 2016 of the Company.
3. The Company amended relevant terms of the Articles of Associations and Systems for Independent Directors to reflect matters relating to the actual number of issued shares, number of shares holding by GPLH after the repurchase of shares. The above amendments shall be implemented after the consideration and approval at the Board meeting and the 2014 annual general meeting held on 27 April 2015 and 26 June 2015, respectively. For details, please see the circular dated 19 May 2015 of the Company

(iii) 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.

(iv) 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. The above system was put into force to 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 requirements of the system.

(2) SHAREHOLDERS AND GENERAL MEETINGS OF SHAREHOLDERS

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

Shareholders of the Company shall enjoy the following rights according to the Articles of Association and the Rules of Proceedings of the meetings of Shareholders 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 enjoy the rights of access to information, participation and decision on material matters as stipulated by law, administrative regulation and the Articles of Association.

Corporate Governance

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

- (iv) Where the Company convenes an annual general meeting of the shareholders, the shareholders with 5% or more of the total voting rights of the Company shall be entitled to put forth a new proposal in writing to the Company. The Company shall dispatch supplemental notice of the general meeting within two days after receiving such proposal to announce the contents of such provisional proposal. Any matters contained in such proposal which are within the terms of reference of the general meeting of the shareholders shall be listed in the agenda of the meeting.

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

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

Contact	Mr. Chen Jing, Ms. Huang Xuezheng
E-mail:	sec@gybys.com.cn/chenj@gybys.com.cn huangxz@gybys.com.cn
Internet website:	http://www.gybys.com.cn

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

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

During the Reporting Period, the situation is convening a general meeting of the Company is as follows:

Session and number of meeting	Meeting date	Resolutions	Resolutions Situation	Newspapers for publication of the resolutions	Disclosure date
The first extraordinary general meeting in 2015	13 March 2015	<p>1. Resolution on the proposal of non-public issue of A Shares of the Company; 1.01 Class and par value; 1.02 Method and time; 1.03 Subscribers; 1.04 Method of subscription; 1.05 Price and pricing principle; 1.06 Number of Shares to be issued; 1.07 Lock-up Period; 1.08 Fund raising size and use of proceeds; 1.09 Arrangement of the accumulated undistributed profit; 1.10 Effective period of the shareholders' resolutions; 1.11 Place of listing; 2. Resolution on the plan of non-public issue of A Shares of the Company; 3. Resolution on the Company's compliance with the conditions to the non-public issue of A Shares; 4. Resolution on "2015 Employees Shares Ownership Scheme (Draft) of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (By Way of Subscribing Non-public Issue of A Shares)"; 5. Resolution on the connected transaction relating to the non-public issue of A Shares of the Company; 6. Resolution on the conditional subscription agreements between the Company and specific investors relating to the non-public issue of A Shares 6.01 Resolution on approving the subscription agreement entered into between the Company and Guangzhou Pharmaceutical Holdings Limited (廣州醫藥集團有限公司); 6.02 Resolution on approving the subscription agreement entered into between the Company and China Universal Asset Management Company Limited (匯添富基金管理股份有限公司); 6.03 Resolution on approving the subscription agreement entered into between the Company and Guangzhou China Life Insurance Urban Development Industry Investment Enterprises (Limited Partnership) (廣州國壽城市發展產業投資企業(有限合夥)); 6.04 Resolution on approving the subscription agreement entered into between the Company and Guangzhou State-owned Asset Development Holdings Limited (廣州國資發展控股有限公司); 6.05 Resolution on approving the subscription agreement entered into between the Company and Shanghai Yunfeng Xinchuang Investment Management Company Limited (上海雲鋒新創投資管理有限公司); 7. Resolution on the feasibility report for the use of proceeds raised by the non-public issue of A Shares of the Company; 8. Resolution on the report of use of proceeds raised in the previous fund raising of the Company; 9. Resolution on the establishment of special saving account for proceeds raised by the Company; 10. Resolution on formulation of management measures for proceeds raised by the Company; 11. Resolution on waiving the obligations of Guangzhou Pharmaceutical Holdings Limited and persons acting in concert from making an offer to increase their shareholdings in the Company pursuant to the relevant PRC takeover laws and regulations; 12. Resolution on granting of the whitewash waiver pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers to the Guangzhou Pharmaceutical Holdings Limited and persons acting in concert from the obligation to make a general offer; 13. Resolution on conferring full powers on the Board and persons authorised by the Board to handle matters relating to the non-public issue of A Shares; 14. Resolution on conferring full powers on the Board and persons authorised by the Board to handle matters relating to 2015 Employees Shares Ownership Scheme; 15. Resolution on granting general mandate to the Board for issuing additional H Shares of the Company; 16. Resolution on amending the period of the performance of the undertaking of Guangzhou Pharmaceutical Holdings Limited (廣州醫藥集團有限公司) in relation of to the injection of, inter alia, the "Wang Lao Ji" trademarks; 17. Resolution on amendments to the articles of association of the Company; 18. Resolution on amendment of The Rules of Procedure of the General Meeting of Shareholders of the Company; 19. Resolution on nominating independent non-executive director candidate of the Board of Directors; 19.01. Nomination of Mr. Jiang Wenqi as a candidate for election as a non-executive director of the sixth session of the Board, whose term of office will commence on the date of his appointment the same as the members of the sixth session of the Board commencing from his date of appointment up to the date when on which the members of the new session of the Board are elected.</p>	Passed	Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報)	18 March 2015

Corporate Governance

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

Session and number of meeting	Meeting date	Resolutions	Resolutions Situation	Newspapers for publication of the resolutions	Disclosure date
2014 annual general meeting	26 June 2015	<p>1. Report of the Board of the Company for year 2014; 2. Report of the supervisory committee of the Company for year 2014; 3. Financial reports of the Company for year 2014; 4. Auditors' reports of the Company for year 2014; 5. Proposal on profit distribution and dividend payment of the Company for year 2014; 6. Financial budget report of the Company for year 2015; 7. Resolution on the total service emoluments to be paid to the directors of the Company for year 2015; 8. Resolution on the total service emoluments to be paid to the supervisors of the Company for year 2015; 9. Resolution on the amounts of guarantees to be provided by the Company to secure the bank loans for some of its subsidiaries; 10. Resolution on the application by the Company for general banking facilities not exceeding RMB2 billion; Resolution on the application by the Company for general banking facilities not exceeding RMB2 billion; 11. Resolution on entrusted loans business between the Company and its subsidiaries; Resolution on entrusted loans business between the Company and its subsidiaries; 12. Resolution on re-appointment of BDO China Shu Lun Pan Certified Public Accountants LLP as the auditors of the Company for year 2015, and the proposal to the shareholders' meeting to authorize the Board of the Company to determine their remuneration; Resolution on re-appointment of BDO China Shu Lun Pan Certified Public Accountants LLP as the auditors of the Company for year 2015, and the proposal to the shareholders' meeting to authorize the Board of the Company to determine their remuneration; 13. Resolution on re-appointment of BDO China Shu Lun Pan Certified Public Accountants LLP as the auditors for the internal control of the Company for year 2015, and the proposal to the shareholders' meeting to authorize the Board of the Company to determine their remuneration; Resolution on re-appointment of BDO China Shu Lun Pan Certified Public Accountants LLP as the auditors for the internal control of the Company for year 2015, and the proposal to the shareholders' meeting to authorize the Board of the Company to determine their remuneration; 14. Resolution on the purchase of the insurance in respect of the liabilities of the directors, supervisors and senior management; Resolution on the purchase of the insurance in respect of the liabilities of the directors, supervisors and senior management; 15. Resolution on the report of the use of proceeds raised from previous fund raising of the Company; Resolution on the report of the use of proceeds raised from previous fund raising of the Company; 16. Resolution on the connected transactions under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (resolution 16.01-16.89); 17. Resolution on forecasted figures in relation to the ordinary connected transactions between the Company and Guangzhou Wang Lao Ji Pharmaceutical Company Limited for year 2015; 18. Resolution on adjustment on the forecasted figures in relation to the ordinary connected transactions between the Company and Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited for years 2014, 2015 and 2016; 19. Resolution on amendments to the System of Independent Directors; 20. Resolution on granting general mandate to the Board of the Company for issuing additional H Shares of the Company; 21. Resolution on amendments to the articles of association of the Company.</p>	Passed	Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報)	27 June 2015

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

(3) BOARD OF DIRECTORS

(i) Composition

The Board is the core decision-making body entrusted by the 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 sixth session since the establishment of the Company, and is comprised of 11 members, including Mr. Li Chuyuan (chairman), Mr. Chen Mao (vice chairman), Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong Mr. Wu Changhai and Mr. Wang Wenchu as executive directors, and Mr. Wong Lung Tak Patrick, Mr. Qiu Hongzhong, Mr. Chu Xiaoping and Mr. Jiang Wenqi as independent non-executive directors. Each director (except for Mr. Jiang Wenqi) has a term of office commencing from 28 January 2014 up to the date of election of the new session of the Board except Mr. Jiang Wenqi. Mr. Jiang Wenqi has a term of office commenced from 17 March 2015 up to the date of election of the new session of the Board.

The Board shall exercise the following powers:

- (A) convention of general meetings of shareholders, and report to the general meetings;
- (B) implementation of the resolutions of the general meeting;
- (C) formulation of the business plan and investment scheme of the Company;
- (D) formulation of the annual financial budget and financial accounting policy of the Company;
- (E) formulation of the profit distribution policy and loss recovery policy of the Company;
- (F) formulation of the policy of increase or reduction of registered capital and the policy of issue of corporate bonds of the Company;
- (G) drafting of the policies of material corporate acquisition, acquisition of shares of the Company, or the merger, separation, dissolution and liquidation of the Company;
- (H) making decision on the establishment of internal management system in the Company;

Corporate Governance

(3) BOARD OF DIRECTORS *(Continued)*

(i) Composition *(Continued)*

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

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

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

(3) BOARD OF DIRECTORS *(Continued)*

(i) Composition *(Continued)*

The role of chairman and general manager of the Company are performed by separate persons with clear division of responsibilities. The Board is presided over by the chairman, who is in charge of the routines 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 chairman of the Board is Mr. Li Chuyuan and currently no one has been appointed as the general manager of the Company. The daily operation management of the Company is supervised by executive directors and senior management.

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

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

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 responsibility:

- (A) formulate and review the Company's corporate governance policies and procedures;
- (B) review and monitor the personnel training and continuing professional development of the directors and senior management;
- (C) review and monitor the Company's compliance with the laws and regulations of the policies and procedures;

Corporate Governance

(3) BOARD OF DIRECTORS *(Continued)*

(i) Composition *(Continued)*

- (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.

During the Reporting Period, the Board amended relevant articles of the Working Rules of the Audit Committee of the Company to conform to the amended corporate governance rules.

The Board revised the rules for the Implementation of the Audit Committee in response to the corporate governance rules.

(ii) Board Meetings

In 2015, the Company held a total of 12 board meetings (5 on-site meetings and 7 meetings held by electronic means of communications) and discussed the non-public issue of A Shares of the Company and matters related to the employees' shares holding plan as well as the investment projects, connected transactions and financial matters of the Group. The boarding meetings could make effective discussion and bring out prudent decisions.

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

Directors	Whether independent director	No. of meetings that should attend	The attendance of directors at Board meetings				Whether failed to attend two consecutive meetings in person	The attendance of directors at Shareholders' meetings	
			No. of meetings attended in person	No. of meetings attended by phone (Note)	No. of meetings attended by proxy	Absence		No. of shareholders' meeting required to attend in the Year	No. of shareholders' meetings attended
Li Chuyuan	No	12	12	1	0	0	No	2	2
Chen Mao	No	12	12	1	0	0	No	2	2
Liu Juyan	No	12	12	0	1	0	No	2	1
Cheng Ning	No	12	12	0	0	0	No	2	1
Ni Yidong	No	12	7	0	0	0	No	2	2
Wu Changhai	No	12	7	0	0	0	No	2	2
Wang Wenchu	No	12	12	0	1	0	No	2	2
Wong Lung Tak Patrick	Yes	12	11	2	0	0	No	2	1
Qiu Hongzhong	Yes	12	12	0	1	0	No	2	2
Fang Shuting	Yes	2	3	2	2	0	No	1	1
Chu Xiaoping	Yes	12	11	0	1	0	No	2	1
Jiang Wenqi	Yes	10	10				No	1	1

Note: Attendance by way of communication deemed attendance in person.

(3) BOARD OF DIRECTORS *(Continued)*

(iii) Independent non-executive directors

Currently, the Company has 4 independent non-executive directors, representing more than 1/3 of the total members of the Board. All the independent non-executive directors of the Company are familiar with the rights and obligations of directors and independent non-executive directors of listed companies. During the Reporting Period, the independent non-executive directors strictly complied with the provisions in the Company's Articles of Association, "Rules of Procedures of the Board", "system on independent directors" 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 gave full play to their experience and strengths. They had done a lot of work on improving the Company's corporate governance and material decision-making, and had expressed impartial and objective opinions on relevant matters, thus effectively safeguarding the interests of the majority shareholders. All of the 4 independent non-executive directors of the Company were members of the special committees formed under the Board.

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

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

The Board confirmed receipt from each of the independent non-executive directors a confirmation letter with regard to his independence pursuant to Rule 3.13 of the Listing Rules of the HKEx. The Board considered the existing independent non-executive directors are independent persons in accordance with the requirements set out in Rule 3.13 of the Listing Rules of the HKEx.

Pursuant to the "Notice on preparation of the 2015 Annual Report by Listed Companies in an Orderly Manner" issued by SSE on 31 December 2015, 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 2015 annual report and auditing works and relevant information. After completion of the preliminary auditing works by the Company's accountants, the independent non-executive directors communicated with the auditors regarding problems related to the auditing process.

(iv) 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.

(4) COMMITTEES OF THE BOARD

(i) 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 and examine the financial control, internal control, internal audit, the risk control system and their implementation; 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 Audit Committee of the sixth session of the Board was established on 28 January 2014, comprised Mr. Wong Lung Tak Patrick (chairman of the Audit Committee), Mr. Qiu Hongzhong, Mr. Fang Shuting and Mr. Chu Xiaoping. On 17 March 2015, Mr. Jiang Wenqi was appointed as the member of Audit Committee instead of Mr. Fang Shuting at the 9th meeting of the sixth session of the Board. Currently, the Audit Committee comprised Mr. Wong Lung Tak Patrick (chairman of the Audit Committee), Mr. Qiu Hongzhong, Mr. Chu Xiaoping and Mr. Jiang Wenqi. All four of them were independent non-executive Directors and were qualified under the relevant requirements. The term of office of Mr. Wong Lung Tak Patrick, Mr. Qiu Hongzhong and Mr. Chu Xiaoping commenced from 28 January 2014 to the date of election of the new session of the Board, the term of office of Mr. Jiang Wenqi was from 17 March 2015 to the date of members of the new session of the Board were elected.

Major tasks accomplished by the Audit Committee in 2015 including:

- (A) held two meetings in 2015 to review the 2014 Annual Report and 2015 Interim Report of the Group as well as the recommendations on management issued by external auditors and the respective response by the Company's management. Each of the members of the committee attended all the meetings;
- (B) reviewed the accounting policies adopted by the Group and the relevant issues regarding accounting practice;
- (C) advised the Board for re-appointment for auditing firm for the year;
- (D) advised the Company on major events of the Company or reminding the management of relevant risks.

(4) COMMITTEES OF THE BOARD *(Continued)*

(i) Audit Committee *(Continued)*

The works on the annual audit for 2015 and relevant jobs regarding the preparation of the Annual Report are as follows:

Following the issue of “the Notice on preparation of the 2015 Annual Report in an orderly manner by Listed Companies” by SSE on 31 December 2015, all members of the Audit Committee studied the relevant requirements seriously. The Committee worked in accordance with the Audit Commission’s annual report Guidelines in launching the auditing work for 2015 and preparatory work for the annual report of the Company, which included the following:

- (A) 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 “Framework for the Preparation of 2015 Annual Report” and reviewed the audit plan submitted by the auditors.
- (B) The Audit Committee reviewed the draft of the financial reports prepared by the Company on 16 March 2016 and issued written recommendations thereon.
- (C) 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 believes the 2015 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.
- (D) On 18 March 2016, the Audit Committee convened the first meeting in 2016 and considered and passed the 2015 Annual Report of the Company and the Company’s 2015 Financial Report. At the same time, the Audit Committee summed up its evaluation on the audit work of the auditor and believes that the auditor has carried out the audit work for the Company with cautious, independent and objective standards, and managed to abide by their professional work ethics, followed closely the auditing regulations, fulfilled their auditing responsibilities and submitted the auditors’ report in time, as well as having issued fair and unbiased management recommendations to the management of the Company, and completed the audit work with satisfactory performance.

(4) COMMITTEES OF THE BOARD *(Continued)*

(ii) Strategic Development and Investment Committee

In February 2001, the Company established the investment management committee, which was renamed as Strategic Development and Investment Committee as approved at the fourth Board meeting of the fourth session of the Board. Its principal responsibilities are to research and issue recommendations on the long-term strategic development and significant investment decisions of the Company and, with authorization from the Board, to examine and approve investment projects intended to be implemented by the Company.

The Strategic Development and Investment Committee of the sixth session of the Board comprised Mr. Li Chuyuan (chairman of the committee), Mr. Chen Mao, Ms. Liu Juyan, Mr. Qiu Hongzhong and Mr. Chu Xiaoping. The term of office of the aforementioned committee members commenced from the date of their appointments on 28 January 2014 to the date of election of the new session of the Board. During the Year, the strategic development and investment committee held eleven meetings. All of the committee members attended the meetings.

(iii) Nomination and Remuneration Committee

In February 2002, the Company established the Remuneration & Evaluation Committee, which was renamed as Nomination and Remuneration Committee as approved at the fourth Board meeting of the fourth session of the Board. Its principal responsibilities are to study and examine the remuneration policies and proposals of directors and senior management, to research on the selection standards and procedures of directors, general managers and other senior management and to issue recommendations, and to extensively look for qualified persons to be directors and senior management, to conduct examination on them and to issue recommendations, audit the remuneration of directors and senior management and make recommendation to the Board.

The Nomination and Remuneration Committee of the sixth session of the Board comprised Mr. Chu Xiaoping (chairman of the committee), Mr. Ni Yidong, Mr. Wu Changhai, Mr. Wong Lung Tak Patrick and Mr. Fang Shuting. On 13 March 2015, Mr. Jiang Wenqi was appointed to be the member of Nomination and Remuneration Committee instead of Mr. Fang Shuting on the 9th meeting of the sixth session of the Board. Currently, the Nomination and Remuneration Committee of the sixth session of the Board comprised Mr. Chu Xiaoping, Mr. Ni Yidong, Mr. Wu Changhai, Mr. Wong Lung Tak Patrick and Mr. Jiang Wenqi. The term of office of Mr. Chu Xiaoping, Mr. Ni Yidong, Mr. Wu Changhai and Mr. Wong Lung Tak Patrick commenced from 28 January 2014 to the date of election of the new session of the Board, the term of office of Mr. Jiang Wenqi was from 17 March 2015 to the date of members of the new session of the Board were elected.

During the Reporting Period, the Nomination and Remuneration Committee held one meeting to make examinations and approvals to the disclosure of emoluments of the directors, supervisors and senior management in the 2015.

(4) COMMITTEES OF THE BOARD *(Continued)*

(iii) **Nomination and Remuneration Committee** *(Continued)*

The Company has adopted the 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 Policies for the Board Members, which was approved by the Board meeting dated 26 September 2013 and carried out. As of the end of the Reporting Period, the Nomination and Remuneration Committee has basically complied with the provisions of the Diversified Policies for the Board Members. For the effectiveness of the Diversified Policies for the Board Members of the Company, the Nomination and Remuneration Committee of the Company will constantly supervise and review the Diversified Policies for the Board Members. Pursuant to the Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service. The Board will consider to set measurable objectives to implement the Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

As of the end of the Report Period, there was no trading of shares of the Company by insiders of the Nomination and Remuneration Committee based on any insider information before the disclosure of material price sensitive information.

(iv) **Budget Committee**

In October 2007, the Company established the Budget Committee as approved at the 4th meeting of the fourth session of the Board. Its principal responsibilities are to provide guidance on the formulation of the budgeting plans and business objectives of the Company for the year and to supervise and inspect their implementations.

The Budget Committee of the sixth session of the Board comprised Mr. Qiu Hongzhong (chairman of the Committee), Ms. Cheng Ning, Mr. Wang Wenchu, Mr. Wong Lung Tak Patrick and Mr. Fang Shuting. On 13 March 2015, Mr. Jiang Wenqi was appointed to be member of Budget Committee instead of Mr. Fang Shuting on the 9th meeting of the sixth session of the Board. Currently, the Budget Committee of the sixth session of the Board comprised Mr. Qiu Hongzhong, Ms. Cheng Ning, Mr. Wang Wenchu and Mr. Wong Lung Tak Patrick and Mr. Jiang Wenqi. The term of office of Mr. Qiu Hongzhong, Ms. Cheng Ning, Mr. Wang Wenchu and Mr. Wong Lung Tak Patrick commenced from 28 January 2014 to the date of election of the new session of the Board, the term of office of Mr. Jiang Wenqi was from 17 March 2015 to the date of members of the new session of the Board were elected.

During the Reporting Period, the Budget Committee held one meeting, and all members of the committee attended the meeting. Annual business objectives and budget in 2015 and of the Work plan of budget in 2015 of the Company were approved in the meeting.

Corporate Governance

(5) SUPERVISORY COMMITTEE

- (v) Special committees of the Board did not give important opinions or suggestions when performing their duties during the Reporting Period.
- (i) During the Reporting Period, the Supervisory Committee monitored the procedures for convening Board meetings and shareholders' meetings and the resolutions proposed to be considered thereat, as well as the execution by the Board of the resolutions passed at the shareholders' meetings and has no dissenting view on any reports and proposals submitted by the Board at shareholders' meetings. The Supervisory Committee considered that during the Reporting Period the operations conducted by the Company were in compliance with the Company Law, the Securities Law, the respective Listing Rules governing the securities exchanges in the PRC and in Hong Kong, the Articles of Association and other relevant laws and regulations, and the Company has executed the resolutions of the shareholders' meetings of the Company diligently, continued to enhance the internal management and internal control systems of the Company and established a good internal management system. The Company's directors and senior management have not committed any acts in breach of the rules and regulations, the Articles of Association, nor have they engaged in any acts involving the infringement of the Company's interest or infringement of shareholder's interests.
- (ii) During the Reporting Period, the Supervisory Committee held five meetings, and all supervisors attended the meetings.
- (iii) The Supervisory Committee has carefully reviewed the financial statements and other financial information of the Company during the Reporting Period, and considered that the Company's financial statements were fairly presented, the auditing and financial management were in line with the relevant regulations and had not discovered any issues. The auditor issued their standard and unqualified auditor's reports after auditing the accounts of the Group and the Company for the year ended 31 December 2015, which reflected an objective, true and fair view of the financial status and the operations results of the Company.
- (iv) 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 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.
- (v) 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

- (i) Separation of business: the Company operates with its own autonomy and integrated business structure and is independent from its controlling shareholder.
- (ii) Human resources: The Company maintains independence in the areas of staffing, personnel and payroll management.
- (iii) Assets: The Group is equipped with an independent production system, a supplementary production system and related facilities. It also has its own independent purchases and sales systems. The Company itself owned 1,003 registered trademarks which are all within validity periods.
- (iv) Organization: There was no combustion of operation between the Company and its controlling shareholder. The Company has its own independent and comprehensive organizational structure. The Board, the Supervisory Committee and other departments operate independently and autonomously. Further, the Company has independent decision-making mechanisms and integrated production units. No supervisory or reporting relationships existed between the functional departments of the Company and the controlling shareholder of the Company.
- (v) 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 SUCH 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 2015 Annual Report in an orderly manner by Listed Companies” issued by SSE on 31 December 2015.

Significant shortcoming in the design of internal control was found During the Reporting Period

Applicable Not applicable

The Board will review at least once a year to the internal control of the Company. For the year ended 31 December 2015, the Board is of view that the internal control system is sufficient and effective, and the Company has complied with the code provisions of the CG Code in relation to the internal control.

(9) AUDIT REPORT ON THE INTERNAL CONTROL

- (i) The recommendation from the audit firm: BDO China Shu Lun Pan CPAs LLP considered that as at 31 December 2015, 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.
- (ii) The Company has appointed BDO China Shu Lun Pan CPAs LLP to review and assess on the Group’s internal control for the Year (full version is available on the website of the SSE).

Whether to disclose the audit report on internal control: Yes

(10) DIRECTORS’ RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibility 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 International Financial Reporting Standards, statutory requirements and other regulatory requirements. As at 31 December 2015, the Board was not aware of any material misstatement or uncertainties that might put doubt on the Group’s financial position or ability to continue as a going concern. The Board endeavors to ensure a balanced, clear and understandable assessment of the Group’s performance, position and prospects in financial reporting. The statement of the Auditors regarding their reporting responsibility for the financial statements is set out in the Independent Auditors’ Report on pages 205 to 419 of this annual report. There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Group’s ability to continue as a going concern.

(11) OTHERS

(i) Other stakeholders

The Company respects and safeguards the interests of the stakeholders and realized the balance of interests among the shareholders, employees and the society. At the same time, the Company also pays attention on environmental protection, public welfare and other issues and economic to mutually promote the sustainable and sound development of the Company in economic activities.

(ii) Information disclosure and management of relationship with investors

The Company delegates the secretary to the Board with the responsibility for handling the Company's information disclosure, arranging company visits and answering enquiries from shareholders and investors and responding to correspondence from shareholders in a timely manner. The Company has designated Shanghai Securities News, Securities Times, China Securities Journal and China Securities News in the PRC to publish the Company's information and disclose such at websites designated by the SSE and the HKEx and the Company's website. The Company continues to disclose information in a truthful, accurate, comprehensive and timely manner in strict compliance with the relevant rules and regulations and the Code of Information Disclosure of the Company, and make preserve confidentiality before disclosure. The Company also ensures that all shareholders have fair and equitable access to information relating to the Company.

Relevant Information of Company Bonds

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



立信会计师事务所(特殊普通合伙)
BDO CHINA SHU LUN PAN CERTIFIED PUBLIC ACCOUNTANTS LLP

Our Ref : XKSBZ[2016]No. 410202

Date: March 18, 2016

To the Board of Directors of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.:

We have audited the attached financial statements of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (hereinafter referred to as "the Company"), which comprise the balance sheet and consolidated balance sheet as at December 31, 2015, the income statement and consolidated income statement for the year then ended, the cash flow statement and consolidated cash flow statement for the year then ended, the statement of changes in equity and consolidated statement of changes in equity for the year then ended, as well as the notes to the financial statements.

I. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Accounting System for Business Enterprises and related accounting standards for business enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

II. AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conduct our audit in accordance with China Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



立信会计师事务所(特殊普通合伙)
BDO CHINA SHU LUN PAN CERTIFIED PUBLIC ACCOUNTANTS LLP

Our Ref : XKSBZ[2016]No. 410202

Date: March 18, 2016

III. OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2015, and the results of its operation and its cash flows for the year then ended in accordance with the Accounting Standards for Business Enterprises.

BDO CHINA SHU LUN PAN
Certified Public Accountants LLP

Shanghai, China

Chinese Certified Public Accountant
Zhang Ning

Chinese Certified Public Accountant
Zhang Xi

Consolidated Balance Sheet

As at 31 December 2015

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

Item	Note	31 December 2015	31 December 2014
Current assets			
Cash at bank and on hand	5(1)	4,118,291,426.52	3,201,280,198.61
Financial assets based on fair value to confirm profit or loss	5(2)	6,499,789.60	4,686,023.00
Notes receivable	5(3)	1,450,035,581.39	1,465,748,952.32
Accounts receivable	5(5)	1,051,642,996.39	1,011,087,173.83
Advances to suppliers	5(7)	316,795,764.49	326,857,283.13
Interest receivable		–	–
Dividends receivable	5(4)	–	–
Other receivables	5(6)	209,264,412.47	306,793,208.73
Inventories	5(8)	2,543,866,145.35	2,581,256,983.61
Current portion of non-current assets		–	–
Other current assets	5(9)	108,317,835.73	20,082,244.47
Total current assets		9,804,713,951.94	8,917,792,067.70
Non-current assets			
Available-for-sale financial assets	5(10)	328,372,231.24	133,964,228.25
Held-to-maturity investments		–	–
Long-term receivables		–	–
Long-term equity investments	5(11)	2,111,212,976.44	1,950,765,099.35
Investment properties	5(12)	234,615,086.24	237,111,837.23
Fixed assets	5(13)	1,933,901,738.15	1,845,953,897.47
Construction in progress	5(14)	555,906,380.17	441,809,706.14
Construction materials		–	–
Fixed assets pending for disposal		–	–
Intangible assets	5(15)	540,174,651.69	395,201,774.39
Development costs	5(16)	5,509,098.53	4,252,391.49
Goodwill	5(17)	2,282,952.18	–
Long-term prepaid expenses	5(18)	24,112,146.30	10,332,935.57
Deferred tax assets	5(19)	329,776,054.32	329,719,136.32
Other non-current assets		–	–
Total non-current assets		6,065,863,315.26	5,349,111,006.21
TOTAL ASSETS		15,870,577,267.20	14,266,903,073.91

Consolidated Balance Sheet

As at 31 December 2015

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

Item	Note	31 December 2015	31 December 2014
Current liabilities			
Short-term borrowings	5(21)	629,683,464.69	560,530,090.45
Financial liabilities based on fair value to confirm profit or loss		–	–
Notes payable	5(22)	292,607,099.65	356,573,197.95
Accounts payable	5(23)	2,636,474,108.05	2,075,921,273.45
Advances from customers	5(24)	974,514,210.30	892,456,520.06
Employee benefits payable	5(25)	413,029,738.15	412,093,088.25
Taxes payable	5(26)	74,514,458.11	176,729,443.26
Interest payable	5(27)	359,628.56	236,666.66
Dividends payable	5(28)	52,066,098.91	46,931,687.19
Other payables	5(29)	1,755,251,103.41	1,557,351,681.94
Current portion of non-current liabilities		–	–
Other current liabilities		–	–
Total current liabilities		6,828,499,909.83	6,078,823,649.21
Non-current liabilities			
Long-term borrowings	5(30)	39,755,174.34	–
Debentures payable		–	–
Long-term payables	5(31)	22,219,899.34	22,361,807.40
Payables for specific projects	5(32)	19,058,160.00	19,058,160.00
Provisions	5(33)	64,162,534.32	54,726,969.19
Deferred income	5(34)	183,587,858.83	154,141,906.32
Deferred tax liabilities	5(19)	29,063,935.23	15,499,610.21
Long-term Employee benefits payable	5(35)	296,646.40	296,382.47
Total non-current liabilities		358,144,208.46	266,084,835.59
Total liabilities		7,186,644,118.29	6,344,908,484.80

Consolidated Balance Sheet

As at 31 December 2015

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

Item	Note	31 December 2015	31 December 2014
Shareholders' equity			
Share capital	5(36)	1,291,079,250.00	1,291,340,650.00
Capital surplus	5(37)	2,346,435,108.64	2,526,638,830.11
Less: Treasury share		–	–
Other comprehensive Income	5(38)	(732,678.19)	11,900,689.68
Surplus reserves	5(39)	930,522,262.36	815,487,206.38
Undistributed profits	5(40)	3,883,510,490.48	3,059,769,635.87
Total equity attributable to shareholders of parent Company		8,450,814,433.29	7,705,137,012.04
Equities of minority shareholders	5(41)	233,118,715.62	216,857,577.07
Total shareholders' equity		8,683,933,148.91	7,921,994,589.11
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		15,870,577,267.20	14,266,903,073.91

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Wu Changhai

Person in charge of
accounting department:

Yao Zhizhi

Consolidated Income Statement

For the Year Ended 31 December 2015

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

Item	Note	The year ended 31 December 2015	The year ended 31 December 2014
1. Revenue	5(42)	19,124,658,298.90	18,818,231,986.73
Less: Cost of sales	5(42)	12,200,500,049.92	12,185,664,875.74
Taxes and surcharges	5(43)	169,627,790.27	155,732,374.42
Selling and distribution expenses	5(44)	4,167,680,901.54	3,942,803,578.59
General and administrative expenses	5(45)	1,374,805,685.81	1,291,531,676.22
Financial expenses	5(46)	(21,937,825.02)	1,393,955.19
Asset impairment losses	5(47)	36,312,870.62	61,199,064.82
Add: Profit arising from the changes in fair value	5(48)	1,813,766.60	1,323,355.80
Investment income	5(49)	210,852,957.10	161,001,362.02
Including: Share of profit of associates and jointly controlled entities		206,845,139.58	156,172,120.15
2. Operating profit		1,410,335,549.46	1,342,231,179.57
Add: Non-operating income	5(50)	331,198,578.33	204,118,126.20
Including: Gains on disposal of non-current assets		698,961.19	258,591.74
Less: Non-operating expenses	5(51)	113,412,054.19	78,287,923.06
Including: Losses on disposal of non-current assets		1,992,658.12	9,197,692.83
3. Total profit		1,628,122,073.60	1,468,061,382.71
Less: Income tax expenses	5(52)	282,835,101.41	256,533,350.01
4. Net profit		1,345,286,972.19	1,211,528,032.70
– Attributable to owners of the parent company		1,300,351,292.59	1,194,141,273.24
– Minority interests		44,935,679.60	17,386,759.46
5. Other comprehensive net income after tax	5(38)	(12,635,534.89)	12,734,509.65
Other comprehensive net income after tax attributable to shareholders' equity of the parent company		(12,633,367.87)	12,718,554.92
I. Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period		–	–
(1). Portion of items will not be classified into profit or loss when under equity method		–	–
II. Items will be classified into profit or loss when satisfied with certain conditions at following accounting period		(12,633,367.87)	12,718,554.92
(1). Portion of items will be classified into profit or loss when under equity method		91,910.16	233,768.27
(2). Profit or loss arising from changes in fair value of available for sale financial assets		(12,722,126.94)	12,360,099.02
(3). Differences arising from translation of foreign currency financial statements		(3,151.09)	124,687.63
Other comprehensive net income after tax attributable to minority shareholders' equity		(2,167.02)	15,954.73

Consolidated Income Statement

For the Year Ended 31 December 2015

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

Item	Note	The year ended 31 December 2015	The year ended 31 December 2014
6. Total comprehensive income		1,332,651,437.30	1,224,262,542.35
(1) Total comprehensive income attributable to shareholders' equity of parent company		1,287,717,924.72	1,206,859,828.16
(2) Total comprehensive income attributable to minority shareholders' equity		44,933,512.58	17,402,714.19
7. Earnings per share			
(1) Basic earnings per share	5(53)(a)	1.007	0.925
(2) Diluted earnings per share	5(53)(b)	1.007	0.925

Business combination involving enterprises under common control at current period, merged party's net profit before merger amounted to RMB(372,567.56), net profit before merger at last period amounted to RMB884,514.90.

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Wu Changhai

Person in charge of
accounting department:

Yao Zhizhi

Consolidated Cash Flow Statement

For the Year Ended 31 December 2015

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

Item	Note	The year ended 31 December 2015	The year ended 31 December 2014
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		17,867,969,027.29	18,396,340,453.96
Refund of taxes and surcharges		45,695,445.23	88,732,044.70
Cash received relating to other operating activities	5(54)(a)	610,840,441.51	467,480,988.48
Sub-total of cash inflows		18,524,504,914.03	18,952,553,487.14
Cash paid for goods and services		8,852,549,283.79	9,982,777,796.33
Cash paid to and on behalf of employees		3,083,551,490.26	2,896,811,105.13
Payments of taxes and surcharges		1,929,875,453.25	1,800,438,509.93
Cash paid relating to other operating activities	5(54)(b)	2,716,572,189.48	2,520,836,520.87
Sub-total of cash outflows		16,582,548,416.78	17,200,863,932.26
Net cash flows from operating activities	5(55)(a)	1,941,956,497.25	1,751,689,554.88
2. Cash flows from investing activities			
Cash received from disposal of investments		–	4,000,000.00
Net cash received from disposal of subsidiaries		–	–
Cash received from returns on investments		74,222,879.19	68,867,785.14
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		538,679.15	496,689.32
Cash received relating to other investing activities	5(54)(c)	8,524,709.63	5,830.38
Sub-total of cash inflows		83,286,267.97	73,370,304.84
Cash paid to acquire fixed assets, intangible assets and other long-term assets		515,341,790.72	356,699,890.58
Cash paid to acquire investments		367,400,037.56	4,000,000.00
Net cash paid to acquire subsidiaries		–	–
Cash paid relating to other investing activities	5(54)(d)	6,548,528.33	3,106,967.19
Sub-total of cash outflows		889,290,356.61	363,806,857.77
Net cash flows from investing activities		(806,004,088.64)	(290,436,552.93)

Consolidated Cash Flow Statement

For the Year Ended 31 December 2015

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

Item	Note	The year ended 31 December 2015	The year ended 31 December 2014
3. Cash flows from financing activities			
Cash received from capital contributions		11,760,000.00	15,265,919.00
Including: Cash received from capital contributions by minority shareholders to subsidiaries		11,760,000.00	14,465,919.00
Cash received from borrowings		717,773,720.87	753,177,412.19
Cash received relating to other financing activities		–	–
Sub-total of cash inflows		729,533,720.87	768,443,331.19
Cash repayments of borrowings		656,998,146.62	710,926,240.91
Cash payments for interest expenses and distribution of dividends or profits		410,777,425.81	420,611,623.65
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		9,530,391.96	10,762,428.02
Cash payments relating to other financing activities	5(54)(e)	9,206,827.55	903,862.86
Sub-total of cash outflows from financing activities		1,076,982,399.98	1,132,441,727.42
Net cash flows from financing activities		(347,448,679.11)	(363,998,396.23)
4. Effect of foreign exchange rate changes on cash and cash equivalents		(428,925.99)	220,466.06
5. Net increase/(decrease) in cash and cash equivalents	5(55)(a)	788,074,803.51	1,097,475,071.78
Add: Cash and cash equivalents at beginning of year	5(55)(b)	3,049,528,750.47	1,952,053,678.69
6. Cash and cash equivalents at end of year	5(55)(b)	3,837,603,553.98	3,049,528,750.47

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Wu Changhai

Person in charge of
accounting department:

Yao Zhizhi

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2015

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

Item	Current period													
	Attributable to shareholders of the Company												Minority Shareholders' equity	Total shareholders' equity
	Other equity instruments				Capital surplus	Less: Treasury share	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profits			
Share capital	Preferred shares	Sustainable debts	Others											
1. Balance at 31 December 2014	1,291,340,650.00	-	-	-	2,526,638,830.11	-	11,900,689.68	-	815,487,206.38	-	3,059,769,635.87	216,857,577.07	7,921,994,589.11	
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	
Corrections of prior year errors	-	-	-	-	-	-	-	-	-	-	-	-	-	
Business combination involving enterprises under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	
2. Balance at 1 January 2015	1,291,340,650.00	-	-	-	2,526,638,830.11	-	11,900,689.68	-	815,487,206.38	-	3,059,769,635.87	216,857,577.07	7,921,994,589.11	
3. Movements For the year ended 31 December 2015 (less: "-")	(261,400.00)	-	-	-	(180,203,721.47)	-	(12,633,367.87)	-	115,035,055.98	-	823,740,854.61	16,261,138.55	761,938,559.80	
(1) Total comprehensive income	-	-	-	-	-	-	(12,633,367.87)	-	-	-	1,300,351,292.59	44,933,512.58	1,332,651,437.30	
(2) Capital contribution and withdrawal by shareholders	(261,400.00)	-	-	-	261,399.00	-	-	-	-	-	-	11,760,000.00	11,759,999.00	
1. Common stock by shareholders	(261,400.00)	-	-	-	261,399.00	-	-	-	-	-	-	11,760,000.00	11,759,999.00	
2. Capital contribution by owner of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	
3. Share-based payment charged to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	
(3) Profit distribution	-	-	-	-	-	-	-	-	115,035,055.98	-	(476,610,437.98)	(14,637,695.51)	(376,213,077.51)	
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	115,035,055.98	-	(115,035,055.98)	-	-	
2. Appropriation to general risk provision	-	-	-	-	-	-	-	-	-	-	-	-	-	
3. Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	-	(361,575,382.00)	(14,637,695.51)	(376,213,077.51)	
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	
(4) Transfer within shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	
1. Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-	
2. Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-	
3. Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-	-	-	-	-	
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	
1. Current Appropriation	-	-	-	-	-	-	-	-	-	-	-	-	-	
2. Current apply	-	-	-	-	-	-	-	-	-	-	-	-	-	
(6) Other	-	-	-	-	(180,465,120.47)	-	-	-	-	-	-	(25,794,678.52)	(206,259,798.99)	
4. Balance at 31 December 2015	1,291,079,250.00	-	-	-	2,346,435,108.64	-	(732,678.19)	-	930,522,262.36	-	3,883,510,490.48	233,118,715.62	8,683,933,148.91	

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2015

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

Item	Prior period												
	Attributable to shareholders of the Company											Total shareholders' equity	
	Other equity instruments				Capital surplus	Less: Treasury share	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profits		Minority Shareholders equity
Share capital	Preferred shares	Sustainable debts	Others										
1. Balance at 31 December 2013	1,291,340,650.00	-	-	-	2,486,910,770.01	-	(817,865.24)	-	723,819,753.76	-	2,330,514,583.35	190,468,803.06	7,022,236,694.94
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Business combination involving enterprises under common control	-	-	-	-	40,254,876.16	-	-	-	-	-	(76,210,418.60)	(2,035,226.12)	(37,890,768.56)
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2014	1,291,340,650.00	-	-	-	2,527,265,646.17	-	(817,865.24)	-	723,819,753.76	-	2,254,304,164.75	188,433,576.94	6,984,345,926.38
3. Movements For the year ended 31 December 2014 (less: "-")	-	-	-	-	(626,816.06)	-	12,718,554.92	-	91,667,452.62	-	805,465,471.12	28,424,000.13	937,648,662.73
(1) Total comprehensive income	-	-	-	-	-	-	12,718,554.92	-	-	-	1,194,141,273.24	17,402,714.19	1,224,262,542.35
(2) Capital contribution and withdrawal by shareholders	-	-	-	-	-	-	-	-	-	-	-	32,520,000.00	32,520,000.00
1. Common stock by shareholders	-	-	-	-	-	-	-	-	-	-	-	32,520,000.00	32,520,000.00
2. Capital contribution by owner of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment charged to equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	-	-	91,667,452.62	-	(388,675,802.12)	(21,631,477.08)	(318,639,826.58)
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	91,667,452.62	-	(91,667,452.62)	-	-
2. Appropriation to general risk provision	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	-	(297,008,349.50)	(21,631,477.08)	(318,639,826.58)
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer within shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Current Appropriation	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Current apply	-	-	-	-	-	-	-	-	-	-	-	-	-
(6) Other	-	-	-	-	(626,816.06)	-	-	-	-	-	-	132,763.02	(494,053.04)
4. Balance at 31 December 2014	1,291,340,650.00	-	-	-	2,526,638,830.11	-	11,900,689.68	-	815,487,206.38	-	3,059,769,635.87	216,857,577.07	7,921,994,589.11

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Wu Changhai

Person in charge of
accounting department:

Yao Zhizhi

Balance Sheet

As At 31 December 2015

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

Item	Note	31 December 2015	31 December 2014
Current assets			
Cash at bank and on hand		992,260,432.73	760,953,902.80
Financial liabilities based on fair value to confirm profit or loss		6,499,789.60	4,686,023.00
Notes receivable		432,494,330.23	531,692,907.91
Accounts receivable	18(1)	367,642,513.31	115,396,194.29
Advances to suppliers		10,283,339.24	11,902,638.10
Interest receivable		–	–
Dividends receivable		200,930,968.29	239,842,960.38
Other receivables	18(2)	1,099,573,150.44	1,286,251,744.18
Inventories		373,333,246.04	417,737,175.23
Current portion of non-current assets		–	–
Other current assets		349,406.68	1,428,990.13
Total current assets		3,483,367,176.56	3,369,892,536.02
Non-current assets			
Available-for-sale financial assets		276,380,753.51	130,052,753.51
Held-to-maturity investments		–	–
Long-term receivables		–	–
Long-term equity investments	18(3)	3,884,977,707.45	3,426,473,447.37
Investment properties		225,037,945.52	220,547,355.25
Fixed assets		475,499,950.79	509,020,867.81
Construction in progress		138,529,406.52	23,165,820.79
Construction materials		–	–
Fixed assets pending for disposal		–	–
Intangible assets		272,001,250.47	276,928,145.01
Development costs		3,997,046.84	2,740,339.80
Goodwill		–	–
Long-term prepaid expenses		578,686.87	801,622.85
Deferred tax assets		34,033,633.94	38,813,158.39
Other non-current assets		–	–
Total non-current assets		5,311,036,381.91	4,628,543,510.78
TOTAL ASSETS		8,794,403,558.47	7,998,436,046.80

Balance Sheet

As At 31 December 2015

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

Item	Note	31 December 2015	31 December 2014
Current liabilities			
Short-term borrowings		80,000,000.00	130,000,000.00
Financial liabilities based on fair value to confirm profit or loss		–	–
Notes payable		–	–
Accounts payable		164,807,485.98	226,935,320.01
Advances from customers		113,379,962.09	72,210,762.74
Employee benefits payable		77,538,021.54	81,845,401.01
Taxes payable		48,847,537.91	39,296,377.46
Interest payable		73,458.32	236,666.66
Dividends payable		156,225.47	90,193.02
Other payables		1,085,613,978.86	917,490,082.52
Current portion of non-current liabilities		–	–
Other current liabilities		–	–
Total current liabilities		1,570,416,670.17	1,468,104,803.42
Non-current liabilities			
Long-term borrowings		–	–
Debentures payable		–	–
Long-term payables		7,876,324.33	7,802,224.39
Payables for specific projects		–	–
Provisions		46,244,031.19	500,191.19
Deferred income		62,576,138.23	39,602,337.13
Deferred tax liabilities		4,541,769.48	5,166,449.94
Long-term Employee benefits payable		–	–
Total non-current liabilities		121,238,263.23	53,071,202.65
Total liabilities		1,691,654,933.40	1,521,176,006.07

Balance Sheet

As At 31 December 2015

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

Item	Note	31 December 2015	31 December 2014
Shareholders' equity			
Share capital		1,291,079,250.00	1,291,340,650.00
Capital surplus		2,291,438,019.85	2,451,263,923.51
Less: Treasury share		–	–
Other comprehensive income		13,102,882.57	16,302,172.41
Surplus reserve		557,913,827.76	442,878,771.78
Undistributed profits		2,949,214,644.89	2,275,474,523.03
Total shareholders' equity		7,102,748,625.07	6,477,260,040.73
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		8,794,403,558.47	7,998,436,046.80

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Wu Changhai

Person in charge of
accounting department:

Yao Zhizhi

Income Statement

For the Year Ended 31 December 2015

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

Item	Note	The year ended 31 December 2015	The year ended 30 December 2014
1. Revenue	18(4)	2,931,488,496.21	2,988,427,575.93
Less: Cost of sales	18(4)	1,517,898,656.79	1,680,449,978.13
Taxes and surcharges		38,594,526.63	34,013,106.45
Selling and distribution expenses		469,789,606.28	455,292,519.91
General and administrative expenses		384,361,697.57	351,315,701.80
Financial expenses		21,798,046.23	21,209,811.12
Asset impairment losses		8,137,243.96	19,998,482.93
Add: Profit arising from changes in fair value		1,813,766.60	1,323,355.80
Investment income	18(5)	715,714,607.64	554,598,570.30
Including: Share of profit of associates and jointly controlled entities	18(5)(c)	198,837,752.58	94,337,405.27
2. Operating profit		1,208,437,092.99	982,069,901.69
Add: Non-operating income		25,304,355.55	11,678,246.40
Including: Gain on disposal of non-current assets		283,820.04	19,464.53
Less: Non-operating expenses		2,774,524.74	6,450,805.39
Including: Losses on disposal of non-current assets		743,056.90	1,429,948.32
3. Total profit		1,230,966,923.80	987,297,342.70
Less: Income tax expenses		80,616,363.96	70,622,816.47
4. Net Profit		1,150,350,559.84	916,674,526.23
5. Other comprehensive income		(3,199,289.84)	11,650,118.27
– Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period		–	–
– Items will be classified into profit or loss when satisfied with certain conditions at following accounting period		(3,199,289.84)	11,650,118.27
(1). Portion of items will be classified into profit or loss when under equity method		91,910.16	233,768.27
(2). Profit or loss arising from changes in fair value of available for sale financial assets		(3,291,200.00)	11,416,350.00

Income Statement

For the Year Ended 31 December 2015

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

Item	Note	The year ended 31 December 2015	The year ended 30 December 2014
6. Total comprehensive income		1,147,151,270.00	928,324,644.50
7. Earnings per share			
(1) Basic earnings per share		-	-
(2) Diluted earnings per share		-	-

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Wu Changhai

Person in charge of
accounting department:

Yao Zhizhi

Cash Flow Statement

For the Year Ended 31 December 2015

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

Item	Note	The year ended 31 December 2015	The year ended 30 December 2014
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		1,816,247,339.08	1,784,935,659.00
Refund of taxes and surcharges		-	-
Cash received relating to other operating activities		560,413,604.32	395,379,967.45
Sub-total of cash inflows		2,376,660,943.40	2,180,315,626.45
Cash paid for goods and services		394,650,420.05	433,380,477.63
Cash paid to and on behalf of employees		653,642,964.64	610,410,682.05
Payments of taxes and surcharges		346,436,733.98	340,296,225.03
Cash paid relating to other operating activities		307,931,550.16	324,400,330.51
Sub-total of cash outflows		1,702,661,668.83	1,708,487,715.22
Net cash flows from operating activities	18(6)	673,999,274.57	471,827,911.23
2. Cash flows from investing activities			
Cash received from disposal of investments		-	-
Net cash received from selling of subsidiaries		-	-
Cash received from returns on investments		373,149,632.80	531,813,669.04
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		192.00	33,321.80
Cash received relating to other investing activities		999,785,486.92	516,750,697.46
Sub-total of cash inflows		1,372,935,311.72	1,048,597,688.30
Cash paid to acquire fixed assets, intangible assets and other long-term assets		129,974,245.40	48,596,818.42
Cash paid to acquire investments		583,811,900.00	91,860,000.00
Net cash paid to acquire subsidiaries		-	-
Cash paid relating to other investing activities		717,217,799.19	782,687,003.85
Sub-total of cash outflows		1,431,003,944.59	923,143,822.27
Net cash flows from investing activities		(58,068,632.87)	125,453,866.03

Cash Flow Statement

For the Year Ended 31 December 2015

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

Item	Note	The year ended 31 December 2015	The year ended 30 December 2014
3. Cash flows from financing activities			
Cash received from capital contributions		-	-
Including: Cash received from capital contributions by minority shareholders to subsidiaries		-	-
Cash received from borrowings		80,000,000.00	220,000,000.00
Cash received relating to other financing activities		295,000,000.00	283,300,000.00
Sub-total of cash inflows		375,000,000.00	503,300,000.00
Cash repayments of borrowings		130,000,000.00	348,627,418.40
Cash payments for interest expenses and distribution of dividends or profits		369,519,254.88	388,160,060.01
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		-	-
Cash payments relating to other financing activities		240,431,885.87	116,830,462.29
Sub-total of cash outflows		739,951,140.75	853,617,940.70
Net cash flows from financing activities		(364,951,140.75)	(350,317,940.70)
4. Effect of foreign exchange rate changes on cash and cash equivalents		41,567.83	2,269.82
5. Net increase/ (decrease) in cash and cash equivalents	18(6)	251,021,068.78	246,966,106.38
Add: Balance of cash and cash equivalents at beginning of year		709,868,368.22	462,902,261.84
6. Cash and cash equivalents at end of year		960,889,437.00	709,868,368.22

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Wu Changhai

Person in charge of
accounting department:

Yao Zhizhi

Statement of Changes in Equity

For the Year Ended 31 December 2015

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

Item	Current period										Total shareholders' equity
	Other equity instruments				Capital surplus	Less: Treasury share	Other comprehensive income	Special reserves	Surplus reserve	Undistributed profits	
	Share capital	Preferred shares	Sustainable debt	Others							
1. Balance at 31 December 2014	1,291,340,650.00	-	-	-	2,451,263,923.51	-	16,302,172.41	-	442,878,771.78	2,275,474,523.03	6,477,260,040.73
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2015	1,291,340,650.00	-	-	-	2,451,263,923.51	-	16,302,172.41	-	442,878,771.78	2,275,474,523.03	6,477,260,040.73
3. Movements for the year ended 31 December 2015	(261,400.00)	-	-	-	(159,825,903.66)	-	(3,199,289.84)	-	115,035,055.98	673,740,121.86	625,488,584.34
(1) Total comprehensive income	-	-	-	-	-	-	(3,199,289.84)	-	-	1,150,350,559.84	1,147,151,270.00
(2) Capital contribution and withdrawal by shareholders	(261,400.00)	-	-	-	261,399.00	-	-	-	-	-	(1.00)
1. Common stock by shareholders	(261,400.00)	-	-	-	261,399.00	-	-	-	-	-	(1.00)
2. Capital contribution by owner of other equity instruments	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment charged to equity	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	-	-	115,035,055.98	(476,610,437.98)	(361,575,382.00)
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	115,035,055.98	(115,035,055.98)	-
2. Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	(361,575,382.00)	(361,575,382.00)
3. Others	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer within shareholders' equity	-	-	-	-	-	-	-	-	-	-	-
1. Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-
1. Current appropriation	-	-	-	-	-	-	-	-	-	-	-
2. Current apply	-	-	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	(160,087,302.66)	-	-	-	-	-	(160,087,302.66)
4. Balance at 31 December 2015	1,291,079,250.00	-	-	-	2,291,438,019.85	-	13,102,882.57	-	557,913,827.76	2,949,214,644.89	7,102,748,625.07

Statement of Changes in Equity

For the Year Ended 31 December 2015

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

Item	Prior period										
	Share capital	Other equity instruments			Capital surplus	Less: Treasury share	Other comprehensive income	Special reserves	Surplus reserve	Undistributed profits	Total shareholders' equity
		Preferred shares	Sustainable debts	Others							
1. Balance at 31 December 2013	1,291,340,650.00	-	-	-	2,452,289,028.77	-	4,652,054.14	-	351,211,319.16	1,747,475,798.92	5,846,968,850.99
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2014	1,291,340,650.00	-	-	-	2,452,289,028.77	-	4,652,054.14	-	351,211,319.16	1,747,475,798.92	5,846,968,850.99
3. Movements For the year ended 31 December 2014 (less: +)	-	-	-	-	(1,025,105.26)	-	11,650,118.27	-	91,667,452.62	527,998,724.11	630,291,189.74
(1) Total comprehensive income	-	-	-	-	-	-	11,650,118.27	-	-	916,674,526.23	928,324,644.50
(2) Capital contribution and withdrawal by shareholders	-	-	-	-	-	-	-	-	-	-	-
1. Common stock by shareholders	-	-	-	-	-	-	-	-	-	-	-
2. Capital contribution by owner of other equity instruments	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment charged to equity	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	-	-	91,667,452.62	(388,675,802.12)	(297,008,349.50)
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	91,667,452.62	(91,667,452.62)	-
2. Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	(297,008,349.50)	(297,008,349.50)
3. Others	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer within shareholders' equity	-	-	-	-	-	-	-	-	-	-	-
1. Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-
1. Current appropriation	-	-	-	-	-	-	-	-	-	-	-
2. Current apply	-	-	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	(1,025,105.26)	-	-	-	-	-	(1,025,105.26)
4. Balance at 31 December 2014	1,291,340,650.00	-	-	-	2,451,263,923.51	-	16,302,172.41	-	442,878,771.78	2,275,474,523.03	6,477,260,040.73

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

Legal representative:

Li Chuyuan

Person in charge of
accounting function:

Wu Changhai

Person in charge of
accounting department:

Yao Zhizhi

Notes to the Financial Statement

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

1. GENERAL INFORMATION

(1) Summarization of the Company

Approved by the Circular Ti Gai Sheng [1997] No.139 issued by the State Commission for Restructuring the Economic Systems, Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (the "Company") was founded by Guangzhou Pharmaceutical Holdings Limited ("GPHL"). The 8 Chinese Patent Medicine ("CPM") manufacturing companies and 3 pharmaceutical trading companies under GPHL were restructured and the stated-owned equity interest in the assets of these companies were injected in the Company. The Company obtained business license on 1 September 1997 and the registered number is 440101000005674.

Approved by the Circular Ti Gai Sheng [1997] No.145 issued by the State Commission for Restructuring the Economic Systems and Circular Zheng Wei Fa [1997] No.56 issued by the Securities Regulatory Commission of the State Council, the Company issued 219,900,000 shares listed in Hong Kong Stock Exchange (H shares) in October 1997. Approved by China Securities Regulatory Commission on 10 January 2001, 78,000,000 A shares of the Company were issued and became listed in Shanghai Stock Exchange on 6 February 2001. The stock abbreviation is GZ Phar., and stock code is 600332.

The Company executed and completed the material assets reorganization transaction, which includes: (1) The Company issued an addition of 445,601,005 A shares by way of share swap to absorb and merger Baiyunshan Co., Ltd.(Baiyunshan), a subsidiary of GPHL, in May 2013. (2) The Company issued an addition of 34,839,645 A shares to GPHL as consideration payment, to acquire the buildings and trademarks which are owned by GPHL or GPHL has the right to dispose of, and 100% equity interest of the subsidiary of GPHL, Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited ("Guangyao Baiyunshan Hong Kong Company")(Previously named "Polian Development Co., Ltd.") and 12.5% equity interest of Baxter Healthcare Co., Ltd.("Baxter Healthcare") held by GPHL, The Company completed the registration of share on 5 July 2013. After the above-mentioned assets reorganization was completed, the Company's total number of shares in issue was 1,291,340,650. The stock abbreviation is BYS.

Pursuant to < Indemnification Agreement in Respect of the Difference Between Actual Number of Net Income of Assets to be Purchased and Forecast of Net Income > entered into between the Company and GPHL, the Company directly repurchased 261,400 A shares held by GPHL for RMB1, and cancelled it on 27 April 2015. The procedure of repurchase and cancel was completed on 7 May 2015. After the completion, general capital of the Company is 1,291,079,250 shares.

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

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

1. GENERAL INFORMATION *(Continued)*

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

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

The major CPM products of the Group include Xiao Ke Pill (“消渴丸”), Xia Sang Ju (“夏桑菊”), Wu Ji Bai Feng Pill (“烏雞白鳳丸”), Hua Tuo Zai Zao Pill (“華佗再造丸”) and Mi Lian Chuan Bei Pi Pa Jelly (“蜜煉川貝枇杷膏”), Qing Kai Ling Tonic (“清開靈口服液”), Xiao Chai Hu Chong Ji (“小柴胡沖劑”) etc. The major western medicine products of the Group include cefathiamidine, amoxicillin and ceftriaxone sodium. The major pre-packaged food of the Group are Wang Lao Ji Herbal Tea (“王老吉涼茶”), etc.

The Group’s current structure mainly include 11 CPM manufacturing companies, 2 western medicine manufacturing companies, 1 chemical raw materials manufacturing company, 1 pre-packaged food manufacturing company, 3 pharmaceutical research and development companies, 6 pharmaceutical trading companies, 1 advertising company and 1 pharmaceutical research company.

These financial statements were approved for issue by the Board on 18 March 2016.

(2) Scope of consolidated financial statements

As at 31 December 2015, subsidiaries in the scope of consolidated financial statements are as below:

Name of subsidiary	Control
Guangzhou Baiyunshan Xing Qun (Pharmaceutical) Holdings Co., Ltd. (Xing Qun)	Direct subsidiary
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd.(Zhong Yi)	Direct subsidiary
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd. (Chen Li Ji Pharmaceutical Factory)	Direct subsidiary

Notes to the Financial Statement

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

1. GENERAL INFORMATION *(Continued)*

(2) Scope of consolidated financial statements *(Continued)*

Name of subsidiary	Control
Guangzhou Baiyunshan Han Fang Modern Pharmaceutical Co., Ltd. (Han Fang Pharmaceutical)	Direct subsidiary
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	Direct subsidiary
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. (Jing Xiu Tang)	Direct subsidiary
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (Pan Gao Shou)	Direct subsidiary
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (Cai Zhi Lin)	Direct subsidiary
Guangzhou Pharmaceutical Import & Export Co., Ltd. (Pharmaceutical Import & Export)	Direct subsidiary
Guangzhou Baiyunshan Bai Di Bio-Technology Co., Ltd. (Guangzhou Bai Di)	Direct subsidiary
Guangzhou WLJ Great Health Industry Co., Ltd. (WLJ Great Health)	Direct subsidiary
Guangxi Ying Kang Co., Ltd. (Guangxi Ying Kang)	Direct subsidiary
Guangzhou Guang Yao Yi Gan Biological Product Co., Ltd.	Direct subsidiary
Guangzhou Baiyunshan Xing Zhou Pharmaceutical Co., Ltd. (Xing Zhou)	Direct subsidiary
Guangzhou Baiyunshan Medical and Health Industry Investment Co., Ltd. (Baiyunshan Medical and Health)	Direct subsidiary
Guangzhou Baiyunshan Chemical Medicine Technology Co., Ltd.	Direct subsidiary
Guangzhou Haima Pharmaceutical Advertising Co., Ltd. (Guangyao Haima)	Direct subsidiary
Guangzhou Baiyunshan Pharmaceutical Sales Co., Ltd.	Direct subsidiary

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

1. GENERAL INFORMATION *(Continued)*

(2) Scope of consolidated financial statements *(Continued)*

Name of subsidiary	Control
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. (Qi Xing Pharmaceutical)	Indirect subsidiary
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd.	Indirect subsidiary
Guangzhou Pan Gao Shou Natural Healthcare Products Co., Ltd	Indirect subsidiary
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	Indirect subsidiary
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Indirect subsidiary
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.	Indirect subsidiary
Guangzhou Ao Ma Medical Apparatus Co., Ltd.	Indirect subsidiary
Tibet Lin Zhi Guangyao Development Co., Ltd.	Indirect subsidiary
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary
Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary
Jingyu Guangyao Dong E Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary
Heilongjiang Sen Gong Guangyao Raw Medicine Development Co., Ltd.	Indirect subsidiary
Wang Lao Ji Great Health (Ya'an) Co., Ltd.	Indirect subsidiary
Guangzhou Baiyunshan Guang Hua Health Products Co., Ltd. (Guang Hua Health)	Indirect subsidiary

Notes to the Financial Statement

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

1. GENERAL INFORMATION *(Continued)*

(2) Scope of consolidated financial statements *(Continued)*

Name of subsidiary	Control
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary
Zhejiang Guang Kang Pharmaceutical Co., Ltd.	Indirect subsidiary
Tibet Linzhi Baiyunshan Tibetan Health Castle Management Co., Ltd.	Indirect subsidiary
Guangzhou Wang Lao Ji Great Health Enterprise Development Co., Ltd.	Indirect subsidiary
Guangzhou Wang Lao Ji Industry Company	Indirect subsidiary
Wang Lao Ji Great Health Industry (Beijing) Sales Co., Ltd.	Indirect subsidiary
Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd.	Indirect subsidiary
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. (Tian Xin)	Direct subsidiary
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd. (Guang Hua)	Direct subsidiary
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. (Ming Xing)	Direct subsidiary
Baiyunshan Wei Ling Pharmaceutical Co., Ltd. (Wei Ling Pharmaceutical)	Direct subsidiary
Guangzhou Baiyunshan Pharmaceutical Technological Development Co., Ltd. (BYS Pharmaceutical Technological)	Direct subsidiary
Guangzhou Guangyao Baiyunshan Great Health Hotel Co., Ltd. (Great Health Hotel)	Direct subsidiary
Guangyao Baiyunshan Hong Kong Company	Direct subsidiary
Guangzhou Pharmaceutical Research Institute ("Guangyao General Institute")	Direct subsidiary

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

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2. FOUNDATION OF PREPARATION OF THE FINANCIAL STATEMENTS.

(1) Basis of preparation

Based on going concern and actual transactions and events, the Company prepared financial statements in accordance with the basic and specific standards of the Accounting Standards for Business Enterprises, the Application Guidance for Accounting Standard for Business Enterprises, interpretations of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance (hereinafter collectively referred to as "CAS"), and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 – General provisions on Financial Reporting issued by the China Securities Regulatory Commission.

(2) Going concern

The Company has the ability for continuous operation and there are no significant events which affect the ability for continuous operation since the end of reporting period within at least 12 months.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company For the year ended 31 December 2015 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position as at 31 December 2015 and the operating results, cash flows and other information For the year ended 31 December 2015 of the Group and the Company.

(2) Accounting period

Accounting year starts on 1 January and ends on 31 December. The financial statements cover the period from 1 January 2015 to 31 December 2015.

(3) Business period

The business period of the Company is 12 months.

(4) Recording currency

The recording currency is Renminbi ("RMB").

Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company operating overseas, uses Hong Kong Dollar as its recording currency.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(5) Accounting treatments for business combinations involving entities under and not under common control

(a) Business combinations involving entities under common control

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (capital premium). If the capital surplus (capital premium) is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings.

Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction fees of equity securities or debt securities issued for a business combination are included in the initially recognized amount of equity securities or debt securities.

(b) Business combinations involving entities not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized in initial confirmation amount.

Costs directly attributable to the combination are included in profit or loss in the period in which are incurred. Transaction fees of equity securities or debt securities issued for a business combination are included in the initially recognized amount of equity securities or debt securities.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(6) Preparation of consolidated financial statements

a) Scope of combination

The scope of consolidated financial statements shall be determined on the basis of control, all subsidiaries (including entities which controlled by the Company) are included in the consolidated financial statements.

b) Procedure of combination

The consolidated financial statements shall be prepared by the Company based on the financial statements of the Company and its subsidiaries according to other related information. When preparing consolidated financial statements, the Company shall consider the entire group as an accounting entity, adopt uniform accounting policies and apply the requirements of Accounting Standard for Business Enterprises related to recognition, measurement and presentation. The consolidated financial statements shall reflect the overall financial position, operating results and cash flows of the Group.

Accounting policies and accounting period adopted by the subsidiaries which included in the consolidated scope of financial statements are the same as that of the Company, if not, should make necessary adjustments to the when preparing consolidated financial statements. For the subsidiaries acquired from business combinations involving entities not under common control, its financial statements shall be adjusted based on fair value of identifiable net assets at the acquisition date. For the subsidiaries acquired from business combinations involving entities under common control, its financial statements shall be adjusted based on carrying amount of its assets, liabilities (including goodwill arising from when ultimate controlling party purchased the subsidiary) in the financial statements of ultimate controlling party.

Portion of owner's equity, current net profit or loss and current comprehensive income attributable to minority shareholders shall be solely presented in owner's equity of consolidated balance sheet, net profit of consolidated income statements and comprehensive income. When the amount of loss for the current period attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess shall be allocated against the minority interests.

Notes to the Financial Statement

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

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

(6) Preparation of consolidated financial statements (Continued)

b) Procedure of combination (Continued)

(1) Acquisition of subsidiaries or business

Where the Company has acquired a subsidiary or business during the reporting period through a business combination involving enterprises under common control, the subsidiary's revenue, expenses and profit, from the beginning to end of the reporting period in which the combination take places, shall be included in consolidated income statement; cash flows of the subsidiaries or business from the beginning to end of the reporting period shall be included in consolidated cash flow statement, in addition, relevant items in the comparative statement shall be adjusted as if the reporting entity after the combination has been in existence since the date the ultimate controlling party first obtained control.

When an enterprise becomes capable of exercising control over an investee under common control due to additional investment or other reasons, it shall be adjusted as if each party involving combination has been in existence since the date the ultimate controlling party first obtained control. The equity investments held before obtaining control right to combined party, and the recognized relevant profit or loss, other comprehensive income as well as changes on other net assets at the later date between obtaining equity and combined party under common control allocated against the opening retained earnings in comparative statements or current profit or loss respectively.

When a subsidiary or business has been acquired through a business combination not involving entities under common control, or by other means, the revenue, expenses and profit of that subsidiary or business from the acquisition date to the end of the reporting period shall be included in the consolidated income statement, opening amount of consolidated balance sheet shall be not adjusted; the cash flows of that subsidiary or business from the acquisition date to the end of the reporting period shall be included in the consolidated cash flow statement.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(6) Preparation of consolidated financial statements *(Continued)*

b) Procedure of combination *(Continued)*

(1) *Acquisition of subsidiaries or business (Continued)*

When an enterprises becomes capable of exercising control over an investee not under common control due to additional investment or other reasons, when preparing the consolidated financial statements, the acquirer shall re-measure its previously held equity interest in the acquire to its fair value at the acquisition date. The differences between the fair value and the carrying amount shall be recognized as investment income for the period when the acquisition takes place, When the previously-held equity investment is accounted for under the equity method, any other comprehensive income and the changes on owner's equity other than net profit or loss, other comprehensive income and distribution of profit previously recognized in relation to the acquiree's equity changes shall be transferred to investment income for the current period when the acquisition takes place, except for the other comprehensive income arising from the changes on net liabilities or net assets of defined benefits plan re-measured by investee.

(2) *Disposing of subsidiaries or business*

① General treatment

When disposing of subsidiaries or business at reporting period, the revenue, expenses and profit of that subsidiary or business from the beginning of reporting period to disposal date shall be included in the consolidated income statement; the cash flows of that subsidiary or business from the beginning of reporting period to disposal date shall be included in the consolidated cash flow statement.

Notes to the Financial Statement

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

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

(6) Preparation of consolidated financial statements (Continued)

b) Procedure of combination (Continued)

(2) Disposing of subsidiaries or business (Continued)

① General treatment (Continued)

If an enterprise loses control of an investee due to the disposal of a portion of an equity investment or other reasons, the remaining equity investment shall be re-measured at its fair value in the consolidated financial statements at the date when control is lost. The difference between the total amount of consideration received from the transaction that resulted in the loss of control and the fair value of the remaining equity investment and the share of net assets of the former subsidiary calculated continuously from the acquisition date or the combination date based on the previous shareholding proportion, shall be recognized as investment income for the current period when control is lost, and the goodwill related to the subsidiary shall be derecognized. The amount previously recognized in other comprehensive income in relation to the former subsidiary's equity investment should be transferred to investment income for the current period when control is lost. Any other comprehensive income and the changes on owner's equity other than net profit or loss, other comprehensive income and distribution of profit previously recognized in relation to the acquire equity changes shall be transferred to investment income for the current period when the acquisition takes place, except for the other comprehensive income arising from the changes on net liabilities or net assets of defined benefits plan re-measured by investee. If the company loses control due to the decline of rate of interest held arising from the additional capital to subsidiaries by other investors, accounting treatment will be conducted in accordance with the above-mentioned principle.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(6) Preparation of consolidated financial statements *(Continued)*

b) Procedure of combination *(Continued)*

(2) *Disposing of subsidiaries or business (Continued)*

② Disposal in stages for subsidiaries

Where a parent loses control of a subsidiary in multiple transactions in which it disposes of its subsidiary in stages. In determining whether to account for the multiple transactions as a single transaction, a parent shall consider all of the terms and conditions of the transactions and their economic effects. One or more of the following may indicate that the parent should account for the multiple arrangements as a single transaction:

- i. Arrangements are entered into at the same time or in contemplation of each other;
- ii. Arrangements work together to achieve an overall commercial effect;
- iii. The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement;
- iv. One arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements.

If each of the multiple transactions forms part of a bundled transaction which eventually results in loss of control of the subsidiary, these multiple transactions should be accounted for as a single transaction. In the consolidated financial statements, the difference between the consideration received and the corresponding proportion of the subsidiary's net assets in each transaction prior to the loss of control shall be recognized in other comprehensive income and transferred to the profit or loss when the parent eventually loses control of the subsidiary.

If each of the multiple transactions does not form part of a bundled transaction which eventually results in loss of control of the subsidiary, these multiple transactions should be accounted for as a single transaction before the loss of control; when lost control, account for as general treatment for disposal of subsidiaries.

Notes to the Financial Statement

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

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

(6) Preparation of consolidated financial statements (Continued)

b) Procedure of combination (Continued)

(3) *Purchasing minority equity of subsidiaries*

The difference between the long-term equity investments from the purchasing of minority equity and the corresponding portion of net assets of the subsidiary calculated continuously from the acquisition date or the combination date related to the disposal of the long-term equity investments shall be adjusted to the capital reserve in the consolidated financial statements. If the balance of the capital reserve is not sufficient, any excess shall be adjusted against retained earnings.

(4) *Disposal in stages for the long-term equity investment of subsidiaries without loss of control*

Where the parent disposes of a portion of the long-term equity investments in a subsidiary without loss of control, the difference between the amount of the consideration received and the corresponding portion of net assets of the subsidiary calculated continuously from the acquisition date or the combination date related to the disposal of the long-term equity investments shall be adjusted to the share premium of capital reserve in the consolidated balance sheet, If the share premium of capital reserve is not sufficient, any excess shall be adjusted against retained earnings.

The Group start to include it in the scope of combination from the date of acquiring actual control to subsidiaries; stop to include it in the scope of combination from the date of losing actual control to subsidiaries. For the subsidiaries acquired from business combination involving entities under common control, the Group includes it in the scope of combination from the date when controlled by the same ultimate controlling party with the Company, and presented the net profit achieved before combination date in the consolidated income statement.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(7) Classification of accounting method and the joint arrangements

A joint arrangement is classified as either a joint operation or a joint venture.

The company is a joint operator of joint arrangement, which means it having rights to enjoy the related assets and assume the relevant liabilities.

The Company recognizes the following items in relation to its interest in a joint operation and makes accounting treatments in accordance with relevant accounting standards for business enterprises.

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

As at 31 December 2015, there are no joint operations.

Accounting policies for joint venture investment refer to note 3 (14) "Long-term equity investments."

(8) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with bank and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to the Financial Statement

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(9) Foreign currency translation

(a) Foreign currency transactions

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions. The differences arising from the exchange of foreign currencies are recognized in the financial expenses.

At the balance sheet date, monetary items denominated in foreign currency are translated into RMB using the spot rate of the balance sheet date. Exchange differences arising from these translations are recognized in profit or loss for the current year, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition, construction or production of qualifying assets, which are capitalized as part of the cost of those assets. Non-monetary items denominated in foreign currency that are measured in terms of historical cost are translated into RMB at the balance sheet date using the spot rate at the date of the transactions. The effect of changes in exchange rate of cash and cash equivalent is separately disclosed in the cash flow statement. Non-monetary items denominated in foreign currency that are measured at fair value are translated into RMB using the spot rate on the date when fair value is determined and the exchange differences arising from which are recognized in profit or loss or capital surplus in the current year.

(b) Translation of foreign currency financial statements

The assets and liabilities items among the balance sheet of foreign operation shall be translated using the spot exchange rate at the balance sheet date. Other items other than the undistributed profits among shareholder's equity shall be translated using the spot exchange rate at the transaction date. The income and expenses among the income statement shall be translated using the average on translation of foreign currency financial statements exchange rate during the reporting period. Differences are individually listed in shareholder's equity. The cash flow items of overseas operation shall be translated using average exchange rate during the reporting period. The effect of exchange rate changes on cash is presented individually in the cash flow statement.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(10) Financial Instruments

(a) Financial assets

(i) Classification

Financial assets are classified into the following categories at initial recognition: Financial assets based on fair value to confirm profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the Group's intention and ability to hold the financial assets.

1) Financial assets based on fair value to confirm profit or loss.

Financial assets based on fair value to confirm profit or loss include financial assets held for the purpose of selling in the short term. They are presented as financial assets held for trading on the balance sheet.

2) Receivables

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

3) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated to be available for sale upon initial recognition and financial assets not classified in any other categories. Available-for-sale financial assets are included in other current assets on the balance sheet if management intends to dispose of them within 12 months of the balance sheet date.

4) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that management has the positive intention and ability to hold to maturity. Held-to-maturity investments with maturities over 12 months when the investments were made but are due within 12 months (including 12 months) at the balance sheet date are included in the current portion of non-current assets; held-to maturity investments with maturities no more than 12 months (including 12 months) when the investments were made are included in other current assets.

Notes to the Financial Statement

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

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

(10) Financial Instruments (Continued)

(a) Financial assets (Continued)

(ii) Recognition and measurement

Financial assets are recognized at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. In the case of financial assets based on fair value to confirm profit or loss, the related transaction costs incurred at the time of acquisition are recognized in profit or loss for the current year. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initial recognition amounts.

Financial assets based on fair value to confirm profit or loss and available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Receivables and held-to-maturity investments are measured at amortized cost using the effective interest method.

Gain or loss arising from change in the fair value of financial assets based on fair value to confirm profit or loss is recognized in profit or loss. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognized in profit or loss for the current year.

Gain or loss arising from a change in fair value of an available-for-sale financial asset is recognized directly in equity, except for impairment losses and foreign exchange gains and losses arising from the translation of monetary financial assets. When such financial asset is derecognized, the cumulative gain or loss previously recognized directly in equity is reclassified to profit or loss for the current year. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognized as investment income, which is recognized in profit or loss for the period.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(10) Financial Instruments *(Continued)*

(a) Financial assets *(Continued)*

(iii) Impairment of financial assets

The Group assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that the financial assets are impaired, the Group shall determine the amount of impairment loss.

At the end of the period, if the fair value of the available-for-sale financial assets declined dramatically, or it is expected the downturn is not temporary after considers all relevant factors, the impairment has occurred. Transfer the accumulated loss which is occurred by the fair value included in the owner equity decreased and verify that the impairment losses.

The standard of the fair value of the available-for-sale financial assets of the company decrease seriously: Closing fair value declines relative to the cost has reached or exceeded 50%.

The standard of fair value decrease is not temporary: 12 months in a row fell. Computing method of investment cost: consideration of payment at acquisition (net of cash dividends declared but not yet paid or due but unpaid interest on bonds) and the relevant transaction cost are recognized as the investment cost. Determination basis of: Falling or downturn continued during the rally up less than 20% margin. Rebound duration not more than six months are treated as continue decrease period.

For available-for-sale debt instruments which impairment losses is confirmed, in subsequent accounting periods, the fair value is arisen and it is objectively connected with the event after impairment loss previously recognized. This impairment loss previously recognized shall reverse through profit or loss. When impairment loss of available-for-sale equity instrument has occurred, this loss shall not reverse thought profit or loss.

Impairment of held to maturity investment: Measurement method of the impairment loss of held to maturity investments is according to the measurement method of the impairment loss of receivables.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(10) Financial Instruments *(Continued)*

(a) Financial assets *(Continued)*

(iv) *The basis and measurement for the transfer of financial assets and the derecognition of financial assets*

When the Group transfers financial assets, the financial assets should be derecognized when all the risks and rewards of ownership of the financial asset have been substantially transferred. The financial assets shall not be derecognized if the Group substantially retains all the risks and rewards of ownership of the financial asset. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but ceases the control over the financial asset, the financial asset shall be derecognized.

In addition to two circumstances of the derecognition mentioned above, a financial assets shall be derecognized when the contractual rights to receive the cash flows from the financial assets have ceased.

On derecognition of a financial asset, the difference between the carrying amount and the aggregate consideration received and the accumulative amount of the changes of fair value originally recorded in the shareholders' equity is recognized in profit or loss.

(b) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: Financial liabilities based on fair value to confirm profit or loss and other financial liabilities. The financial liabilities in the Group mainly comprise other financial liabilities, including payables, borrowings and debentures payable.

Payables comprise accounts payable and other payables, etc, which are recorded initially at fair value and measured subsequently at amortized cost using the effective interest method.

Borrowings and debentures payable are recorded initially at fair value, net of transaction costs incurred, and subsequently carried at amortized costs using the effective interest method.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

(10) Financial Instruments (Continued)

(b) Financial liabilities (Continued)

Other financial liabilities with maturities no more than one year (including one year) are classified as current liabilities. Other financial liabilities with maturities over one year (including one year) but are due within one year at balance sheet date are classified as the current portion of non-current liabilities. Others are classified as non-current liabilities.

A financial liability shall be derecognized or partly derecognized when the present obligation is discharged or partly discharged. The difference between the carrying amount of the derecognized portion of the financial liability and the consideration paid shall be recognized in profit or loss.

(c) Determination of the fair value of the financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument for which the market is not active is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, and discounted cash flow analysis. When a valuation technique is used to establish the fair value of a financial instrument, it makes the maximum use of observable market inputs and relies as little as possible on specific inputs related to the Group.

(11) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recorded at fair value of the contractual payments from the buyer or service recipients.

(a) Receivables that are individually significant and subject to separate provision:

The criteria for individually significant receivables	The amount of accounts receivable are individually more than RMB1,000,000 (including RMB1,000,000) and other receivables are individually more than RMB100,000 (including RMB100,000).
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Method of provision for bad debts of individually significant receivables	Individually significant receivables are subject to separate impairment assessment, and the amount of the present value of the future cash flows expected to be derived from the receivables below the carrying amount shall be accounted for as provision for bad debts and recognized in profit or loss. Accounts receivable and other receivables which are not impaired according to the separate impairment assessment, shall be combined into certain groups with similar credit risk characteristics and subject to impairment assessment by groups.
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Notes to the Financial Statement

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(English Translation for Reference Only)

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

(11) Receivables (Continued)

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

Basis for determination of groups is as follow:

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

Method for provision by groups are summarized as followed:

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

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(11) Receivables *(Continued)*

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

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

(12) Inventories

(a) Classification of inventories

Inventories include goods in transit, raw materials, work in progress, semi-finished goods, finished goods, low-value consumables, packaging materials, goods in processing contract, goods on consignment and commodity stocks.

(b) Cost of inventories

Inventories are measured at actual cost at the time of acquisition.

Cost is determined using the weighted average method. The cost of finished goods, commodity stocks and work in progress comprises raw material, direct labor and an allocation of all production overhead expenditures incurred that are systematically determined based on normal operating capacity.

(c) Basis for the determination of net realizable value and the method of provision for impairment of inventories.

Provisions for declines in the value of inventories are determined at the excess amount of the carrying value of the inventories over their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

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(All amounts in Renminbi yuan unless otherwise stated)
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(12) Inventories *(Continued)*

(d) Inventory system

The Group adopts the perpetual inventory system.

(e) Amortization of low-value consumables and packaging materials

Low-value consumables and packaging materials are expensed upon issuance.

(13) Classified as assets held for sale

The Company recognizes component (or non-current assets) which meet the following conditions as assets held for sale:

- (a) The component must be under the current conditions only according to the usual terms of the sale of such part, then sell immediately;
- (b) The Company has been offered a resolution with disposition of the components (or non-current assets). If regulation needs to be approved by shareholders, it has approved by the general meeting of shareholders or relevant authority;
- (c) The Company has entered into agreement on irrevocable transfer with the transferee.
- (d) Transfer will be completed within 1 year.

(14) Long-term equity investments

(a) Criteria for control, joint control and significant impact.

Control exists when the investor has all the following: power over the investee; exposure, or rights to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns.

Joint control is the contractually agreed sharing of control to an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Company's joint venture is investee, which the Company and other joint operators implement joint control to investee and have rights to the net assets.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(14) Long-term equity investments *(Continued)*

(a) Criteria for control, joint control and significant impact. *(Continued)*

Significant impact is the right to participate the decisions of finance and operating policies of investee but is not able to control or jointly control those policies. Investee is the company's joint venture when the latter could exert significant impact on the former.

(b) Initial recognition

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

Business combination involving enterprises under common control: Consideration arising from paying cash, transfer of non-cash assets or assumption of liabilities, and issuance of non-equity investments is recognized as the initial cost for long-term equity investment in accordance with the portion of carrying amount presented in consolidated financial statements of ultimate control of owner's equity for absorbing party at combination date. As an increment of investment and other reasons, implement of control to a business combination involving investees under common control is recognized as the initial cost for long-term equity investment in accordance with the portion of carrying amount presented in consolidated financial statements of ultimate control of net assets for absorbing party at combination date. Differences between initial cost for long-term equity investment and the sum of carrying amount of long-term equity investment before combination plus carrying amount of further acquired consideration of new shares shall be adjusted to capital premium, if the balance of capital premium is not sufficient, any excess shall be written-down to retained earnings.

Business combination involving enterprises not under common control: The cost at combination date is recognized as the initial cost for long-term equity investments. As an increment of investment and other reasons, implement of control to a business combination involving investees not under common control is recognized as the initial cost for long-term equity investments in accordance with cost method by using carrying amount of equity investments plus cost of increased investments.

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

(14) Long-term equity investments (Continued)

(b) Initial recognition (Continued)

(ii) Long-term equity investments acquired through other method

For a long-term equity investment acquired by paying cash, initial cost shall be recognized by actual purchase price.

For a long-term equity investment acquired by the issuance of equity securities, initial cost shall be recognized by the fair value of equity securities issued.

The exchange of non-monetary assets with commercial nature and the fair value of the assets received or surrendered can be reliably measured, under the circumstance, for a long-term equity investment acquired through an exchange of non-monetary assets according to the fair value of the assets surrendered and shall pay the relevant taxes to determine its initial cost, unless there is convincing evidence that the fair value of the assets received is more reliable. If exchange of non-monetary assets does not meet the above premise, the carrying amount of surrendered assets and taxes payable would be recognized as initial cost for long-term equity investments.

For a long-term equity investment acquired through a debt restructuring, initial cost shall be recognized by the basis of fair value.

(c) Subsequent measurement and recognition for profit or loss

(i) Long-term equity investments measured at cost method

Long-term equity investments to the subsidiaries shall be measured at cost method. In addition to the price for actually paid, or the cash dividends or profits that are included in the consideration which has been declared but not yet paid, the Company recognized current investment income in accordance with the cash dividends or profits that have been declared to issue.

Notes to the Financial Statement

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(14) Long-term equity investments *(Continued)*

(c) Subsequent measurement and recognition for profit or loss *(Continued)*

(ii) *Long-term equity investments measured at equity method*

Long-term equity investments for associates and joint venture shall be measured at equity method. Where initial cost exceeds the balance of an investor's interest in the fair value of an investee's identifiable net assets at the acquisition date, no adjustment shall be made. Where initial cost less than the balance of the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, it shall be charged into profit or loss at current period.

The Company respectively recognizes investment income and other comprehensive income by the portion of investee's net profit or loss, as well as the portion of investee's other comprehensive income, and adjusts carrying amount of long-term equity investments accordingly. The carrying amount of the long-term equity investments shall be reduced by the portion of any profit distributions or cash dividends declared by the investee that is attributable to the Company. Movements on owner's equity of investees other than net profit or loss, other comprehensive income and distribution of profit shall be adjusted for carrying amount of the investments and charged into owner's equity.

The portion for net profit or loss of investees shall be adjusted based on the investees' fair value of identifiable net assets through investees' net profit and recognized in accordance with accounting policies and accounting period of the Company. During the period of holding investment, the invested entity of preparing consolidated financial statements, with net profit and other comprehensive income presented in the consolidated financial statements and other changes in the owner's equity attributable to the accounting on the basis of the amount of invested entity.

The unrealized profit or loss resulting from transactions between the Company and its associates or joint venture shall be eliminated in portion to the investor's equity interest of investee, based on which investment income or loss shall be recognized. Any losses resulting from transactions, which are attributable to impairment of assets, shall be fully recognized. Transactions of the assets casted and sold that are able to constitute an business between the Company and associates, joint venture shall be dealt with in accordance with Note 3 (5) "Accounting method for business combination involving enterprises under common control and not under common control" and Note 3 (6) "Preparation of consolidated financial statements".

Notes to the Financial Statement

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(14) Long-term equity investments *(Continued)*

(c) Subsequent measurement and recognition for profit or loss *(Continued)*

(ii) Long-term equity investments measured at equity method (Continued)

Loss arising from the sharing with investees is dealt with the following orders: Firstly, to write down the carrying amount of long-term equity investments. Secondly, when the carrying amount of long-term equity investments is not enough to offset, loss on investments is continually recognized through the other carrying amount of long-term equity investments for investees' net investment, to write down the carrying amount of long-term receivables etc. Finally, through the above treatment, according to the investment contract or contracted obligations and additional ones in agreement, which shall be recognized into current loss on investments.

(iii) Disposal for long-term equity investments

When disposing of a long-term equity investment, differences between carrying amount and actual obtained price shall be recognized in profit or loss at current period.

For the disposal for long-term equity investments measured at equity method, it shall be dealt with on the basis of same relevant assets or liabilities directly disposed by investees and the part of other comprehensive income calculated through corresponding proportion. The recognized owner's equity as a result of changes other than net profit or loss, other comprehensive income and distribution of profit shall be transferred into current profit or loss in proportion, except for the other comprehensive income arising from the changes on the re-measured net liabilities for defined benefit plans and net assets by investees.

The losing of joint control or significant impact to investees as a result from the disposal for the part of equity, the remaining equity after disposal shall be accounted at standard of financial instruments, which differences between fair value at the date of losing joint control or significant impact and carrying amount shall be charged into profit or loss at current period. The other comprehensive income measured at equity method of original equity investments shall be dealt with on the same basis of the directly disposed assets or liabilities by investees when terminating to measure at equity method. Owner's equity recognized as a result of changes other than net profit or loss, other comprehensive income and distribution of profit by investees shall be transferred into current profit or loss when terminating to measure at equity method.

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(All amounts in Renminbi yuan unless otherwise stated)

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(14) Long-term equity investments *(Continued)*

(c) Subsequent measurement and recognition for profit or loss

(iii) Disposal for long-term equity investments (Continued)

The losing of control power to investees as a result of the disposal for the part of equity, when preparing individual financial statements, the remaining equity after disposal that are able to implement joint control or significant impact to investees shall be measured at equity method, and adjusted through equity method when obtained: the remaining equity after disposal that are not able to implement joint control or significant impact to investees shall be dealt with in accordance with the recognition and measurement for financial instruments, which differences between fair value at the date of losing joint control or significant impact and carrying amount shall be charged into profit or loss at current period.

The remaining of disposed equity as a result of increasing investment through business combination shall be measured at cost method or equity method when preparing individual financial statements, the other comprehensive income and other owners' equity of equity investment held before purchasing date that are measured at equity method shall be carried forward in proportion, the remaining of disposed equity shall be dealt with in accordance with the recognition and measurement for financial instruments, other comprehensive income and other owners' equity shall be carried forward.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(15) Investment properties

Investment properties, which are properties held to earn rental or capital appreciation or both, including land use rights that have already been leased out, land use rights that are held for the purpose of sale after capital appreciation, buildings that have been already been leased out and buildings that are in construction or developed for the purpose of being leased out in the future, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property is included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and its cost can be reliably measured; otherwise, the expenditures are recognized in profit or loss in the period in which they are incurred.

The Group adopts the cost model for subsequent measurement of the investment properties. Buildings which are held for rental and measured at cost model are depreciated on a basis consistent with the depreciation policy which the Group adopts for fixed assets. Land use right which are held for rental and measured at cost model are amortized on a basis consistent with the amortization policy which the Group adopts for intangible assets.

When an investment property is transferred to an owner-occupied property, it is reclassified as a fixed asset or an intangible asset at the date of the transfer. When an owner-occupied property is transferred for earning rentals or for capital appreciation, the fixed asset or intangible asset is reclassified as an investment property at its carrying amount at the date of the transfer.

The estimated useful life, net residual value of the investment property and the depreciation (amortization) method applied are reviewed and adjusted as appropriate at each year-end.

An investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property net of its carrying amount and related taxes and expenses is recognized in profit or loss at current period

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(16) Fixed assets

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

Fixed assets are tangible assets that are held for producing goods, rendering of services, leasing out to other parties or administrative purposes, with useful life more than one year.

Fixed asset is recognized when it is probable that the economic benefits associated with the fixed asset will flow to the Group and its cost can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the economic benefits associated with the fixed asset will flow to the Group and its cost can be reliably measured. The carrying amount of those parts that are replaced is derecognized and all the other subsequent expenditures are recognized in profit or loss when they are incurred.

Fixed assets are depreciated by categories using the straight-line method, and the annual depreciation rates are determined by categories based upon their estimated useful lives and their estimated residual values. For the fixed assets being provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives. Depreciation charge on decoration expenditure of fixed assets which meets the criteria for capitalisation is calculated using the straight-line method based on the shorter of the period between two decorations and the remaining useful lives of the fixed assets.

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(All amounts in Renminbi yuan unless otherwise stated)
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(16) Fixed assets (Continued)

(b) Depreciation method of different categories of fixed assets

Fixed assets are classified as buildings, machinery and equipment, motor vehicles, computer and electronic equipment, office equipment and fixed asset renovation. The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates are as follows:

Category	Estimated useful lives	Estimated residual value	Annual depreciation rate
Buildings	10-70 years	0%-10%	1.29%-10%
Machinery and equipment	4-18 years	0%-10%	5%-25%
Motor vehicles	5-10 years	0%-10%	9%-20%
Electronic equipment	5-10 years	0%-10%	9%-20%
Office equipment	4-8 years	0%-10%	11.25%-25%
Decoration and fixtures	5 years	0%	20%

(c) Basis for identification of fixed assets held under a finance lease and its measurement

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. The leased asset shall be recorded at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments shall be accounted for as unrecognized finance charge.

Fixed assets held under a finance lease are depreciated on a basis consistent with the depreciation policy which the Group adopts for self-owned fixed assets. If it can be reasonably determined that at the end of the lease term the ownership of the leased asset will be transferred, the leased asset is depreciated over the estimated useful lives; if not, the leased asset is depreciated over the shorter period of the lease term and the estimated useful lives.

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(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(16) Fixed assets *(Continued)*

(d) Other specification

Disposal of fixed assets

A fixed asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognized in profit or loss.

(17) Construction in progress

Constructions in progress are accounted for by individual projects.

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use.

Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. When construction in progress is ready for its intended use but has not completed the final accounts, it is transferred to fixed assets using an estimated cost on the day when it is ready for intended use and depreciation is made accordingly pursuant to the Group's depreciation policy. The estimated cost can be based on project budget, project price or actual construction cost. The estimated cost is adjusted by the actual cost after the completion of the final accounts.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(18) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time of acquisition and construction for its intended use commence to be capitalized and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use, the borrowing costs incurred thereafter are recognized in profit or loss for the current year. Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For the specific borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowing during the capitalisation period.

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

(19) Intangible assets

(a) Recognition and measurement of intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Group, including land use rights, industrial property and patent technology, and non-patent technology etc. An intangible asset is recognized only if both of the following conditions are satisfied: (i) it is probable that future economic benefits attributable to the asset will flow to the enterprise; (ii) the amount of the intangible assets can be measured reliably.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(19) Intangible assets *(Continued)*

(a) Recognition and measurement of intangible assets *(Continued)*

The acquisition cost of intangible assets includes acquisition price, related taxes and other costs which are directly attributable to bringing the intangible assets ready for their intended use. The cost of the internally developed intangible assets includes: the costs of the material consumed for developing the intangible assets, labor costs, registration fees, amortization of other patents and licenses and capitalized interest expenses in the development phase, and other costs which are directly attributable to bringing the intangible assets ready for their intended use.

(b) Periodical review of useful life and amortization method

For an intangible asset with a finite useful life, review and adjustment on its useful life and amortization method are performed at each year-end.

(c) Intangible asset with an indefinite useful life

An intangible asset is regarded by the Group as having an indefinite useful life when based on an analysis of all of relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

The Company owns trademarks including Baiyunshan, Xing Qun, Zhong Yi, Pan Gao Shou, Chen Li Ji, Jing Xiu Tang, Qi Xing, which are identified as indefinite useful life due to expected economic interest in future. The Company reviews the indefinite useful life of intangible assets at every accounting period. The reviewed useful life of above intangible assets is indefinite.

(d) Research and development

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

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

(19) Intangible assets (Continued)

(d) Research and development (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 profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalized only if all of the following conditions are satisfied:

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(20) Impairment of long-term assets

Long-term equity investment, long-term assets such as investment properties measured at cost, fixed assets, construction in progress and intangible assets with finite useful lives are tested for impairment at the balance sheet date. When the recoverable amount of an asset is less than its carrying amount, impairment loss shall be recognized accordingly. The recoverable amount of an asset is the higher of the asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is difficult to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs to is determined. A group of assets is the smallest group that is able to generate independent cash inflows.

Goodwill and intangible assets with uncertain useful lives shall be tested for impairment at the end of each accounting period.

The Company tests goodwill for impairment, the carrying amount of goodwill which arising from business combination shall be legitimately apportioned to relevant group of assets, where it is difficult to, it shall be apportioned to the relevant group of assets. When doing those apportionments, the carrying amount is apportioned in a ratio of fair value for each group of assets and a set of group of assets of the total of fair value. For the fair value that are difficult to reliably calculated, it is apportioned in a ratio of carrying amount for each group of assets and a set of group of assets of the total of carrying amount.

When testing relevant group of assets or a set of group of assets which including goodwill for impairment, if there are any indications that the group of assets or a set of group of assets related to goodwill are impaired, the group of assets or a set of group of assets which excluding goodwill are tested for impairment firstly, then calculate its recoverable amount, loss of impairment shall be recognized by comparing with relevant carrying amount, furthermore, tests group of assets or a set of group of assets which including goodwill for impairment and compares the carrying amount of group of assets or a set of group of assets with its recoverable amount, loss of impairment on goodwill shall be recognized if its recoverable amount is lower than its carrying amount.

The loss of impairment is no longer carried forward at subsequent accounting period once recognized.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(21) Long-term prepaid expenses

Long-term prepaid expenses include the expenditure for improvements to fixed assets under operating leases, and other expenditures that have been made but shall be recognized as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortized on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortization.

(22) Employee benefits

(a) Method for short-term benefits

The actual occurred short-term benefits arising from the accounting period when personnel who have entered into an employment contract shall be recognized as liabilities and charged in profit or loss at current period or relevant cost of asset.

The Group recognized amount of employee benefits in accordance with regulated accrual basis and ratio by paying the social insurance, housing funds, expenses of labor union and employee education at the accounting period when personnel who have entered into an employment contract.

Employee welfare shall be measured at fair value if it is non-monetary and can be measured reliably

(b) Method for post-employee benefits

(i) *Defined contribution plans*

Basic retirement security and unemployment security that are paid according to related regulations for employees at accounting period when personnel who have entered into an employment contract shall be recognized as liabilities and charged in profit or loss at current period or relevant cost of asset.

Most domestic enterprises of the Group set up enterprise annuity plans as well as basic retirement security in accordance with relevant regulations and policies. The amount of annuity according to total remuneration shall be recognized as liabilities and charged in profit or loss at current period or relevant cost of asset.

Notes to the Financial Statement

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(22) Employee benefits *(Continued)*

(b) Method for post-employee benefits *(Continued)*

(i) *Defined contribution plans (Continued)*

The Group provides contributions of mandatory provident fund for qualified employees of Guangyao Baiyunshan Hong Kong Company in accordance with Mandatory Provident Fund Schemes. The cost of schemes shall be deducted in statement of profit and loss in relevant period. Assets of schemes are held by the fund that is independent managed and separately managed from the Company's assets. Meanwhile, the Group shall also provide contributions for qualified employees when they obtained long service payment at termination date in accordance with Hong Kong <The Employment Ordinance>. Provision for long service payment is made by Guangyao Baiyunshan Hong Kong Company, which is optimum estimated by the service payment of employees as at settlement date

(ii) *Define benefits plans*

Benefit obligation arising from defined benefits plans is attributable to the period when personnel who have entered into an employment contract is charged into current profit or loss or relevant cost of assets in accordance with formula of estimated accumulated method.

Deficit or surplus arising from the differences of current value of defined benefits plans obligation minus fair value of defined benefits plans assets is recognized as net liabilities or net assets. When a defined benefits plan has surplus, the Company shall measure the net defined benefits plans assets at the lower of the surplus in the defined benefits plans and the ceiling of assets.

All defined benefits plans obligation, including obligation that are expected to be paid before 12 months after the end of the annual reporting period in period when personnel who have entered into an employment contract shall be discounted by reference to market yields at the balance sheet date on government bonds or on high quality corporate bonds in an active market, of which the term and currency are consistent with the term and currency of the defined benefit obligation.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(22) Employee benefits (Continued)

(b) Method for post-employee benefits (Continued)

(ii) Define benefits plans (Continued)

Service costs arising from defined benefits plans and net interest on the net defined benefits plans liabilities or assets are correspond to the profit or loss at current period or the cost of relevant assets; changes as a result of re-measurements of the net defined benefit liabilities or assets shall be recognized in other comprehensive income and shall not reclassified to profit or loss at subsequent accounting period, when defined benefits plans terminated, part of which measured at other comprehensive income shall be transferred to undistributed profit in the scope of equity.

When the settlement occurs of defined benefits plans, it shall recognize the gain or loss on a settlement according to the differences between present value of the defined benefits plans obligation, as determined on the date of settlement and the settlement price.

As at 31 December 2015, there are no defined benefits plans in the Group.

(c) Accounting method for termination benefits

The company shall recognize an employee benefits liability for termination benefits, with a corresponding charge to the profit or loss for the current period, at the earlier dates between the Company cannot unilaterally withdraw the offer of termination benefits because of an employment termination plan or a curtailment and cost or expenses related to a restructuring that involves the payment of termination benefits.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(23) Provisions

Provisions for product warranties, onerous contracts etc. are recognized when the Group has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The increase in the discounted amount of the provision arising from passage of time is recognized as interest expense.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

(24) Revenue

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Group.

(a) Revenue recognition

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the group entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(b) Sales of goods

Sales of goods are recognized when a group entity has delivered products to the customer and the customer has accepted the goods, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and it is probable that the economic benefit associated with the transaction will flow to the Group and the relevant revenue and costs can be measured reliably.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(24) Revenue (Continued)

(c) Rendering of services

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

(d) Transfer of asset use rights

Income from transfer of asset use rights include:

- Interest income is recognized on a time-portion basis using the effective interest method;
- License fee income is recognized when the right to receive payment is established;
- Income from an operating lease is recognized on a straight-line basis over the period of the lease.

(e) Dividend income

Dividend income from long-term equity investment accounted for using cost method, financial assets based on fair value to confirm profit or loss and available-for-sale financial assets is recognized when the right to receive dividend is established.

(25) Government grants

(a) Classification

Government grants are the obtained monetary assets—and non – monetary assets from the government freely, which are divided into assets-related government grants and income-related government grants.

The assets-related government grants refer to the obtained long-term assets with purchase, construction or otherwise formed, which include financial appropriation of the purchase on fixed assets or intangible assets and the financial discounts of special borrowings on fixed assets, etc. The profit-related government grants refer to the government grants other than the assets-related grants.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(25) Government grants *(Continued)*

(a) Classification *(Continued)*

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

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

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

(b) Accounting treatment

The assets-related government grants shall be recognized as deferred income in accordance with the useful life of the constructed and purchased assets by stages.

The income-related government grants for compensation to the related expenses or loss of enterprise at subsequent periods shall be recognized as deferred income and current revenue from non-operation during the recognition of related expenses; in addition, it shall be directly recognized as current revenue from non-operation to compensate the related expenses incurred.

(c) The point of recognition

Government grants shall be recognized and measured in accordance with the account when actual amount received. Only if there is sufficient evidence to show that grants is allocated in accordance with fixed quotas and comply with the conditions of financial policies and is expected to receive supporting funds, the grants shall be recognized and measured by certain amount.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(26) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognized based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognized for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognized for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognized for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

Deferred tax assets are only recognized for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilized.

Deferred tax liabilities are recognized for temporary differences arising from investments in subsidiaries, jointly controlled entities and associates, except where the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, jointly controlled entities and associates will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognized.

Deferred tax assets and liabilities are offset when:

- The deferred taxes are related to the same tax payer within the Group and the same taxation authority;
- The tax payer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(27) Operating leases and finance leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

(a) Operating leases

Lease payments under an operating lease are recognized on a straight-line basis over the period of the lease, and are either capitalized as part of the cost of related assets, or charged as an expense for the current year.

(b) Finance leases

The leased asset is recorded at the amounts equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments is accounted for as unrecognized finance charge and is amortized using the effective interest method over the period of the lease. A long-term payable is recorded at the amount equal to the minimum lease payments less the unrecognized finance charge.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(28) Changes in significant accounting policies and accounting estimates

(a) Changes in accounting policies

Content and changes of accounting policies	Vetting process	Affected item and amount
Changes on segment report. With the strategic management and business development, the Group basically completed the industrial chain layout and internal structure of 4 sectors, which include "Great Southern TCM", "Great Commerce", "Great Health", "Great Medical Care", according to the requirements of regulatory laws, regulations and company management, 4 sectors are divided into 4 operating segments, as business scale of "Great Medical Care" is fail to 10%, details for other	Approved by the Board of Directors.	The item of financial statements is not affected except for reporting segment. The comparative figures for the year of 2014 has been re-stated by revised segment report.

(b) Changes in accounting estimates

There are no changes in accounting estimates in the current period.

(29) Correction of prior period's accounting errors

There are no corrections of significant accounting errors in the current period.

Notes to the Financial Statement

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(30) Other significant accounting policies

(a) Segment information

The Group identifies operating segments based on the internal organization structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments. An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group.

An operating segment's revenue, expenses, operating result, assets and liabilities include those directly attributable to the operating segment, and those allocated to the segment on a reasonable basis. Revenue, expenses, assets and liabilities of the operating segment are determined at the amounts before the elimination of inter-group transactions and balances. Transfer price between operating segments is calculated on terms similar to those in arm's length transactions.

(b) Dividend distribution

Cash dividend distribution is recognized as a liability in the period in which it is approved by the shareholders' meeting.

(31) Critical accounting estimates and judgments

(a) Current and deferred income tax

The Group is subject to income taxes in the mainland of People's Republic of China and Hong Kong. Critical judgements required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(31) Critical accounting estimates and judgments (Continued)

(a) Current and deferred income tax (Continued)

Deferred tax assets relating to certain temporary differences and tax losses are recognized as management considers it is probable that the future taxable profit will be available against which the temporary differences or tax losses can be utilized. Where the expectation is different from the original estimate, such differences will impact recognition of deferred tax assets in the period in which such estimate is changed.

4. TAXATION

(1) Major turnover tax and tax rate

Taxable item	Type	Tax rate
Sales of goods	Value-added tax ("VAT")	13%, 17%
Income from sales of materials	VAT	17%
Income from rendering of services	Business tax	5%
Rental income	VAT	6%
Rental income	Business tax	5%
Transferred Technology VAT income	VAT	3%, 6%
Balance of owner-occupied real estates	Real-estate tax	1.2%
Rental income	Real-estate tax	12%
Interest income	Business tax	5%
Sales of wine products	Consumption Tax	10%
Turnover tax	City maintenance & construction tax	7%
Turnover tax	Education surcharge	3%
Turnover tax	Local education surcharge	2%

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

4. TAXATION *(Continued)*

(2) Business income tax

The Group companies in the PRC pay the enterprise income tax in accordance with "PRC Enterprise Income Tax Law" and "Implementation Rules of PRC Enterprise Income Tax Law" and the applicable enterprise income tax rate of these entities is 25%.

Guangyao Baiyunshan Hong Kong Company of the Group, pays the corporation profits tax in accordance with "Hong Kong Inland Revenue Ordinance" at the corporate profit tax rate of 16.5%.

Pursuant to the relevant national preferential tax policies for High/New Technology Enterprise, The company which is recognized as a High/New Technology Enterprise could enjoy these preferential policies of enterprise income tax at the reduced rate of 15%.

The following subsidiaries of the Group, obtained the certificate of High/New Technology Enterprise, enjoy preferential tax rate of 15% at current period. Including: the Company (No. GR201444000590), Zhong Yi (No. GR201444000836), Guangzhou Han Fang Pharmaceutical (No. GR201444000631), Jing Xiu Tang (No. GR201444001464), Qi Xing Pharmaceutical (No. GR201444001047), Chen Li Ji Pharmaceutical Factory (No. GR201444001125), Tian Xin (No. GR201444000895), Ming Xing (No. GR201444001349).

Guang Hua, a subsidiary of the Group, obtained the certificate of High/New Technology Enterprise in the year of 2012 (No GR201244000487), for which the validity period is 3 years. Due to the certificate expiration in the year of 2014, Guang Hua is applying for a renewal, which is in public notification period, and it temporarily uses preferential tax rate of 15% for declaration and prepayment of enterprise income tax.

Notes to the Financial Statement

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	31 December 2015			31 December 2014		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash on hand-						
RMB			637,187.57			739,550.33
			637,187.57			739,550.33
Bank deposits						
RMB			4,007,902,029.65			3,125,663,138.24
US Dollars ("USD")	1,022,672.15	6.4936	6,640,823.87	1,518,869.31	6.1190	9,293,961.31
HKD	22,228,023.59	0.8378	18,622,193.60	5,116,440.61	0.7889	4,036,206.51
Euro(EUR)		- No applicable	-	0.27	7.4556	2.00
Yen(JPY)	13,530,938.28	0.0539	728,979.30	93,323,482.51	0.0514	4,794,120.62
			4,033,894,026.42			3,143,787,428.68
Other deposits -						
RMB			83,722,911.03			56,718,503.41
HKD	44,524.22	0.8378	37,301.50	44,007.49	0.7889	34,716.19
			83,760,212.53			56,753,219.60
			4,118,291,426.52			3,201,280,198.61
Including: overseas account			15,325,889.65			15,559,870.07

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Cash at bank and on hand (Continued)

Details of restricted cash are listed as follows:

	31 December 2015	31 December 2014
Cash deposit of notes payable	77,309,482.70	52,179,313.57
Blocked account	202,225,169.88	78,890,752.78
Cash deposit of construction	270,288.06	100,000.00
Housing fund	582,931.90	581,381.79
Deposit for letter of guarantee	300,000.00	–
Deposit of direct commerce enterprise	–	20,000,000.00
	<u>280,687,872.54</u>	<u>151,751,448.14</u>

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

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

	31 December 2015	31 December 2014
Financial assets held for trading	<u>6,499,789.60</u>	<u>4,686,023.00</u>
Including: Investments in equity instruments	<u>6,499,789.60</u>	<u>4,686,023.00</u>

The fair value of listed shares is determined at the closing price quoted in the SSE on the last trading day of the reporting period.

(3) Notes receivable

(a) Classification of notes receivable

	31 December 2015	31 December 2014
Bank acceptance notes	1,429,189,250.16	1,407,931,163.22
Commercial acceptance notes	20,846,331.23	57,817,789.10
	<u>1,450,035,581.39</u>	<u>1,465,748,952.32</u>

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)
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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(3) Notes receivable *(Continued)*

- (b) As at 31 December 2015 and 31 December 2014, there are no notes receivable that are being pledged of the Group.
- (c) As at 31 December 2015, notes receivable that are not matured at balance sheet date but have been discounted or endorsed are summarized as follows:

	Ending amount (confirmed)	Ending amount (not confirmed)
Notes receivable that are not matured at balance sheet date but have been endorsed		
Bank acceptance notes	1,421,511,556.41	–
Commercial acceptance notes	–	15,736,620.76
	1,421,511,556.41	15,736,620.76
Notes receivable that are not matured at balance sheet date but have been discounted		
Bank acceptance notes	153,151,700.10	–
Commercial acceptance notes	–	–
	153,151,700.10	–

- (i) As at 31 December 2015, the bank acceptance notes receivable that are not matured but have been endorsed amounted to RMB1,421,512 thousand (As at 31 December 2014: RMB521,227 thousand), the top five of which are summarized as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2015-11-27	2016-06-27	14,001,480.00
Entity 2	2015-07-03	2016-01-03	10,000,000.00
Entity 3	2015-11-19	2016-05-19	9,498,650.00
Entity 4	2015-11-25	2016-05-25	9,000,000.00
Entity 5	2015-11-25	2016-05-25	6,930,493.00

Notes to the Financial Statement

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Notes receivable (Continued)

(c) As at 31 December 2015, notes receivable that are not matured at balance sheet date but have been discounted or endorsed are summarized as follows: (Continued)

(ii) As at 31 December 2015, the commercial acceptance notes that are not matured but have been endorsed amounted to RMB15,737 thousand (As at 31 December 2014: RMB5,746 thousand). The top five of which are summarized as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2015-12-25	2016-02-25	6,000,000.00
Entity 2	2015-07-27	2016-01-27	2,860,000.00
Entity 3	2015-12-28	2016-05-24	2,532,000.00
Entity 4	2015-07-24	2016-01-24	1,051,763.60
Entity 5	2015-07-24	2016-01-24	985,804.05

(iii) As at 31 December 2015, the bank acceptance notes that are not matured but have been discounted amounted to RMB153,152 thousand (As at 31 December 2014: RMB86,751 thousand), and the top five of which are summarized as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2015-05-29	2016-01-05	17,002,214.00
Entity 2	2015-07-03	2016-01-03	10,000,000.00
Entity 3	2015-12-08	2016-06-08	9,000,000.00
Entity 4	2015-12-09	2016-06-09	9,000,000.00
Entity 5	2015-12-07	2016-06-07	7,948,060.50

(iv) As at 31 December 2015 and 31 December 2014, there are no commercial acceptance notes that are not matured but have been discounted.

(d) As at 31 December 2015, notes receivable that are reclassified to accounts receivable due to inability of the companies of issuance are as below: (2014: nil)

Item	Convert to notes receivable as at 31 December 2015
Bank acceptance notes	500,000.00

(e) As at 31 December 2015, balance of notes receivable will expire before 31 December 2016.

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Dividends receivable

Item	31 December 2014	Current increase	Current decrease	31 December 2015
Dividends receivable within				
1 year aging	– 50,000,000.00	50,000,000.00		–
Including: HWBYS	– 20,000,000.00	20,000,000.00		–
Nuo Cheng				
Biological	– 30,000,000.00	30,000,000.00		–

(5) Accounts receivable

The majority of the Group's sales are transacted with credit terms of 3 to 6 months granted to customers. The remaining transactions are settled by cash upon delivery, advance from customers or bank acceptance notes.

(a) Accounts receivable by aging are analyzed as follows:

	31 December 2015	31 December 2014
Within 1 year	895,601,374.31	949,994,485.81
1 to 2 years	188,310,732.65	78,706,663.12
2 to 3 years	16,312,026.02	6,868,859.64
3 to 4 years	4,481,955.06	5,239,589.65
4 to 5 years	3,734,629.21	788,470.95
Over 5 years	12,829,505.70	12,098,245.12
	1,121,270,222.95	1,053,696,314.29
Less: provision for bad debts	69,627,226.56	42,609,140.46
	1,051,642,996.39	1,011,087,173.83

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

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

	31 December 2015				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	44,666,265.77	3.98%	27,786,476.64	62.21%	16,879,789.13
Subject to provision by groups: Group 1	1,070,739,939.07	95.50%	36,352,579.45	3.40%	1,034,387,359.62
Individually insignificant but subject to separate provision	5,864,018.11	0.52%	5,488,170.47	93.59%	375,847.64
	1,121,270,222.95	100.00%	69,627,226.56	6.21%	1,051,642,996.39

	31 December 2014				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	17,523,256.11	1.66%	11,254,884.31	64.23%	6,268,371.80
Subject to provision by groups: Group 1	1,030,888,341.29	97.84%	26,069,539.26	2.53%	1,004,818,802.03
Individually insignificant but subject to separate provision	5,284,716.89	0.50%	5,284,716.89	100.00%	–
	1,053,696,314.29	100.00%	42,609,140.46	4.04%	1,011,087,173.83

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

Notes to the Financial Statement

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(5) Accounts receivable *(Continued)*

- (c) As at 31 December 2015, accounts receivable that are individually significant and subject to separate provision are analyzed as follows:

	Carrying amount	Provision for bad debts	Ratio	Reason
Customer 1	11,547,785.00	5,773,892.50	50.00%	No legal action, there is a possibility that the amount could not be recoverable.
Customer 2	10,541,832.00	5,270,916.00	50.00%	No legal action, there is a possibility that the amount could not be recoverable.
Customer 3	5,581,994.72	2,790,997.36	50.00%	Involving litigation, detail refers to Note16(1)(b)(i)
Customer 4	5,191,200.00	5,191,200.00	100.00%	Involving litigation, detail refers to Note16(1)(b)(ii)
Customer 5	5,028,313.75	2,514,156.88	50.00%	Involving litigation, detail refers to Note16(1)(b)(iii)
Customer 6	3,215,487.50	3,215,487.50	100.00%	That company is difficult to pay, there is a possibility that the amount could not be fully recoverable.
Customer 7	1,500,000.00	1,500,000.00	100.00%	Won the lawsuit, there is a possibility that the amount could not be recoverable.
Customer 8	1,059,652.80	529,826.40	50.00%	Involving litigation, detail refers to Note16(1)(b)(iv).
Customer 9	1,000,000.00	1,000,000.00	100.00%	Won the lawsuit, there is a possibility that the amount could not be recoverable.
	<u>44,666,265.77</u>	<u>27,786,476.64</u>	62.21%	

Notes to the Financial Statement

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

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

	31 December 2015			31 December 2014		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
Within 1 year	895,423,733.30	83.63%	8,954,237.37	940,551,650.02	91.24%	9,405,516.53
1 to 2 years	154,423,227.54	14.42%	15,442,322.74	74,963,980.21	7.27%	7,496,398.03
2 to 3 years	9,203,274.51	0.86%	2,760,982.36	6,597,373.23	0.64%	1,979,211.97
3 to 4 years	4,384,824.49	0.41%	2,192,412.27	3,013,591.41	0.29%	1,506,795.73
4 to 5 years	1,511,272.52	0.14%	1,209,018.00	400,647.10	0.04%	320,517.68
Over 5 years	5,793,606.71	0.54%	5,793,606.71	5,361,099.32	0.52%	5,361,099.32
	1,070,739,939.07	100.00%	36,352,579.45	1,030,888,341.29	100.00%	26,069,539.26

Notes to the Financial Statement

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

- (e) As at 31 December 2015, accounts receivable that are individually insignificant but subject to separate provision are analyzed as follows:

	Carrying amount	Provision for bad debts	Ratio	Reason
Customer 1	751,695.28	375,847.64	50.00%	Litigation is being conducted, there is a possibility that the amount could not be recoverable.
Customer 2	508,889.00	508,889.00	100.00%	Won the lawsuit, and was enforced to execute, it is expected that the amount could not be recovered.
Customer 3	470,000.00	470,000.00	100.00%	It is expected that the amount could not be recovered.
Customer 4	467,462.40	467,462.40	100.00%	It is expected that the amount of notes transferring to notes receivable could not be recovered.
Customer 5	400,000.00	400,000.00	100.00%	It is expected that the amount of notes transferring to notes receivable could not be recovered.
Customer 6	315,508.74	315,508.74	100.00%	It is expected that the amount could not be recovered
Others	2,950,462.69	2,950,462.69	100.00%	It is expected that the amount could not be recovered.
	<u>5,864,018.11</u>	<u>5,488,170.47</u>	93.59%	

- (f) As at 31 December 2015 and 31 December 2014, there is no material accounts receivable which have past due but not impaired.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

- (g) Accounts receivable that are subject to full provision or in large partial but have been reversed or collected in the current period are as below:

Receivable	Reason of transfer or recover	Basis of determination of original provision for bad debts	Amount of provision for bad debts that are transferred or recovered	Recovered amount	Amount of provision for bad debts that are transferred
Meng Xianhua	Strengthened the work of accounts receivable, recovered debts	It is expected that the amount could not be recovered	279,519.46	279,519.46	279,519.46
Guangdong Jian Xiang Pharmaceutical Co., Ltd.	Strengthened the work of accounts receivable, recovered debts	It is expected that the amount could not be recovered	183,895.16	183,895.16	183,895.16
Yunnan Shang He Pharmaceutical Co., Ltd.	Strengthened the work of accounts receivable, recovered debts	It is expected that the amount could not be recovered	110,000.00	110,000.00	110,000.00
Guangdong Li Yuan Pharmaceutical Co., Ltd.	Strengthened the work of accounts receivable, recovered debts	It is expected that the amount could not be recovered	81,500.00	81,500.00	81,500.00
Other	Strengthened the work of accounts receivable, recovered debts	It is expected that the amount could not be recovered	16,567.39	16,567.39	16,567.39
			671,482.01	671,482.01	671,482.01

- (h) There are no accounts receivable that have been collected by restructuring or other manners at current period.

- (i) There are no accounts receivable that are written off at current period.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)
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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(5) Accounts receivable *(Continued)*

(j) As at 31 December 2015, the top five of accounts receivable are analyzed as follows:

	Relationship with the Group	Carrying amount	Aging	% of total balance	Ending balance of provision for bad debts
Customer 1	Third party	81,650,159.77	Within 1 year	7.29%	728,145.06
Customer 2	Related party	63,598,489.35	Within 1 year, 3-4 years	5.67%	876,655.25
Customer 3 (Note 1)	Third party	56,087,565.40	1-2 years	5.00%	5,608,756.54
Customer 4 (Note 1)	Third party	37,710,221.64	1-2 years	3.36%	3,771,022.16
Customer 5	Related party	33,332,414.44	Within 1 year	2.97%	333,324.14
		<u>272,378,850.60</u>		<u>24.29%</u>	<u>11,317,903.15</u>

Note1: These 2 customers are involved in litigation, details refer to Note 16(1)(a)(i).

(k) There are no accounts receivables derecognized due to transfer of financial assets at current period.

(l) As at 31 December 2015, there are no securitizations that targeted at accounts receivable.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables

	31 December 2015	31 December 2014
Petty cash	5,166,130.97	6,254,969.00
Deposits	43,190,038.37	126,228,677.34
Staff advances	25,786,857.13	35,141,181.23
Receivables due from external parties	116,654,867.41	103,457,464.49
Receivables due from related parties (Note 12)	29,415,980.22	39,885,630.08
Tax refund for exports	1,673,405.77	17,691,414.62
Others	17,041,539.78	6,987,227.43
	238,928,819.65	335,646,564.19
Less: provision for bad debts	29,664,407.18	28,853,355.46
	209,264,412.47	306,793,208.73

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

	31 December 2015			31 December 2014		
	Carrying amount	% of total balance	Provision for bad debts	Carrying amount	% of total balance	Provision for bad debts
Within 1 year	133,303,562.56	55.80%	11,457,087.66	272,545,587.51	81.21%	10,549,757.71
1 to 2 years	58,931,497.32	24.66%	52,979.81	16,611,327.74	4.95%	95,197.88
2 to 3 years	6,366,775.65	2.66%	415,404.15	6,240,162.30	1.86%	851,166.74
3 to 4 years	2,437,740.61	1.02%	439,183.38	1,761,099.97	0.52%	439,003.10
4 to 5 years	865,762.74	0.36%	362,659.75	4,170,719.40	1.24%	2,217,862.98
Over 5 years	37,023,480.77	15.50%	16,937,092.43	34,317,667.27	10.22%	14,700,367.05
	238,928,819.65	100.00%	29,664,407.18	335,646,564.19	100.00%	28,853,355.46

Notes to the Financial Statement

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

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

31 December 2015					
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	33,971,204.45	14.22%	22,961,860.55	67.59%	11,009,343.90
Subject to provision by groups:					
Group 1	15,769,867.08	6.60%	1,917,421.29	12.16%	13,852,445.79
Group 2	79,730,616.09	33.37%	-	-	79,730,616.09
Group 3	29,415,980.22	12.31%	100,000.00	0.34%	29,315,980.22
Group 4	74,143,026.47	31.03%	-	-	74,143,026.47
Individually insignificant but subject to separate provision	5,898,125.34	2.47%	4,685,125.34	79.43%	1,213,000.00
	238,928,819.65	100.00%	29,664,407.18	12.42%	209,264,412.47
31 December 2014					
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	32,702,048.65	9.74%	22,273,282.65	68.11%	10,428,766.00
Subject to provision by groups:					
Group 1	16,575,428.74	4.94%	2,357,119.39	14.22%	14,218,309.35
Group 2	74,735,675.73	22.27%	-	-	74,735,675.73
Group 3	39,885,630.08	11.88%	100,000.00	0.25%	39,785,630.08
Group 4	167,624,827.57	49.94%	-	-	167,624,827.57
Individually insignificant but subject to separate provision	4,122,953.42	1.23%	4,122,953.42	100.00%	-
	335,646,564.19	100.00%	28,853,355.46	8.60%	306,793,208.73

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

- (c) Other receivables that are individually significant and subject to separate provision are analyzed as follows:

	Carrying amount	Provision for bad debts	Ratio	Reason
Other receivables 1	10,541,832.00	5,270,916.00	50.00%	Involving litigation, detail refers to Note 16(1)(a)(i)
Other receivables 2	10,315,700.00	5,157,850.00	50.00%	Involving litigation, detail refers to Note 16(1)(a)(i)
Other receivables 3	2,868,759.75	2,868,759.75	100.00%	As this company was ceased, it is expected that the amount could not be recovered.
Other receivables 4	2,000,000.00	2,000,000.00	100.00%	The aging is too long and the item did not meet expected progress.
Other receivables 5	1,800,957.60	1,800,957.60	100.00%	As this company was ceased, it is expected that the amount could not be recovered.
Others	6,443,955.10	5,863,377.20	90.99%	It is expected that the amount could not be recovered.
	<u>33,971,204.45</u>	<u>22,961,860.55</u>	67.59%	

Notes to the Financial Statement

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(6) Other receivables *(Continued)*

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

	31 December 2015			31 December 2014		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	13,285,331.54	84.26%	132,853.34	12,099,169.87	73.00%	120,991.71
1 to 2 years	476,983.11	3.02%	47,698.31	951,978.79	5.74%	95,197.88
2 to 3 years	218,013.82	1.38%	65,404.15	1,711,272.62	10.32%	513,381.78
3 to 4 years	200,536.87	1.27%	100,268.43	292,864.11	1.77%	146,432.06
4 to 5 years	89,023.39	0.56%	71,218.71	195,136.97	1.18%	156,109.58
Over 5 years	1,499,978.35	9.51%	1,499,978.35	1,325,006.38	7.99%	1,325,006.38
	15,769,867.08	100.00%	1,917,421.29	16,575,428.74	100.00%	2,357,119.39

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

- (e) Other receivables that are individually insignificant but subject to separate provision are analyzed as follows

	Carrying amount	Provision for bad debts	Ratio	Reason
Other receivables 1	85,500.00	85,500.00	100.00%	It is expected that the amount could not be recovered
Other receivables 2	78,580.00	78,580.00	100.00%	It is expected that the amount could not be recovered
Other receivables 3	71,739.00	71,739.00	100.00%	It is expected that the amount could not be recovered
Other receivables 4	65,846.20	65,846.20	100.00%	It is expected that the amount could not be recovered
Other receivables 5	60,080.00	60,080.00	100.00%	It is expected that the amount could not be recovered
Others	5,536,380.14	4,323,380.14	78.09%	It is expected that the amount could not be recovered
	5,898,125.34	4,685,125.34	79.43%	

- (f) There are other receivables that are subject to full provision or in large partial but have been reversed or collected at current period.
- (g) There are no other receivables that have been collected by restructuring or other manners at current period.
- (h) There are no other receivables that are written off at current period.

Notes to the Financial Statement

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(6) Other receivables *(Continued)*

- (i) As at 31 December 2015, the top five of the debt form the balance of other receivables is analyzed as follows:

	Relationship with the company	Amount	Aging	% of total balance	Ending balance of provision for bad debts
Other receivables 1	Related party	20,159,243.27	Within 1 year, 1-2 years, over 5 years	8.44%	–
Other receivables 2	Third party	15,992,454.00	Within 1 year, 1-2 years	6.69%	–
Other receivables 3	Third party	10,541,832.00	1-2 years	4.41%	5,270,916.00
Other receivables 4	Third party	10,315,700.00	1-2 years	4.32%	5,157,850.00
Other receivables 5	Third party	6,900,000.00	1-2 years	2.89%	–
		<u>63,909,229.27</u>		<u>26.75%</u>	<u>10,428,766.00</u>

- (j) There are no other receivables derecognized due to transfer of financial assets at current period.
- (k) As at 31 December 2015, there are no securitizations that targeted at other receivables.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Advances to suppliers

(a) The aging of advances to suppliers is analyzed as follows:

	31 December 2015		31 December 2014	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	301,622,535.55	95.21%	306,802,187.19	93.87%
1 to 2 years	5,094,871.50	1.61%	12,334,087.16	3.77%
2 to 3 years	5,474,848.44	1.73%	6,024,768.33	1.84%
Over 3 years	4,603,509.00	1.45%	1,696,240.45	0.52%
	316,795,764.49	100.00%	326,857,283.13	100.00%

(b) The top five of advances to suppliers are analyzed as follows:

	Relationship with the Group	Amount	Aging	Reason of unsettlement
Supplier 1	Third party	70,332,450.97	Within 1 year	Normal purchases
Supplier 2	Third party	46,103,640.00	Within 1 year	Normal purchases
Supplier 3	Third party	39,261,600.07	Within 1 year	Normal purchases
Supplier 4	Third party	10,622,612.41	Within 1 year	Normal purchases
Supplier 5	Third party	7,155,793.01	Within 1 year	Normal purchases
		173,476,096.46		

(c) As at 31 December 2015 and 31 December 2014, there is no significant advance to suppliers with aging over one year.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Inventories

(a) Classification of inventories:

	31 December 2015			31 December 2014		
	Ending balance	Provision for declines in value of inventories	Carrying amount	Ending balance	Provision for declines in value of inventories	Carrying amount
Raw materials	560,423,152.22	1,940,697.77	558,482,454.45	591,142,111.86	1,422,529.11	589,719,582.75
Work in progress	124,505,894.48	-	124,505,894.48	129,231,167.68	-	129,231,167.68
Semi-finished goods	183,220,488.41	981,315.46	182,239,172.95	220,180,848.04	981,315.46	219,199,532.58
Finished goods	906,858,279.95	10,016,784.23	896,841,495.72	852,337,125.06	27,386,044.58	824,951,080.48
Low-value consumables	6,971,615.68	-	6,971,615.68	6,277,123.36	-	6,277,123.36
Packaging materials	117,253,532.69	-	117,253,532.69	110,227,829.84	89,844.93	110,137,984.91
Goods In processing contract	15,026,175.34	-	15,026,175.34	15,719,934.37	-	15,719,934.37
Commodity stocks	652,737,947.88	11,247,713.60	641,490,234.28	694,814,409.28	9,398,536.19	685,415,873.09
Others	1,055,569.76	-	1,055,569.76	604,704.39	-	604,704.39
	2,568,052,656.41	24,186,511.06	2,543,866,145.35	2,620,535,253.88	39,278,270.27	2,581,256,983.61

(b) Provision for declines in the value of inventories

Item	31 December		Current reductions			31 December 2015
	2014	Current additions	Reversal	Write-off	Other reductions	
Raw materials	1,422,529.11	613,180.76	95,012.10	-	-	1,940,697.77
Work in progress	981,315.46	-	-	-	-	981,315.46
Finished goods	27,386,044.58	5,226,915.04	2,875,951.86	19,720,223.53	-	10,016,784.23
Packaging materials	89,844.93	-	89,844.93	-	-	-
Commodity stocks	9,398,536.19	5,704,445.89	-	3,855,268.48	-	11,247,713.60
	39,278,270.27	11,544,541.69	3,060,808.89	23,575,492.01	-	24,186,511.06

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Inventories

(c) Provision for declines in the value of inventories are analyzed as follows:

Item	Basis for provision	Reason for reversal	% of amount of reversal to the relevant inventory balance
Raw materials	Carrying amount over net realizable value	Net realizable increased	0.02%
Finished goods	Carrying amount over net realizable value	Increase in market price	0.32%
Packaging materials	Carrying amount over net realizable value	Net realizable increased	0.08%

(9) Other current assets

	31 December 2015	31 December 2014
Deductible Input VAT	106,097,971.62	16,796,789.26
Provisional Income Tax paid	2,219,864.11	3,285,455.21
	108,317,835.73	20,082,244.47

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)
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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Available-for-sale financial assets

(a) Details are as follows:

Item	31 December 2015			31 December 2014		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Available-for-sale equity instruments Including:						
Measured at fair value	76,415,058.59	-	76,415,058.59	32,207,055.60	-	32,207,055.60
Measured at cost	256,510,723.88	4,553,551.23	251,957,172.65	106,310,723.88	4,553,551.23	101,757,172.65
Total	332,925,782.47	4,553,551.23	328,372,231.24	138,517,779.48	4,553,551.23	133,964,228.25

(b) Available-for-sale financial assets measured at fair value at the end of period.

Item	Available-for-sale equity instruments
Cost of equity instruments/amortized cost of liabilities	68,789,605.91
Fair value	76,415,058.59
Accumulated movement of fair value charged as other comprehensive income (written down related deferred income tax liabilities)	5,008,642.40
Accumulated movement of fair value charged as deferred tax liabilities	2,616,810.28
Impairment	-

Available-for-sale financial assets measured at fair value at the end of period are shares of listed companies, which fair value is recognized in accordance with the closing price at last transaction day.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Available-for-sale financial assets (Continued)

(c) Available-for-sale financial assets measured at cost at the end of period.

Investee	Opening amount	Book balance		Ending amount	Provision for impairment			Ending amount	% of Equity interest held	Current cash dividends
		Current increase	Current decrease		Opening amount	Current increase	Current decrease			
Shanghai Jiuhetang Chinese Medicine Co., Ltd.	547,193.71	-	-	547,193.71	-	-	-	-	9.53%	-
Beijing Imperial Court Cultural Development Company Ltd.	200,000.00	-	-	200,000.00	-	-	-	-	10.00%	-
Qi Xing Ma Zhong Pharmaceutical Co., Ltd. (Note1)	362,826.38	-	-	362,826.38	-	-	-	-	40.00%	-
Indonesia San You Development Co., Ltd. (Note 1)	1,078,551.23	-	-	1,078,551.23	1,078,551.23	-	-	1,078,551.23	50.00%	-
Sales Store of Peking Road of Guangzhou Medicine Co., Ltd. (Note 1)	218,399.05	-	-	218,399.05	-	-	-	-	20.00%	-
South China Innovative Pharmaceutical Co., Ltd. of Guangdong	10,000,000.00	-	-	10,000,000.00	-	-	-	-	11.12%	-
Shenzhen Zhong Lian Guang Shen Pharmaceutical Group Co., Ltd.	312,077.00	-	-	312,077.00	-	-	-	-	-	12,344.32
Guangzhou Zhong Ying Cambridge Technology Co., Ltd.	300,000.00	-	-	300,000.00	300,000.00	-	-	300,000.00	9.97%	-
Dongbei Pharmaceutical Factory	750,000.00	-	-	750,000.00	750,000.00	-	-	750,000.00	-	-
Wuhan Pharmaceutical Co., Ltd.	2,000,000.00	-	-	2,000,000.00	2,000,000.00	-	-	2,000,000.00	2.80%	-
Securities of Enterprises Activities Center	50,000.00	-	-	50,000.00	50,000.00	-	-	50,000.00	-	-
Guangzhou Dong Ning Pharmaceutical Co., Ltd.	275,000.00	-	-	275,000.00	275,000.00	-	-	275,000.00	5.00%	-
Guangzhou Nan Xin Pharmaceutical Co., Ltd.	7,677,876.51	-	-	7,677,876.51	-	-	-	-	13.00%	4,177,251.00
Guangzhou Yu Fa Medical Instrument Co., Ltd.	100,000.00	-	-	100,000.00	100,000.00	-	-	100,000.00	10.00%	-
Baxter Healthcare	82,338,800.00	-	-	82,338,800.00	-	-	-	-	12.50%	-
Guangzhou Bank of Commerce	100,000.00	-	-	100,000.00	-	-	-	-	-	19,350.80
Chongqing Pharmaceutical (Group) Holdings Co., Ltd.	-	150,000,000.00	-	150,000,000.00	-	-	-	-	2.22%	-
Yi Lin Biological Industry Co., Ltd.	-	200,000.00	-	200,000.00	-	-	-	-	10.00%	-
Total	106,310,723.88	150,200,000.00	-	256,510,723.88	4,553,551.23	-	-	4,553,551.23	-	4,208,946.12

Note: 1) The Group has not participated in the operation of Qi Xing Ma Zhong and Indonesia San You Development Co., Ltd. and Sales Store of Peking Road of Guangzhou Medicine Co., Ltd. Not exercised significant influence on them, in which the investments were measured using the cost method.

Notes to the Financial Statement

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(10) Available-for-sale financial assets *(Continued)*

(d) Movement for impairment of available-for-sale financial assets at current period:

Classification	Available-for-sale equity instruments
Opening amount of impairment	4,553,551.23
Current provision	–
Including: Reclassified from other comprehensive income	–
Current decrease	–
Including: Reclassified from increment of fair value at subsequent periods	–
Ending amount of impairment	4,553,551.23

Notes to the Financial Statement

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(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Long-term equity investments

(a) Details of long-term equity investments:

Entity	Investment cost	31 December 2014	Movement of investment	Profit or loss of investment recognized by equity method	Adjustment for other comprehensive income	Movement of other equity	Distributed cash dividends	Others	31 December 2015	Provision for impairment	Current provision for impairment	Current cash dividends
1. Jointly controlled entities												
GP Corp.	396,589,139.78	1,048,166,368.16	-	111,235,609.74	(3,501.34)	110,597.34	-	-	1,159,509,073.90	-	-	-
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. ("Wang Lao Ji")	102,035,124.44	380,638,675.72	-	8,079,597.06	-	-	-	-	388,718,272.78	-	-	-
Nuo Cheng	42,000,000.00	146,820,073.53	-	11,196,316.81	-	-	(30,000,000.00)	-	128,016,390.34	-	-	30,000,000.00
HWBYS	100,000,000.00	318,428,519.21	-	66,224,700.34	-	-	(20,000,000.00)	-	364,653,219.55	-	-	20,000,000.00
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. (Baxter Qiaoguang)	37,000,000.00	25,946,153.42	-	6,284,815.63	-	-	-	-	32,230,969.05	-	-	-
2. Associates												
Guangzhou Jinshen Medical Co., Ltd.	765,000.00	-	-	-	-	-	-	-	-	-	-	-
Hangzhou Zheda Han Fang Chinese Medical Info. Engineering Co., Ltd.	440,000.00	-	-	-	-	-	-	-	-	-	-	-
Golden Eagle Fund Management Co., Ltd.	50,000,000.00	28,806,601.98	-	7,204,549.25	95,411.50	-	-	-	36,106,562.73	-	-	-
Wei Yi Co., Ltd.	2,020,000.00	1,958,707.33	-	19,780.76	-	-	-	-	1,978,488.09	-	-	-
Subtotal	730,849,264.22	1,950,765,099.35	-	210,245,369.59	91,910.16	110,597.34	(50,000,000.00)	-	2,111,212,976.44	-	-	50,000,000.00

Wang Lao Ji's period of joint venture is for 10 years and expired on 25 January 2015. The Company applied for arbitration to Committee of South China International Economic and Trade Arbitration (Shenzhen International Court of Arbitration) ("Arbitration Committee"), required Tongxing Pharmaceutical Co., Ltd. to transfer 48.0465% equity interest in Wang Lao Ji to the Company. Arbitration Committee has accepted it (case No. SHENT2014811). Pursuant to <Notice from Guangzhou Administration Bureau for Industry and Commerce in respect of Guangzhou Wang Lao Ji Pharmaceutical Holdings Co., Ltd.> (SGSF[2015] No.49) issued by Guangzhou Administration Bureau for Industry and Commerce on 27 February 2015, Wang Lao Ji should be in normal operation. As at reporting date, Wang Lao Ji is still in continuous and normal operation.

Notes to the Financial Statement

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(11) Long-term equity investments

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

(12) Investment properties

(a) Investment properties measured at cost method:

	Buildings	Land use right	Total
1. Cost			
(1) Opening balance	369,407,521.56	18,344,900.69	387,752,422.25
(2) Current increase	9,497,474.28	-	9,497,474.28
(i) Outsourcing	-	-	-
(ii) Private properties or inventories transfer to investment properties	9,103,132.10	-	9,103,132.10
(iii) Changes in exchange	394,342.18	-	394,342.18
(3) Current decrease	7,544,675.73	-	7,544,675.73
(i) Disposal	7,544,675.73	-	7,544,675.73
(4) Ending balance	371,360,320.11	18,344,900.69	389,705,220.80
2. Accumulated depreciation and amortization			
(1) Opening balance	142,654,445.38	7,986,139.64	150,640,585.02
(2) Current increase	11,540,554.98	375,178.01	11,915,732.99
(i) Provision or amortization	9,762,586.60	375,178.01	10,137,764.61
(ii) Private properties or inventories transfer to investment properties	1,635,797.42	-	1,635,797.42
(iii) Changes in exchange	142,170.96	-	142,170.96
(3) Current decrease	7,466,183.45	-	7,466,183.45
(i) Disposal	7,466,183.45	-	7,466,183.45
(4) Ending balance	146,728,816.91	8,361,317.65	155,090,134.56
3. Provision for impairment			
(1) Opening balance	-	-	-
(2) Current increase	-	-	-
(3) Current decrease	-	-	-
(4) Ending balance	-	-	-
4. Book value			
(1) Ending book value	224,631,503.20	9,983,583.04	234,615,086.24
(2) Opening book value	226,753,076.18	10,358,761.05	237,111,837.23

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(12) Investment properties *(Continued)*

- (a) Investment properties measured at cost method: *(Continued)*
 - (i) Depreciation charges for the year ended 31 December 2015 amounted to RMB9,763 thousand. (For the year ended 31 December 2014: RMB10,264 thousand); Amortization charges For the year ended 31 December 2015 amounted to RMB375 thousand (For the year ended 31 December 2014: RMB375 thousand).
 - (ii) As For the year ended 31 December 2015, the decrease of original cost and accumulated depreciation of the investment properties arising from the fluctuations in exchange rate is RMB394 thousand and RMB142 thousand respectively (as for the year ended 31 December 2014: RMB21 thousand and RMB7 thousand respectively).
 - (iii) The land use right among the investment properties is located in Mainland China, and the useful life is 10-50 years.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Fixed assets and accumulated depreciation

(a) Fixed assets

	Buildings	Machinery and equipment	Motor vehicles	Electronic equipment	Office equipment	Decoration of fixed assets	Total
1. Cost:							
(1) Opening balance	1,855,846,521.02	1,621,157,480.94	92,535,015.45	128,159,917.82	108,936,338.92	62,976,188.39	3,869,611,462.54
(2) Current increase	103,796,291.20	156,633,213.50	3,072,442.11	12,049,885.61	10,316,614.99	6,996,016.35	292,864,463.76
(i) Purchase	1,557,364.43	17,680,730.99	1,619,901.69	6,231,819.60	4,760,992.98	255,500.00	32,106,309.69
(ii) Reclassified from constructions in progress	101,803,975.28	138,952,482.51	608,012.34	5,740,916.97	5,233,998.06	6,740,516.35	259,079,901.51
(iii) Changes in exchange rate	434,951.49	-	-	-	43,461.16	-	478,412.65
(iv) Addition of business combination	-	-	844,528.08	77,149.04	278,162.79	-	1,199,839.91
(3) Current decrease	10,832,630.60	41,475,433.04	3,690,451.27	2,864,201.42	2,991,728.90	54,462.00	61,908,907.23
(i) Disposal or scrap	1,729,498.50	41,475,433.04	3,690,451.27	2,864,201.42	2,991,728.90	-	52,751,313.13
(ii) Others	9,103,132.10	-	-	-	-	54,462.00	9,157,594.10
(4) Ending balance	1,948,810,181.62	1,736,315,261.40	91,917,006.29	137,345,602.01	116,261,225.01	69,917,742.74	4,100,567,019.07
2. Accumulated depreciation							
(1) Opening balance	736,823,584.90	992,938,040.17	63,676,724.66	82,762,196.48	70,965,877.83	52,156,947.24	1,999,323,371.28
(2) Current increase	63,305,133.15	103,709,571.58	5,078,343.56	8,530,676.79	10,179,034.50	3,436,976.88	194,239,736.46
(i) Provision	63,190,277.38	103,709,571.58	4,568,579.04	8,512,208.40	10,046,311.43	3,436,976.88	193,463,924.71
(ii) Changes in exchange rate	114,855.77	-	-	-	(49,756.37)	-	65,099.40
(iii) Addition of business combination	-	-	509,764.52	18,468.39	182,479.44	-	710,712.35
(3) Current decrease	3,006,325.15	37,584,777.38	3,569,304.76	2,798,168.64	2,721,978.78	3,018.12	49,683,572.83
(i) Disposal or scrap	1,370,527.73	37,584,777.38	3,569,304.76	2,798,168.64	2,721,978.78	-	48,044,757.29
(ii) Others	1,635,797.42	-	-	-	-	3,018.12	1,638,815.54
(4) Ending balance	797,122,392.90	1,059,062,834.37	65,185,763.46	88,494,704.63	78,422,933.55	55,590,906.00	2,143,879,534.91
3. Provision for impairment							
(1) Opening balance	9,818,341.35	12,714,922.83	158,224.47	1,639,858.76	2,846.38	-	24,334,193.79
(2) Current increase	-	-	-	-	-	-	-
(3) Current decrease	996,921.29	547,090.47	-	4,436.02	-	-	1,548,447.78
(i) Disposal or scrap	996,921.29	547,090.47	-	4,436.02	-	-	1,548,447.78
(4) Ending balance	8,821,420.06	12,167,832.36	158,224.47	1,635,422.74	2,846.38	-	22,785,746.01
4. Book value							
(1) Ending book value	1,142,866,368.66	665,084,594.67	26,573,018.36	47,215,474.64	37,835,445.08	14,326,836.74	1,933,901,738.15
(2) Opening book value	1,109,204,594.77	615,504,517.94	28,700,066.32	43,757,862.58	37,967,614.71	10,819,241.15	1,845,953,897.47

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Fixed assets and accumulated depreciation (Continued)

(a) Fixed assets (Continued)

- (i) As for the year ended 31 December 2015, the fixed assets transferred from construction in progress amounted to RMB259,080 thousand (For the year ended 31 December 2014: RMB220,573 thousand).
- (ii) As for the year ended 31 December 2015, the decrease of original cost and accumulated depreciation of fixed assets is due to fluctuations in exchange rate amounted to RMB478 thousand and RMB65 thousand respectively (For the year ended 31 December 2014: RMB28 thousand and RMB10 thousand respectively).
- (iii) Depreciation expenses for the year ended 31 December 2015 amounted to RMB193,464 thousand in total (For the year ended 31 December 2014: RMB176,059 thousand), of which RMB126,891 thousand, RMB3,059 thousand and RMB63,514 thousand were charged to cost of sales, selling and distribution expenses and general and administrative expenses, respectively (For the year ended 31 December 2014: RMB106,708 thousand, RMB2,854 thousand and RMB66,497 thousand respectively).

(b) As at 31 December 2015, fixed assets are temporarily idle, which are analysed as follows:

	Cost	Accumulated depreciation	Provision for impairment	Carrying amount
Buildings	6,478,874.98	1,629,232.43	4,618,987.46	230,655.09
Machinery	39,638,128.77	28,119,330.34	7,313,304.83	4,205,493.60
Electrical equipment	147,897.48	69,184.00	78,713.48	–

Notes to the Financial Statement

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Fixed assets and accumulated depreciation (Continued)

- (c) As at 31 December 2015, fixed assets which were lack of ownership certificate are summarised as follows:

	Carrying amount	Reason	Estimated date of obtaining the ownership certificate
Buildings	34,110,883.26	Procedures are not completed, certificates are not handled	Uncertain
Motor vehicles	61,687.50	Procedures are not completed, ownership cannot be transferred	Uncertain
	<u>34,172,570.76</u>		

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

	31 December 2015 Carrying amount	31 December 2014 Carrying amount
Buildings	<u>9,213,155.00</u>	<u>9,242,531.56</u>

- (e) As at 31 December 2015, Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, acquired the comprehensive credit loan amounted to HKD300 thousand, letter of credit and the total amount of trust letter amounted to HKD100,000 thousand from Bank of China (Hong Kong) Co., Ltd., by the original value amounted to HKD8,893 thousand, the net value HKD6,473 thousand of the buildings of fixed assets and the original value amounted to HKD6,843 thousand, the net value amounted to HKD3,993 thousand of investment properties as a pledge, and the issued undue L/C amounted to USD232 thousand.

(14) Construction in progress

	31 December 2015			31 December 2014		
	Book balance	Provision for impairment	Carrying amount	Provision for impairment	Carrying amount	Book balance
Construction in progress	<u>557,027,433.05</u>	<u>1,121,052.88</u>	<u>555,906,380.17</u>	<u>442,930,759.02</u>	<u>1,121,052.88</u>	<u>441,809,706.14</u>

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Construction in progress (Continued)

(a) Movement of construction in progress

	Budget	31 December		Current decrease		31 December 2015	Source of funds	% contribution in budget
		2014	Current increase	Transferred to fixed assets	Other decrease			
Pill Line	5,000,000.00	1,050,000.00	175,000.00	-	-	1,225,000.00	Self-funded	59.50%
Oil workshop	14,300,000.00	1,631,083.37	3,283,180.67	4,914,264.04	-	-	Self-funded	132.33%
HMPL-004special production line	3,000,000.00	25,470.09	192,893.67	-	-	218,363.76	Self-funded	7.28%
Office building	11,500,000.00	10,363,228.36	1,254,994.70	11,618,223.06	-	-	Self-funded	101.03%
Elevator Engineering of Saibakou office	11,500,000.00	6,132,810.57	2,203,611.09	-	8,336,421.66	-	Self-funded	72.49%
Land parcel of Bio-island	111,940,400.00	-	111,940,400.00	-	-	111,940,400.00	Self-funded	100.00%
Research of Bio Vaccine & Industrialisation Platform	29,300,000.00	22,673,515.77	4,147,883.26	9,018,407.18	117,968.02	17,685,023.83	Self-funded	91.54%
Wualaoji anti-channel conflict equipment	4,650,000.00	815,384.60	1,125,384.60	-	-	1,940,769.20	Self-funded	48.83%
Wanglaoji herbal tea museum decoration	5,500,000.00	3,865,159.00	884,801.00	-	4,749,960.00	-	Self-funded	86.36%
Wanglaoji Ya'an manufacturing project	298,000,000.00	119,336,669.17	55,536,774.38	123,356,084.02	86,414.86	51,430,944.67	Self-funded	66.24%
Removal of reconstruction(power supply room/boiler room/sewage station/cool warehouse of Zhongcun/No.4 addition building)	5,530,000.00	2,471,342.21	2,717,310.01	413,223.29	85,480.34	4,689,948.59	Government grants	93.63%
GMP improvement project of 4 workshops Chinese medicine treatment before extraction of the modernization of products	6,920,000.00	3,752,985.68	159,899.89	3,887,871.13	-	25,014.44	Self-funded	73.74%
GMP improvement of solid preparation workshop of No.1 manufacturing depart.	97,564,100.00	57,582,101.79	20,601,177.63	815,964.52	282,194.85	77,085,120.05	Self-funded	79.85%
Other installation equipments	6,440,000.00	168,113.21	1,643,367.52	-	-	1,811,480.73	Self-funded	28.13%
Chemical Factory Oral API GMP Improvement	5,110,000.00	2,612,135.29	1,309,000.29	1,908,315.13	-	2,012,820.45	Self-funded	76.73%
Chemical Factory Sterile APIs No.204 Workshop Technology Improvement	11,695,100.00	5,485,216.48	917,952.31	-	-	6,403,168.79	Self-funded	54.75%
CFO Item	806,092.36	806,092.36	-	806,092.36	-	-	Self-funded	100.00%
Zhongluotan Wulonggang AB0807098-1block	7,000,000.00	701.00	4,876,201.33	-	-	4,876,902.33	Self-funded	69.67%
Eye drops workshop improvement	169,750,000.00	2,948,549.00	-	-	-	2,948,549.00	Self-funded	15.21%
Adhesive plaster workshop improvement	6,550,000.00	1,063,354.38	673,613.29	7,150.00	-	1,729,817.67	Self-funded	26.52%
Tonghe cream improvement	2,121,000.00	625,127.19	411,459.39	1,036,586.58	-	-	Self-funded	103.66%
CM180 automatic packing machine	5,450,000.00	1,203,467.87	(154,252.00)	-	-	1,049,215.87	Self-funded	19.25%
FM160 sealing machine	2,347,000.00	2,005,982.90	37,938.00	2,043,920.90	-	-	Self-funded	87.09%
	3,060,000.00	2,615,384.60	50,584.95	2,665,969.55	-	-	Self-funded	87.12%

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Construction in progress (Continued)

(a) Movement of construction in progress (Continued)

	Budget	31 December		Current decrease		31 December 2015	Source of funds	% contribution in budget
		2014	Current increase	Transferred to fixed assets	Other decrease			
Tian Xin Powder Inj. Project	14,000,000.00	2,472,396.19	2,243,823.91	3,534,485.80	-	1,181,734.30	Self-funded	81.20%
Tian Xin Chemical Institute Project	25,500,000.00	3,078,367.00	6,334,023.81	7,822,029.88	-	1,590,360.93	Self-funded	147.86%
Tian Xin Wei D 2 Tartaric Acid Inj.	15,000,000.00	200,000.00	-	-	-	200,000.00	Self-funded	1.33%
Tian Xin Asepsis Water Inj Workshop	20,000,000.00	4,381,440.78	-	4,381,440.78	-	-	Self-funded	65.22%
Tian Xin Waste Water Recycling	1,200,000.00	329,845.00	-	329,845.00	-	-	Self-funded	27.49%
Tian Xin Powder Injector & Screw Arbor Line	19,800,000.00	614,102.56	-	14,102.56	-	600,000.00	Self-funded	8.87%
Tian Xin Cephalosporins Workshop Improvement	12,000,000.00	748,627.17	-	748,627.17	-	-	Self-funded	99.47%
Tian Xin Water Inj Workshop	15,900,000.00	4,587,077.00	996,018.98	2,164,183.96	-	3,418,912.02	Self-funded	146.25%
Penicillin GMP Improvement	12,900,000.00	6,334,621.27	798,656.27	6,584,395.39	-	548,882.15	Self-funded	91.06%
GMP Improvement of injection and water needle	18,460,000.00	15,817,404.51	2,039,731.61	17,128,496.59	-	728,639.53	Self-funded, loan	143.94%
Improvement for central chemical laboratory that accord with new pharmacopeia	2,000,000.00	-	1,593,573.90	1,593,573.90	-	-	Self-funded	79.68%
Third Manufacturing Department	7,000,000.00	-	1,162,375.65	15,213.68	-	1,147,161.97	Self-funded	16.61%
Ming Xing Equipment Improvement	67,430,000.00	732,406.01	8,439,702.01	7,617,253.49	28,301.89	1,526,552.64	Self-funded	51.91%
Ming Xing Decoration	17,200,000.00	8,126,434.69	794,147.76	8,702,669.46	-	217,912.99	Self-funded	82.12%
Ming Xing relocation improvement	340,000,000.00	80,314,015.94	66,226.42	-	-	80,380,242.36	Self-funded	23.64%
Lyophilized powder	30,000,000.00	9,553,253.67	2,209,724.88	11,762,978.55	-	-	Self-funded	90.61%
Wei Ling Pharmaceutical new factory	134,591,774.64	39,649,316.62	48,994,145.04	-	3,396.23	88,640,065.43	Self-funded	65.97%
GHL-800 granulation production line, LDB-350 efficient coating machine	11,581,000.00	3,474,300.00	3,747,152.00	-	-	7,221,452.00	Self-funded	62.36%
2 sets of automatic bottling production line	3,200,000.00	960,000.00	960,000.00	-	-	1,920,000.00	Self-funded	60.00%
Air conditioning terminal equipment & water storage system	9,192,279.30	-	5,414,465.36	-	-	5,414,465.36	Self-funded	58.90%
Swith cabinet	3,480,000.00	-	2,088,000.00	-	-	2,088,000.00	Self-funded	60.00%
Production line of asepsis material	103,540,000.00	12,667.00	34,178,804.68	-	-	34,191,471.68	Self-funded	33.02%
Tibetan Health Castle Project	35,000,000.00	-	16,581,884.37	-	-	16,581,884.37	Self-funded	47.38%
Others	138,026,889.67	12,310,608.72	38,252,196.88	24,188,533.54	4,017,116.12	22,357,155.94	Self-funded	
		<u>442,930,759.02</u>	<u>390,883,829.51</u>	<u>259,079,901.51</u>	<u>17,707,253.97</u>	<u>557,027,433.05</u>		

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Construction in progress (Continued)

(b) Borrowing costs eligible for capitalization in current period are summarized as follows:

Name of construction	31 December 2014	Current increase	Transferred to fixed assets	Other decrease	31 December 2015	Ratio of capitalization of interests (%)
GMP improvement of injection and water needle	1,156,981.42	-	1,156,981.42	-	-	-
Wang Lao Ji Ya'an manufacturing project	-	228,366.96	-	-	228,366.96	4.72%
	<u>1,156,981.42</u>	<u>228,366.96</u>	<u>1,156,981.42</u>	<u>-</u>	<u>228,366.96</u>	

(c) Provision for impairment of construction in progress

Name of construction	31 December 2014	Current increase	Current decrease	31 December 2015	Reason
General factory veterinary drugs workshop GMP improvement	869,318.50	-	-	869,318.50	Project stopped
Guanghua sewage expansion project	251,734.38	-	-	251,734.38	Project stopped
Total	<u>1,121,052.88</u>	<u>-</u>	<u>-</u>	<u>1,121,052.88</u>	

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)
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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(14) Construction in progress *(Continued)*

(d) Schedule of significant constructions in progress are as below:

	Progress
Land parcel of Bio-island	Pending for acceptance
Research of Bio Vaccine & Industrialisation Platform	Construction phase
Wang Lao Ji Ya'an manufacturing project	Construction completed, pending for check
Tibetan Health Castle Project	Planning phase
Chinese medicine treatment before extraction of the modernization of production GMP the first stage project of technical transfer project technology improvement	Construction phase
Ming Xing relocation improvement	Construction phase
Wei Ling new factory	Construction phase

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Intangible assets

(a) Details of intangible assets:

	Land use right	Industrial property & proprietary technology	Non-Patents	Trademark	Others	Total
1. Cost						
(1) Opening balance	326,646,077.77	15,520,091.28	27,194,201.20	159,355,952.74	13,537,061.82	542,253,384.81
(2) Current increase	155,998,849.68	272,829.23	1,428,237.77	–	1,597,312.30	159,297,228.98
(i) Purchase	155,998,849.68	272,829.23	1,428,237.77	–	1,565,397.77	159,265,314.45
(ii) Internal research and development	–	–	–	–	–	–
(iii) Addition of business combination	–	–	–	–	31,914.53	31,914.53
(3) Current decrease	–	–	–	–	489,422.89	489,422.89
(i) Disposal	–	–	–	–	489,422.89	489,422.89
(4) Ending balance	482,644,927.45	15,792,920.51	28,622,438.97	159,355,952.74	14,644,951.23	701,061,190.90
2. Accumulated amortization						
(1) Opening balance	86,236,539.85	7,670,327.70	9,964,312.08	32,690,623.36	8,972,191.15	145,533,994.14
(2) Current increase	8,834,227.10	527,121.96	2,760,222.86	11,467.20	2,191,312.56	14,324,351.68
(i) Provision	8,834,227.10	527,121.96	2,760,222.86	11,467.20	2,169,476.00	14,302,515.12
(ii) Addition of business combination	–	–	–	–	21,836.56	21,836.56
(3) Current decrease	–	–	–	–	489,422.89	489,422.89
(i) Disposal	–	–	–	–	489,422.89	489,422.89
(4) Ending balance	95,070,766.95	8,197,449.66	12,724,534.94	32,702,090.56	10,674,080.82	159,368,922.93
3. Provision for impairment						
(1) Opening balance	480,700.24	453,343.04	–	583,573.00	–	1,517,616.28
(2) Current increase	–	–	–	–	–	–
(3) Current decrease	–	–	–	–	–	–
(4) Ending balance	480,700.24	453,343.04	–	583,573.00	–	1,517,616.28
4. Book value						
(1) Ending book value	387,093,460.26	7,142,127.81	15,897,904.03	126,070,289.18	3,970,870.41	540,174,651.69
(2) Opening book value	239,928,837.68	7,396,420.54	17,229,889.12	126,081,756.38	4,564,870.67	395,201,774.39

At current period, the amortization of intangible assets amounted to RMB14,303 thousand (For the year ended 31 December 2014: RMB11,639 thousand), which were recognized in profit or loss for the current period. The land use right of the intangible assets is located in Mainland China, and the useful life is 10-50 years.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)
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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Development costs

	31 December 2014	Current increase		Current transferred-out		31 December 2015
		Internal research expenses	Others	Recognized in current profit or loss	Recognized as intangible assets	
Capitalized expenditures	4,252,391.49	107,775.00	1,780,000.00	-	631,067.96	5,509,098.53
Expensed expenditures	-	313,848,003.38	-	313,848,003.38	-	-
	<u>4,252,391.49</u>	<u>313,955,778.38</u>	<u>1,780,000.00</u>	<u>313,848,003.38</u>	<u>631,067.96</u>	<u>5,509,098.53</u>

(17) Goodwill

(a) Original book value of goodwill

Investee or events of goodwill	Opening balance	Current increase		Current decrease		Ending balance
		Amount of business combination	Others	Disposal	Others	
Guangyao Haima	-	2,282,952.18	-	-	-	2,282,952.18
Guangxi Ying Kang	475,756.92	-	-	-	-	475,756.92
Total	<u>475,756.92</u>	<u>2,282,952.18</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,758,709.10</u>

The Company purchased 100% equity interest of Guangyao Haima by merging cost amounted to RMB7,000 thousand in 2015, which exceeded the difference amounted to RMB2,282,952.18 between identifiable assets of Guangyao Haima and its fair value of liabilities, was recognized as goodwill of Guangyao Haima.

(b) Provision for impairment of goodwill

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

The Company calculated Guangyao Haima, a subsidiary of the Company, as a group of assets by profit method for its recoverable amount. There are no impairment for goodwill.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(18) Long-term prepaid expenses

	31 December 2014	Current increase	Current amortization	31 December 2015
Building decoration and fixtures	6,471,869.82	17,794,837.49	4,218,206.11	20,048,501.20
Basketball field construction	12,082.13	–	12,082.13	–
GMP improvement fee	513,714.25	1,326,486.73	375,500.31	1,464,700.67
Rain sewage diversion improvement	215,856.45	–	161,892.48	53,963.97
Zhong Xin warehouse iron canopy improvement	211,398.69	–	123,755.46	87,643.23
Maintaining and decoration for outer wall of warehouse	550,666.67	–	111,999.96	438,666.71
Installation for electric wire of warehouse	364,868.24	–	126,906.36	237,961.88
Authentication of AAALAC	282,453.59	–	45,192.60	237,260.99
Others	1,710,025.73	623,081.89	789,659.97	1,543,447.65
	<u>10,332,935.57</u>	<u>19,744,406.11</u>	<u>5,965,195.38</u>	<u>24,112,146.30</u>

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)
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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

(a) Deferred income tax assets that are not offset

	31 December 2015	31 December 2014
Provision for impairment of construction in progress	168,157.94	168,157.94
Provision for declines in values of inventories	4,084,757.42	6,221,553.70
Provision for bad debts	24,690,656.82	15,580,139.77
Provision for impairment of fixed assets	2,935,296.33	3,065,502.47
Difference arising from accounting and tax depreciations of fixed assets	2,051,776.82	2,138,477.79
Changes in fair value of financial assets held for trading	–	123,802.85
Available for sale financial assets	587,551.22	587,551.22
Employee benefits payable	6,543,317.10	41,132,141.46
Provisions	6,936,604.68	75,028.68
Other payables	218,348,709.96	217,199,370.75
Deferred income	16,267,190.50	12,882,620.85
Deductible tax losses	17,095,753.13	2,743,465.26
Provision for impairment of intangible assets	120,175.06	120,175.06
Difference arising from accounting and tax amortizations of intangible assets	308,505.30	330,275.68
Elimination of unrealized profits arising from the inter-company transaction	29,255,676.72	26,206,826.61
Others	381,925.32	1,144,046.23
	329,776,054.32	329,719,136.32

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(b) Deferred income tax liabilities that are not offset

	31 December 2015	31 December 2014
Other receivables-rental	555,469.93	698,611.14
Changes in fair value of financial assets held for trading	148,262.15	–
Changes in fair value of available-for-sale financial assets	2,616,810.28	3,224,160.84
Depreciation balance of fixed assets revaluation	309,216.60	323,359.20
Difference arising from accounting and tax depreciations of fixed assets	122,046.72	266,408.16
Compensation from relocation	12,484,841.75	9,568,129.08
Amortization balance of intangible assets revaluation	1,289,770.80	1,324,629.60
Other receivables-distribution of income	11,435,960.00	–
Others	101,557.00	94,312.19
	29,063,935.23	15,499,610.21

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

	31 December 2015	31 December 2014
Deductible temporary differences	30,658,367.86	3,229,703.84
Deductible tax losses	102,947,898.90	88,787,838.70
	133,606,266.76	92,017,542.54

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)
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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

	31 December 2015	31 December 2014
2015	–	6,960,954.85
2016	10,551,329.14	10,551,329.14
2017	12,693,135.09	13,252,249.25
2018	25,504,576.82	28,903,613.32
2019	26,150,385.15	29,119,692.14
2020	28,048,472.70	–
	102,947,898.90	88,787,838.70

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

	31 December 2015	31 December 2014
Provision of impairment of construction in progress	1,121,052.88	1,121,052.88
Provision for declines in values of inventories	19,727,372.60	34,718,809.90
Provision for bad debts	107,353,410.43	70,013,905.81
Provision of impairment of fixed assets	19,296,479.43	20,436,683.15
Difference arising from accounting and tax depreciations of fixed assets	12,074,081.64	12,694,671.15
Changes in fair value of financial assets held for trading	–	825,352.30
Available-for-sale financial assets	3,610,204.88	3,610,204.88
Employee benefits payable	41,048,365.75	220,418,789.36
Other payables	933,846,501.53	945,404,508.86
Deferred income	106,368,460.66	84,157,887.47
Deductible tax losses	111,690,410.58	18,289,768.40
Elimination of unrealized profits arising from the inter-company transaction	117,022,706.89	158,825,480.08
Provision for impairment of intangible assets	480,700.24	480,700.24
Difference arising from accounting and tax amortizations of intangible assets	1,838,157.26	1,961,438.71
Provisions	46,244,031.19	500,191.19
Others	2,546,168.88	7,626,975.00
	<u>1,524,268,104.84</u>	<u>1,581,086,419.38</u>

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)
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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

	31 December 2015	31 December 2014
Other receivables-rental	3,703,132.87	4,657,407.59
Changes in fair value of financial assets held for trading	988,414.30	–
Available-for-sale financial assets	16,943,053.08	20,957,097.20
Depreciation balance of fixed assets revaluation	2,061,444.00	2,155,728.00
Difference arising from accounting and tax depreciations of fixed assets	813,644.80	1,380,189.10
Compensation from relocation	61,772,380.90	38,272,516.31
Amortization balance of intangible assets revaluation	8,598,472.00	8,830,864.00
Other receivables-distribution of income	45,743,840.00	–
Others	677,046.68	628,747.92
	141,301,428.63	76,882,550.12

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(20) Provision for impairment of assets

	31 December 2014	Current increase	Other decrease			31 December 2015
			Reversal	Written-off	Other decrease	
Provision for bad debts	71,462,495.92	28,500,619.83	671,482.01	-	-	99,291,633.74
Provision for declines in value of inventories	39,278,270.27	11,544,541.69	3,060,808.89	23,575,492.01	-	24,186,511.06
Provision for impairment of available for sale financial assets	4,553,551.23	-	-	-	-	4,553,551.23
Provision for impairment of fixed assets	24,334,193.79	-	-	1,548,447.78	-	22,785,746.01
Provision for impairment of construction in in progress	1,121,052.88	-	-	-	-	1,121,052.88
Provision for impairment of intangible assets	1,517,616.28	-	-	-	-	1,517,616.28
Provision for impairment of goodwill	475,756.92	-	-	-	-	475,756.92
	142,742,937.29	40,045,161.52	3,732,290.90	25,123,939.79	-	153,931,868.12

(21) Short-term borrowings

	31 December 2015	31 December 2014
Credit borrowings	456,536,134.74	222,730,090.45
Pledge borrowings	94,999,883.79	283,300,000.00
Guaranteed borrowings	-	50,000,000.00
Discount of commercial acceptance notes	78,147,446.16	4,500,000.00
	629,683,464.69	560,530,090.45

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)
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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(21) Short-term borrowings *(Continued)*

- (a) As at 31 December 2015 and 31 December 2014, there are no overdue borrowings.
- (b) As at 31 December 2015, the pledged bank borrowings amounted to RMB95,000 thousand, the collateral of which was accounts receivables amounted to RMB95,000 thousand. (as at 31 December 2014: the pledged bank borrowings amounted to RMB283,300 thousand, the collateral of which was accounts receivables amounted to RMB283,300 thousand).
- (c) As at 31 December 2015, the weighted average interest rate of short-term borrowings is 4.6192% per annum (As at 31 December 2014: 5.0313% per annum).

(22) Notes payable

	31 December 2015	31 December 2014
Bank acceptance notes	197,727,364.71	167,591,115.01
Commercial acceptance notes	94,879,734.94	188,982,082.94
	292,607,099.65	356,573,197.95

As at 31 December 2015, notes payable amounted to RMB292,607 thousand were expected to be due within 1 year (as at 31 December 2014: RMB356,573 thousand).

(23) Accounts payable

- (a) Details of accounts payable:

	31 December 2015		31 December 2014	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	2,452,193,485.28	93.01%	2,014,931,574.60	97.06%
Over 1 year	184,280,622.77	6.99%	60,989,698.85	2.94%
	2,636,474,108.05	100.00%	2,075,921,273.45	100.00%

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(23) Accounts payable (Continued)

- (b) As at 31 December 2015, accounts payable that are individually significant aging over 1 year are as below (as at 31 December 2014: nil):

Item	Ending balance	Reason of outstanding or transfer
Guangdong Guangsheng Investment Group Energy Co., Ltd.	47,405,089.60	Involving litigation, detail refers to Note 16(1) (a) (i)
Dongguan Ye Lian Road Modified Asphalt Co., Ltd.	22,576,000.00	Involving litigation, detail refers to Note 16(1) (a) (i)
Zhejiang Yuan Fu Tea Industry Co., Ltd.	21,132,048.29	Supplier lack of funds, consulted on-account
Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd.	18,440,000.00	Involving litigation, detail refers to Note 16(1) (a) (i)
Guangdong Shen Hua Pharmaceutical Co., Ltd.	15,459,918.97	Supplier lack of funds, consulted on-account
	125,013,056.86	

(24) Advances from customers

- (a) Details of advances from customers:

	31 December 2015		31 December 2014	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	945,769,911.96	97.05%	866,965,436.20	97.14%
Over 1 year	28,744,298.34	2.95%	25,491,083.86	2.86%
	974,514,210.30	100.00%	892,456,520.06	100.00%

- (b) As at 31 December 2015 and 31 December 2014, there are no advances from customers that are individually significant aging are over 1 year.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(25) Employee benefits payable

	31 December 2014	Current increase	Current decrease	31 December 2015
1. Short-term employee benefits	411,195,601.39	2,877,942,312.21	2,876,924,942.15	412,212,971.45
Wages and salaries, bonuses, allowances and subsidies	387,447,555.07	2,485,806,165.65	2,482,780,584.00	390,473,136.72
Including: Service fee	222,141,364.96	1,170,702,770.44	1,209,350,147.93	183,493,987.47
Staff welfare	901,147.92	90,015,366.18	91,294,841.03	(378,326.93)
Including: Funds of bonus and welfare of Foreign Invested Enterprises	-	-	-	-
Social insurances	(2,467.59)	91,650,205.46	91,660,278.93	(12,541.06)
Including: Medical insurance	1,592.74	79,557,537.05	79,564,650.67	(5,520.88)
Work injury insurance	1,681.19	6,253,546.36	6,255,030.94	196.61
Maternity insurance	(5,741.52)	5,839,122.05	5,840,597.32	(7,216.79)
Housing funds	(8,083.30)	146,936,713.89	146,164,147.89	764,482.70
Labor union funds	3,367,475.73	25,119,642.58	24,837,498.86	3,649,619.45
Employee education funds	2,076,264.02	10,950,981.22	10,570,371.26	2,456,873.98
Non-monetary welfare	-	-	-	-
Housing allowance	16,733,047.64	17,175,638.83	18,991,452.98	14,917,233.49
Short-term paid absences	-	31,276.18	31,276.18	-
Other short-term benefits	680,661.90	10,256,322.22	10,594,491.02	342,493.10
2. Post-employment benefits	897,486.86	193,891,635.62	193,972,355.78	816,766.70
Defined contribution plans	897,486.86	193,891,635.62	193,972,355.78	816,766.70
Including: Basic pension insurance	18,248.93	121,956,647.25	121,968,717.36	6,178.82
Unemployment	5,151.38	8,910,011.47	8,912,413.45	2,749.40
Annuity	474,998.33	45,276,157.30	45,537,603.63	213,552.00
Others	399,088.22	17,748,819.60	17,553,621.34	594,286.48
Defined benefits plans	-	-	-	-
3. Termination benefits	-	12,654,192.33	12,654,192.33	-
Compensation for lay-off	-	12,654,192.33	12,654,192.33	-
Others	-	-	-	-
4. Other long-term employee benefits	-	-	-	-
Long-term paid absences	-	-	-	-
Long-term disability benefits	-	-	-	-
Long-term profit-sharing scheme	-	-	-	-
Other long-term benefits	-	-	-	-
	<u>412,093,088.25</u>	<u>3,084,488,140.16</u>	<u>3,083,551,490.26</u>	<u>413,029,738.15</u>

As at 31 December 2015, employee benefits payable mainly include the wages, bonus and service fee of December 2015 which were accrued but have not been paid. No defaulted payables are included in the employee benefits and the balance is estimated to be used up in year 2016.

Notes to the Financial Statement

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(26) Taxes payable

	31 December 2015	31 December 2014
VAT	(11,469,979.45)	(59,233,084.42)
Business tax	1,462,630.59	1,356,149.25
City maintenance and construction tax	3,767,929.85	4,405,373.21
Education surcharge	1,648,735.36	1,888,860.19
Local education surcharge	1,080,248.09	1,258,972.12
Enterprise income tax	66,193,089.78	211,926,797.01
Individual income tax	9,942,441.20	9,658,977.59
Real-estate tax	807,105.72	688,259.07
Urban area embankment maintenance fee	20,386.91	3,826,404.18
Stamp duty	1,061,852.06	900,794.35
Others	18.00	51,940.71
	74,514,458.11	176,729,443.26

(27) Interest payable

Item	31 December 2015	31 December 2014
Interest payable of short-term borrowings	73,458.32	236,666.66
Interest payable of long-term borrowings	286,170.24	–
	359,628.56	236,666.66

(28) Dividends payable

Investor	31 December 2015	31 December 2014
Public shares	156,180.46	90,148.02
BYS Group	45.01	45.00
Minority shareholders	51,909,873.44	46,841,494.17
	52,066,098.91	46,931,687.19

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)
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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(29) Other payables

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

	31 December 2015	31 December 2014
Within 1 year	1,585,891,463.00	1,411,024,216.25
Over 1 year	169,359,640.41	146,327,465.69
	1,755,251,103.41	1,557,351,681.94

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

	31 December 2015	31 December 2014
Deposits	119,819,155.04	101,599,540.92
Technology development expenses	981,390.62	764,522.49
Rental expenses	890,668.56	2,584,303.20
Payables to third parties	89,407,540.85	101,192,788.28
Amount due to employees	12,054,678.84	6,936,635.22
Payables to related parties (Note 12)	43,357,745.40	36,542,041.11
Accruals for purchase of fixed assets	14,444,015.17	2,905,527.50
Sales rebate	138,376,142.93	150,868,139.25
Accrued expenses	1,318,679,764.89	1,127,449,493.23
Others	17,240,001.11	26,508,690.74
	1,755,251,103.41	1,557,351,681.94

Notes to the Financial Statement

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(29) Other payables (Continued)

(c) Details of accrued expenses:

	31 December 2015	31 December 2014
Rental expenses	7,014,509.87	3,279,536.10
Agent fees	1,202,896.67	6,719,533.18
Advertising and promotional expenses	1,095,142,853.64	945,588,641.57
Utilities	7,525,426.04	3,147,953.57
Transportation expenses	76,873,746.95	105,653,916.15
Conference expenses	1,082,302.98	1,648,748.42
Research and development expenses	16,054,341.60	3,955,022.41
Marketing expenses	44,565,889.15	708,634.69
Travelling expenses	6,489,622.76	5,158,961.95
Consulting expenses	959,223.96	960,000.00
Trademark expenses	3,900,000.00	3,250,000.00
Others	57,868,951.27	47,378,545.19
	1,318,679,764.89	1,127,449,493.23

(d) As at 31 December 2015 and 31 December 2014, significant other payables whose aging are over 1 year mainly include unsettled balance for purchase of fixed assets and intangible assets, and purchase deposit.

(30) Long-term borrowings

(a) Classification of long-term borrowings:

	31 December 2015	31 December 2014
Category of borrowings		
Credit borrowings	39,755,174.34	–

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

Notes to the Financial Statement

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(31) Long-term payables

	31 December 2015	31 December 2014
State fund	18,720,803.57	18,864,953.57
Department of Finance of Guangxi Zhuang Autonomous Region	2,264,426.47	2,264,426.47
State Pharmaceutical Administration	305,000.00	305,000.00
Others	929,669.30	927,427.36
	22,219,899.34	22,361,807.40

(32) Payables for specific projects

	31 December 2014	Current increase	Current decrease	31 December 2015	Reason
Compensation of relocation due to policies	19,058,160.00	-	-	19,058,160.00	Compensation of relocation due to policies

Notes to the Financial Statement

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(33) Provisions

	31 December 2015	31 December 2014	Reason
Provisions of rejection on goods	500,191.19	500,191.19	Estimated by the disposal assets agreement, both parties have not yet settled.
Employee benefits from restructuring of Guangyao General Institute	53,281,575.59	54,226,778.00	Note 1
Unemployed fee for relocation of Qi Xing Pharmaceutical	10,380,767.54	–	Note 2
	64,162,534.32	54,726,969.19	

Note 1: The Company obtained 100% of stock right of Guangyao General Institute through business combination involving enterprises under common control in year of 2015. According to the employee resettlement scheme, when Guangyao General Institute was being restructured, Guangyao General Institute remain to offer pension and medical benefits for the retirees, in-service staff, family members and dependants who are enrolled as at 30 June 2014, and employee benefits are estimated consequently.

Note 2: According to the employee resettlement scheme arising from the relocation of Qi Xing Pharmaceutical, for the employee who has serviced for 15 years but has less than 5 years to the age at statutory retirement, if the relocation of Qi Xing Pharmaceutical was completed, these employee would await job assignment when they have no position, they would receive salary monthly until retirement, and this unemployed fee for relocation of Qi Xing Pharmaceutical are estimated consequently.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)
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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(34) Deferred income

Item	31 December 2014	Current increase of grants	Current revenue from non-operation	For cooperation	Other movement	31 December 2015	Reason
Government grants related to assets:	81,181,413.33	40,773,333.79	23,291,233.17	-	(188.13)	98,663,325.82	
Including:							
Technology funds granted by government	38,786,623.12	34,041,000.00	14,497,578.61	-	-	58,330,044.51	Received appropriation from government
Relocation compensation	5,001,420.90	3,946,704.60	4,312,349.04	-	(172,800.00)	4,462,976.46	Received appropriation from government
Financial discount	1,880,819.19	-	71,866.92	-	-	1,808,952.27	Received appropriation from government
Special fund of environmental protection	4,666,636.76	296,000.00	1,099,009.39	-	172,800.00	4,036,427.37	Received appropriation from government
Innovating platform construction	17,679,618.02	-	2,666,775.24	-	-	15,012,842.78	Received appropriation from government
Special fund of environmental protection	10,279,078.30	11,441.06	40,477.94	-	-	10,250,041.42	Received appropriation from government
Others	2,887,217.04	2,478,188.13	603,176.03	-	(188.13)	4,762,041.01	Received appropriation from government
Government grants related to income:	72,960,492.99	177,102,542.36	152,399,716.64	12,240,600.00	(498,185.70)	84,924,533.01	
Including:							
Technology funds granted by government	58,946,242.11	33,772,548.06	20,358,469.02	11,932,600.00	-	60,427,721.15	Received appropriation from government
Special fund of technology exports	208,295.39	-	56,666.67	-	-	151,628.72	Received appropriation from government
Medical industrial research project	10,459,261.24	8,512,400.00	6,335,011.24	308,000.00	(498,185.70)	11,830,464.30	Received appropriation from government
Special fund of energy-saving improvement	721,350.00	-	12,600.00	-	-	708,750.00	Received appropriation from government
Special fund of innovative firms	11,610.52	-	3,899.76	-	-	7,710.76	Received appropriation from government
Compensation of relocation	-	131,450,474.30	123,190,448.92	-	-	8,260,025.38	Received appropriation from government
Others	2,613,733.73	3,367,120.00	2,442,621.03	-	-	3,538,232.70	Received appropriation from government
Total	154,141,906.32	217,875,876.15	175,690,949.81	12,240,600.00	(498,373.83)	183,587,858.83	

(35) Long-term employee benefits payable

Item	31 December 2015	31 December 2014
Post-employment benefits-Provision for long-term service bonus	296,646.40	296,382.47

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(36) Share Capital

	31 December 2014		Current increase (+)/decrease(-)					31 December 2015	
	Amount	% of the total balance	Issued shares	Stock distribution	Capitalizing of capital reserves	Others	Subtotal	Amount	Ratio (%)
Shares subject to selling restrictions-									
State-owned shares	-	-	-	-	-	-	-	-	-
State-owned legal person shares	34,839,645.00	2.70	-	-	-	-	-	34,839,645.00	2.70
Other domestic shares	-	-	-	-	-	-	-	-	-
Including:									
Domestic non-state-owned legal person shares	-	-	-	-	-	-	-	-	-
Domestic natural person shares	-	-	-	-	-	-	-	-	-
Foreign shares	-	-	-	-	-	-	-	-	-
Including:									
Foreign legal person shares	-	-	-	-	-	-	-	-	-
Foreign natural person shares	-	-	-	-	-	-	-	-	-
Shares subject to selling restrictions - subtotal	34,839,645.00	2.70	-	-	-	-	-	34,839,645.00	2.70
Shares subject to no selling restrictions:									
RMB ordinary shares	1,036,601,005.00	80.27	-	-	-	(261,400.00)	(261,400.00)	1,036,339,605.00	80.27
Foreign shares listed in the PRC	-	-	-	-	-	-	-	-	-
Foreign shares listed out of the PRC	219,900,000.00	17.03	-	-	-	-	-	219,900,000.00	17.03
Others	-	-	-	-	-	-	-	-	-
Shares subject to no selling restrictions - subtotal	1,256,501,005.00	97.30	-	-	-	(261,400.00)	(261,400.00)	1,256,239,605.00	97.30
Total share capital	1,291,340,650.00	100.00	-	-	-	(261,400.00)	(261,400.00)	1,291,079,250.00	100.00

Pursuant to Indemnification Agreement in Respect of the Difference Between Actual Number of Net Income of Assets to be Purchased and Forecast of Net Income > entered into the Company and GPLH, the Company directly repurchased 261,400 A shares held by GPLH for RMB 1, and cancelled it on 27 April 2015. The procedure of repurchase and cancellation was completed on 7 May 2015. After the completion, general capital of the Company is 1,291,079,250 shares.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(36) Share Capital (Continued)

	31 December 2013		Current increase (+)/decrease(-)					31 December 2014	
	Amount	% of the total balance	Issued shares	Stock distribution	Capitalizing of capital reserves	Others	Subtotal	Amount	Ratio (%)
Shares subject to selling restrictions-									
State-owned shares	-	-	-	-	-	-	-	-	-
State-owned legal person shares	34,839,645.00	2.70	-	-	-	-	-	34,839,645.00	2.70
Other domestic shares	-	-	-	-	-	-	-	-	-
Including:									
Domestic non-state-owned legal person shares	-	-	-	-	-	-	-	-	-
Domestic natural person shares	-	-	-	-	-	-	-	-	-
Foreign shares	-	-	-	-	-	-	-	-	-
Including:									
Foreign legal person shares	-	-	-	-	-	-	-	-	-
Foreign natural person shares	-	-	-	-	-	-	-	-	-
Shares subject to selling restrictions- subtotal	34,839,645.00	2.70	-	-	-	-	-	34,839,645.00	2.70
Shares subject to no selling restrictions:									
RMB ordinary shares	1,036,601,005.00	80.27	-	-	-	-	-	1,036,601,005.00	80.27
Foreign shares listed in the PRC	-	-	-	-	-	-	-	-	-
Foreign shares listed out of the PRC	219,900,000.00	17.03	-	-	-	-	-	219,900,000.00	17.03
Others	-	-	-	-	-	-	-	-	-
Shares subject to no selling restrictions - subtotal	1,256,501,005.00	97.30	-	-	-	-	-	1,256,501,005.00	97.30
Total share capital	1,291,340,650.00	100.00	-	-	-	-	-	1,291,340,650.00	100.00

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(37) Capital surplus

	31 December 2014	Current increase	Current decrease	31 December 2015
Share premium	1,709,943,033.90	261,399.00	180,575,717.81	1,529,628,715.09
Other capital surplus	816,695,796.21	110,597.34	-	816,806,393.55
Including: Transfer of capital surplus recognized under the previous accounting system	24,955,836.66	-	-	24,955,836.66
	<u>2,526,638,830.11</u>	<u>371,996.34</u>	<u>180,575,717.81</u>	<u>2,346,435,108.64</u>
	31 December 2013	Current increase	Current decrease	31 December 2014
Share premium	1,709,943,033.90	-	-	1,709,943,033.90
Other capital surplus	817,322,612.27	398,289.20	1,025,105.26	816,695,796.21
Including: Transfer of capital surplus recognized under the previous accounting system	24,955,836.66	-	-	24,955,836.66
	<u>2,527,265,646.17</u>	<u>398,289.20</u>	<u>1,025,105.26</u>	<u>2,526,638,830.11</u>

The fluctuation of the capital surplus at current period was due to:

- (a) The Company directly repurchased 261,400 A shares held by GPLH for RMB1, and cancelled it on 27 April 2015, capital surplus increase RMB261 thousand.
- (b) As the capital surplus of GP Corp., a joint venture of the Company, increased at current period, the Group recognized the increase in capital surplus amounted to RMB111 thousand based on its ratio of shareholding in GP Corp. accordingly.
- (c) Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, purchased 25% equity interest of Qi Xing Pharmaceutical from its minority shareholders. The difference between net assets of the purchased equity interest and the purchase price decreased capital surplus amounted to RMB20,378 thousand.
- (d) The Company purchased Guangyao General Institute, an enterprise under common control by GPLH, which amounted to RMB160,198 thousand, as on the date of purchase, the amount of net assets of Guangyao General Institute was a minus, decreased capital surplus amounted to RMB160,198 thousand.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)
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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(38) Other comprehensive income

Item	Current amount							Ending balance
	Opening balance	Current pre-tax	Less: profit or loss transferred by other comprehensive income at last period	Less: income tax	After-tax attributable to parent company	After-tax attributable to minority shareholders		
1. Items will not be classified into profit or loss at following accounting period	1,448,181.81	-	-	-	-	-	1,448,181.81	
Including: Portion of items will not be classified into profit or loss when under equity method	1,448,181.81	-	-	-	-	-	1,448,181.81	
2. Items will be classified into profit or loss at following accounting period.	10,452,507.87	(13,242,885.45)	-	(607,350.56)	(12,633,367.87)	(2,167.02)	(2,180,860.00)	
Including: Portion of items will be classified into profit or loss when under equity method	323,022.41	91,910.16	-	-	91,910.16	-	414,932.57	
Profit or loss arising from the changes in fair value of available for sale financial assets	17,699,971.75	(13,331,644.52)	-	(607,350.56)	(12,722,126.94)	(2,167.02)	4,977,844.81	
Differences arising from translation of foreign currency	(7,570,486.29)	(3,151.09)	-	-	(3,151.09)	-	(7,573,637.38)	
Total other comprehensive income	11,900,689.68	(13,242,885.45)	-	(607,350.56)	(12,633,367.87)	(2,167.02)	(732,678.19)	

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(39) Surplus reserve

	31 December 2014	Current increase	Current decrease	31 December 2015
Statutory surplus reserve	696,561,588.89	115,035,055.98	–	811,596,644.87
Discretionary surplus reserve	118,925,617.49	–	–	118,925,617.49
	<u>815,487,206.38</u>	<u>115,035,055.98</u>	<u>–</u>	<u>930,522,262.36</u>

	31 December 2013	Current increase	Current decrease	31 December 2014
Statutory surplus reserve	604,894,136.27	91,667,452.62	–	696,561,588.89
Discretionary surplus reserve	118,925,617.49	–	–	118,925,617.49
	<u>723,819,753.76</u>	<u>91,667,452.62</u>	<u>–</u>	<u>815,487,206.38</u>

Pursuant to the Company Law and the Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated up to 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the share capital after approval from the relevant authorities.

The appropriation of discretionary surplus reserve should be proposed by the Board and approved by the general meeting of shareholders. The discretionary surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities.

Notes to the Financial Statement

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(40) Undistributed profits

	The year ended 31 December 2015	The year ended 31 December 2014
Undistributed profits at the beginning of the year (before adjustments)	3,059,769,635.87	2,330,514,583.35
Adjustments of undistributed profits at the beginning of the year (Add: positive; Less: negative)	–	(76,210,418.60)
Undistributed profits at the beginning of the year (after adjustments)	3,059,769,635.87	2,254,304,164.75
Add: Net profit for current period	1,300,351,292.59	1,194,141,273.24
Less: Appropriation for surplus reserve	115,035,055.98	91,667,452.62
Less: Distributed dividends	361,575,382.00	297,008,349.50
Less: Others	–	–
Undistributed profits at the end of period	3,883,510,490.48	3,059,769,635.87

- (a) As at 31 December 2015, surplus reserves of the Company's subsidiaries amounted to RMB462,235 thousand and was included in undistributed profits (as at 31 December 2014: RMB399,806 thousand).
- (b) Pursuant to the resolution of 2014 annual general meeting on 26 June 2015, the Group distributed cash dividends amounted to RMB361,575 thousand which was calculated by issued shares amounted to 1,291,340,650 to all shareholders, total distributed cash dividends was RMB0.28 per share.
- (c) Reason for adjusting the beginning undistributed profits: the scope of combination changed due to business combination involving enterprises under common control, the beginning undistributed profits as at 31 December 2014 amounted to RMB(76,210,418.60).

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(41) Minority interests

Investee	Investment relationship with the Company	31 December 2015	31 December 2014
Xing Qun	Direct subsidiary	22,256,243.19	19,856,971.34
Guangzhou Han Fang	Direct subsidiary	67,649.58	62,601.24
Jing Xiu Tang	Direct subsidiary	17,220,844.13	16,935,841.46
Pan Gao Shou	Direct subsidiary	23,483,406.94	23,806,048.91
Tibet Lin Zhi Guangyao Development Co., Ltd.	Indirect subsidiary	169,403.78	244,339.97
Guangxi Ying Kang	Direct subsidiary	14,998,338.75	13,826,706.07
Qi Xing Pharmaceutical	Indirect subsidiary	-	25,466,731.04
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd.	Indirect subsidiary	2,741,098.44	2,108,671.22
Guangzhou Guang Yao Yi Gan Biological Product Co., Ltd.	Direct subsidiary	657,724.77	1,173,822.47
Xing Zhou	Direct subsidiary	19,508,039.08	21,633,183.74
Chongqing Guangyao (Note 1)	Indirect subsidiary	-	582,502.86
Tian Xin	Direct subsidiary	32,649,180.15	31,178,090.86
Guang Hua	Direct subsidiary	17,942,964.91	15,884,900.44
Baiyunshan Pharmaceutical Technology	Direct subsidiary	52,997,602.26	26,934,821.24
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	192,548.90	158,843.68
Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	672,412.21	665,414.34
Jingyu Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	2,489,208.01	2,967,779.56
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	1,760,758.20	1,419,251.19
Heilongjiang Sen Gong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	1,236,217.03	1,192,413.52
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	1,121,224.76	800,000.00
Zhejiang Guang Kang Hospital Co., Ltd.	Indirect subsidiary	20,909,325.09	9,789,461.87
Guang Hua Health	Indirect subsidiary	44,525.44	169,180.05
		233,118,715.62	216,857,577.07

Note 1: Chongqing Guangyao Chinese Herb Development Co., Ltd. which is held by Pan Gao Shou Pharmaceutical and Cai Zhi Lin Pharmaceutical, entered into liquidation in February 2015, and was cancelled in May 2015.

Notes to the Financial Statement

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(42) Revenue and cost of operation

	The year ended 31 December 2015		
	Principal operation	Other operation	Subtotal
Revenue	18,966,491,916.90	158,166,382.00	19,124,658,298.90
Cost of operation	12,165,563,069.12	34,936,980.80	12,200,500,049.92
Gross profit	6,800,928,847.78	123,229,401.20	6,924,158,248.98

	The year ended 31 December 2014		
	Principal operation	Other operation	Subtotal
Revenue	18,627,321,779.49	190,910,207.24	18,818,231,986.73
Cost of operation	12,147,803,116.81	37,861,758.93	12,185,664,875.74
Gross profit	6,479,518,662.68	153,048,448.31	6,632,567,110.99

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

	Revenue of principal operation		Cost of principal operation	
	The year ended 31 December 2015	The year ended 31 December 2014	The year ended 31 December 2015	The year ended 31 December 2014
Great Southern TCM	6,759,160,340.15	6,814,595,553.41	3,746,800,084.10	3,939,445,266.76
Great Health	7,768,457,533.80	7,095,713,428.53	4,318,442,180.75	3,854,046,445.52
Great Commerce	4,438,327,304.45	4,715,467,505.02	4,099,880,503.04	4,353,052,230.58
Other	546,738.50	1,545,292.53	440,301.23	1,259,173.95
	18,966,491,916.90	18,627,321,779.49	12,165,563,069.12	12,147,803,116.81

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(42) Revenue and cost of operation (Continued)

(b) Revenue and cost of principal operation by regions are summarised as follows:

	Revenue of principal operation		Cost of principal operation	
	The year ended 31 December 2015	The year ended 31 December 2014	The year ended 31 December 2015	The year ended 31 December 2014
Southern China	9,877,335,599.92	10,036,555,629.61	6,650,628,385.04	6,922,738,021.08
Eastern China	3,705,871,031.73	3,396,065,436.43	2,289,384,676.90	1,925,959,786.62
Northern China	2,408,726,759.44	2,096,737,457.37	1,342,841,403.48	1,231,352,222.77
Northeastern China	294,498,111.13	245,162,595.47	180,234,306.25	135,761,686.78
Southwestern China	1,993,506,821.76	1,634,989,143.88	1,239,776,071.14	1,017,271,302.82
Northwestern China	487,747,009.64	606,514,204.44	272,580,684.77	350,637,615.55
Other countries	198,806,583.28	611,297,312.29	190,117,541.54	564,082,481.19
	18,966,491,916.90	18,627,321,779.49	12,165,563,069.12	12,147,803,116.81

(c) Top five of the revenue of the Group amounted to RMB2,047,539 thousand in total (for the year ended 31 December 2014: RMB1,637,453 thousand), which accounts for 10.80% of the total revenue of the Group (for the year ended 31 December 2014: 8.79%).

	Revenue of the principal operation	Percentage of the total revenue of the principal operation of the Group
Customer 1	677,692,308.03	3.57%
Customer 2	472,107,564.70	2.49%
Customer 3	441,333,650.86	2.33%
Customer 4	247,536,118.91	1.31%
Customer 5	208,869,571.73	1.10%
	2,047,539,214.23	10.80%

Notes to the Financial Statement

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(42) Revenue and cost of operation *(Continued)*

(d) Revenue from other operation

	The year ended 31 December 2015	The year ended 31 December 2014
Leases of assets	81,161,897.13	97,831,832.32
Sales of materials	833,159.35	3,368,924.03
Trademark fee income	14,702,434.23	32,277,404.18
Consulting fee income	2,563,712.33	1,259,548.47
Medicine slotting fee income	526,985.32	–
Technology services income	2,499,774.23	720,272.12
Utilities expense collected on behalf	9,652,092.62	11,875,668.05
Management fee	7,325,833.32	6,398,798.38
Labor income	658,937.03	1,396,093.83
License fee	25,767,301.80	24,902,394.59
Others	12,474,254.64	10,879,271.27
	158,166,382.00	190,910,207.24

(e) Expenses from other operation

	The year ended 31 December 2015	The year ended 31 December 2014
Depreciation of assets leased out	18,487,040.17	18,575,435.57
Cost of materials sold	93,407.50	1,962,613.69
Service fee for technology	1,405,905.15	51,960.25
Utilities expense collected on behalf	9,446,175.56	12,263,397.57
Labor fee	658,937.03	1,209,983.07
Management fee	88,815.24	67,773.24
Others	4,756,700.15	3,730,595.54
	34,936,980.80	37,861,758.93

Notes to the Financial Statement

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(43) Taxes and surcharges

	The year ended 31 December 2015	The year ended 31 December 2014
Business tax	8,852,723.22	9,345,724.22
City maintenance and construction tax	89,216,901.46	79,756,497.85
Education surcharge	38,346,793.45	34,853,406.52
Local education surcharge	25,564,937.28	22,390,523.51
Real-estate tax	7,552,813.37	9,365,748.13
Others	93,621.49	20,474.19
	169,627,790.27	155,732,374.42

Basis of calculation: refer to Note 4

(44) Selling and distribution expenses

	The year ended 31 December 2015	The year ended 31 December 2014
Employee benefit	1,659,841,809.77	1,608,513,759.65
Sales service fee	742,156,491.01	173,249,231.26
Transportation expenses	149,920,116.75	124,225,659.01
Office expenses	15,791,301.08	18,877,326.09
Freight and miscellaneous charges	392,178,783.54	428,196,613.00
Rental expenses	21,998,624.70	28,168,101.40
Conference expenses	43,386,750.88	50,519,541.15
Advertising and promotion fees	1,095,958,515.03	1,463,603,277.95
Consulting fees	4,661,909.20	19,899,491.37
Depreciation charges	3,059,459.49	2,853,989.17
Others	38,727,140.09	24,696,588.54
	4,167,680,901.54	3,942,803,578.59

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)
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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(45) General and administrative expenses

	The year ended 31 December 2015	The year ended 31 December 2014
Employee benefit	594,786,018.40	561,614,830.73
Insurance premium	2,713,969.32	2,332,155.34
Depreciation charges	46,376,642.23	49,531,228.38
Utilities	10,985,466.63	10,480,828.76
Administrative expenses	34,960,857.08	29,344,437.15
Travelling expenses	16,217,856.05	15,370,657.49
Freight and miscellaneous charges	16,126,321.39	14,689,611.89
Repairing expenses	17,060,115.97	18,992,508.05
Rental expenses	28,827,677.22	24,585,143.69
Conference expenses	4,890,356.30	5,965,277.01
Research and development expenses	313,848,003.38	293,495,924.34
Taxation charges	44,336,437.69	52,388,161.67
Amortization	26,883,307.61	21,072,502.25
Professional service fees	10,961,185.86	12,228,721.75
Including: Audit fees	2,393,000.00	2,313,000.00
Consulting fees	13,880,780.01	5,965,426.88
Trademark License fees	91,178,552.35	87,307,418.16
Others	100,772,138.32	86,166,842.68
	1,374,805,685.81	1,291,531,676.22

(46) Financial expenses

	The year ended 31 December 2015	The year ended 31 December 2014
Interest expenses	32,088,902.33	29,641,763.89
Discount interest expenses of notes	8,625,817.84	8,475,661.53
Interest income	(65,045,905.93)	(39,587,448.04)
Exchange (gains)/losses	(825,518.56)	(205,731.51)
Bank charges	3,218,879.30	3,193,940.42
Cash discounts	-	(124,231.10)
	(21,937,825.02)	1,393,955.19

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(47) Losses for impairment of assets

	The year ended 31 December 2015	The year ended 31 December 2014
Losses for bad debts	27,829,137.82	25,644,928.65
Losses for declines in values of inventories	8,483,732.80	31,581,129.25
Losses for impairment of fixed assets	–	3,973,006.92
	36,312,870.62	61,199,064.82

(48) Profit arising from changes in fair value

	The year ended 31 December 2015	The year ended 31 December 2014
Gains arising from changes in fair value of listed shares of Zhongzhi	873,509.10	585,615.30
Gains arising from changes in fair value of listed shares of Harbin Pharmaceutical Group Co., Ltd. held by the Group	940,257.50	737,740.50
	1,813,766.60	1,323,355.80

Notes to the Financial Statement

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(49) Investment income

(a) Details of investment incomes:

	The year ended 31 December 2015	The year ended 31 December 2014
Investment income from financial assets:		
Investment income in the period of holding of financial assets at fair value through to profit or loss	297,403.40	26,609.78
Investment income in the period of holding of available-for-sale financial assets	5,445,140.70	5,669,660.20
Investment income from the period of holding held-to maturity investments	–	18,169.87
Gain or loss of entrusted loans	(1,743,226.44)	(1,048,049.14)
	3,999,317.66	4,666,390.71
Income from long-term equity investment:		
Income from long-term equity investments recognized by equity method	206,845,139.58	156,172,120.15
Income from disposal of long-term equity investments	8,499.86	162,851.16
	206,853,639.44	156,334,971.31
	210,852,957.10	161,001,362.02

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(50) Non-operating income

	The year ended 31 December 2015	The year ended 31 December 2014
Gains on disposal of non-current assets	698,961.19	258,591.74
Including: Gains on disposal of fixed assets	698,961.19	258,591.74
Government grants	307,220,284.09	185,775,224.03
Penalty income	440,493.09	122,411.19
Sales of scraps	3,979,713.19	4,517,677.39
Waived funds	3,276,004.02	3,348,575.25
Indemnity income	8,198,762.19	4,337,671.21
Expatriates benefits	3,336,719.64	19,134.72
Others	4,047,640.92	5,738,840.67
	331,198,578.33	204,118,126.20

Notes to the Financial Statement

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(50) Non-operating income *(Continued)*

Details of government grants are as below:

Item	The year ended 31 December 2015	The year ended 31 December 2014
Government grants related to assets:		
Including:		
Technology funds granted from government	14,497,578.61	5,796,729.58
Compensation for relocation	4,312,349.04	365,644.44
Financial discount	71,866.92	246,684.92
Specific funds of environmental protection	1,099,009.39	976,372.38
Innovating platform construction	2,666,775.24	4,286,568.49
Government grants for land	40,477.94	174,221.70
Others	603,176.03	957,083.92
	23,291,233.17	12,803,305.43
Government grants related to income:		
Including:		
Technology funds granted from government	20,934,469.02	25,454,330.29
Special funds of technology export	56,666.67	123,503.34
Special funds for project of medical industrial research	6,335,011.24	16,610,330.27
Special funds of reconstruction for energy saving	12,600.00	116,600.00
Special funds of innovating enterprises	3,899.76	1,898,267.69
Compensation of relocation	129,757,696.78	97,239,616.35
Special funds for "Enterprises Development"	117,560,000.00	26,330,000.00
Financial grants for comprehensive pilot of modern service	-	3,000,000.00
Others	9,268,707.45	2,199,270.66
	283,929,050.92	172,971,918.60
Total	307,220,284.09	185,775,224.03

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(51) Non-operating expenses

	The year ended 31 December 2015	The year ended 31 December 2014
Losses on disposal of non-current assets	1,992,658.12	9,197,692.83
Including: Losses on disposal of fixed assets	1,992,658.12	9,197,692.83
Losses of restructuring liabilities	–	1,909,326.63
Public welfare donations	3,905,071.54	8,265,966.20
Relocation	104,533,862.62	56,912,031.19
Penalty and overdue fines	1,938,298.14	379,900.01
Reward of family planning	720,691.42	887,824.75
Other	321,472.35	735,181.45
	113,412,054.19	78,287,923.06

(52) Income tax expenses

	The year ended 31 December 2015	The year ended 31 December 2014
Current income tax	268,720,343.83	309,523,166.18
Deferred income tax	14,114,757.58	(52,989,816.17)
	282,835,101.41	256,533,350.01

Notes to the Financial Statement

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(52) Income tax expenses *(Continued)*

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	The year ended 31 December 2015	The year ended 31 December 2014
Total profit	1,628,122,073.60	1,468,061,382.71
Income tax expenses calculated at 25%	407,030,518.40	367,015,345.68
Tax effect of different rates applicable to subsidiaries	(99,445,526.71)	(82,354,266.23)
Adjust effect for income tax of previous period	(2,578,259.68)	(141,464.84)
Gain or loss belong to associates & joint venture	(32,624,742.09)	(30,800,503.75)
Non-taxable revenue	(1,723,504.36)	(2,495,764.97)
Expenses not deductible for tax purposes	7,264,809.04	7,601,224.86
Effect for the balance of deferred income tax in initial stage of changes on tax rate	–	(4,272,184.96)
Tax effect of deductible temporary differences & deductible loss which are not recognized in current period	7,023,747.80	7,312,942.82
Tax effect of unrecognized deferred income tax assets	(2,111,940.99)	(5,331,978.60)
Income tax expenses	282,835,101.41	256,533,350.01

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(53) Earnings per share

(a) Basic earnings per share

(i) Weighted average basic earnings per share

Weighted average basic earnings per share is calculated by dividing consolidated net profit for the current year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding:

	The year ended 31 December 2015	The year ended 31 December 2014
Consolidated net profit attributable to ordinary shareholders of the Company	1,300,351,292.59	1,194,141,273.24
Weighted average number of ordinary shares outstanding:	1,291,188,166.67	1,291,340,650.00
Weighted average basic earnings per share	1.007	0.925

(ii) Overall diluted basic earnings per share

Overall diluted basic earnings per share is calculated by dividing consolidated net profit for the current year attributable to ordinary shareholders of the Company by the number of ordinary shares outstanding:

	The year ended 31 December 2015	The year ended 31 December 2014
Consolidated net profit attributable to ordinary shareholders of the Company	1,300,351,292.59	1,194,141,273.24
Number of ordinary shares outstanding:	1,291,079,250.00	1,291,340,650.00
Overall diluted basic earnings per share	1.007	0.925

Notes to the Financial Statement

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(53) Earnings per share *(Continued)*

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing adjusted consolidated net profit for the current year attributable to ordinary shareholders by the adjusted weighted average number of ordinary shares outstanding. For the year ended 31 December 2015, there were no potential ordinary shares (For the year ended 31 December 2014: nil), diluted earnings per share is equal to basic earnings per share.

(54) Notes to the cash flow statement

(a) Cash received relating to other operating activities:

	The year ended 31 December 2015	The year ended 31 December 2014
Non-operating income	20,003,329.03	13,727,695.84
Other operation income	158,166,382.00	192,671,898.18
Government grants	349,405,210.43	187,276,208.08
Interest income	65,045,905.93	35,040,820.51
Received guarantee and others	18,219,614.12	38,764,365.87
	610,840,441.51	467,480,988.48

(b) Cash paid relating to other operating activities:

	The year ended 31 December 2015	The year ended 31 December 2014
Cash payments of selling and distribution expenses	2,066,872,950.32	1,874,773,445.18
Cash payments of general and administrative expenses	482,061,268.89	469,684,709.69
Financial expenses – bank charges	3,218,879.30	3,193,940.42
Others	164,419,090.97	173,184,425.58
	2,716,572,189.48	2,520,836,520.87

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(54) Notes to the cash flow statement *(Continued)*

(c) Cash received relating to other investing activities:

	The year ended 31 December 2015	The year ended 31 December 2014
Net cash received from acquire investments	8,512,691.75	–
Interest received from securities accounts	12,017.88	5,830.38
	8,524,709.63	5,830.38

(d) Cash paid relating to other investing activities:

	The year ended 31 December 2015	The year ended 31 December 2014
Business tax and additional tax for payment of entrusted loans and interests of internal borrowings	3,300,299.19	–
Performance bond	2,703,162.47	–
Tax expenses arising from the interest income of entrusted loans	545,066.67	3,106,967.19
	6,548,528.33	3,106,967.19

Notes to the Financial Statement

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(54) Notes to the cash flow statement *(Continued)*

(e) Cash paid relating to other financing activities:

	The year ended 31 December 2015	The year ended 31 December 2014
Repurchasing for share	1.00	–
Poundage of borrowings	335,993.11	563,819.65
Liquidation fee paid for minority shareholders	557,396.33	–
Withholding tax paid for overseas financing	7,548,766.40	–
Non-public issuance	764,670.71	340,043.21
	<hr/> 9,206,827.55 <hr/>	<hr/> 903,862.86 <hr/>

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(55) Supplementary information of cash flow statements

(a) Supplementary information of cash flow statements

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

	The year ended 31 December 2015	The year ended 31 December 2014
Net profit	1,345,286,972.19	1,211,528,032.70
Add: Provision for assets impairment	36,312,870.62	61,199,064.82
Depreciation of fixed assets, and depreciation and amortization of Investment properties	203,601,689.32	185,289,540.16
Amortization of intangible assets	14,302,515.12	11,639,363.66
Amortization of long-term prepaid expenses	5,965,195.38	5,371,583.33
Loss (less: gain) on disposal of fixed assets, intangible assets and other long-term assets	1,293,696.93	1,515,484.86
Loss on scrapping of fixed assets	–	7,423,616.23
Loss (less: gain) on changes in fair value	(1,813,766.60)	(1,323,355.80)
Financial expenses	41,143,646.16	24,750,439.20
Investment gain	(210,852,957.10)	(161,001,362.02)
Decrease (less: increase) in deferred tax assets	(56,918.00)	(62,768,819.40)
Increase (less: decrease) in deferred tax liabilities	14,171,675.58	9,779,003.23
Decrease in inventories (less: increase)	28,907,105.46	(362,373,286.32)
Decrease of operating receivables (less: increase)	(32,009,873.26)	(21,280,430.75)
Increase of operating payables	495,704,645.45	841,940,680.98
Others	–	–
Net cash flows from operating activities	1,941,956,497.25	1,751,689,554.88

Notes to the Financial Statement

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(55) Supplementary information of cash flow statements *(Continued)*

(a) Supplementary information of cash flow statements *(Continued)*

(ii) *Investing and financing activities that do not involve cash receipts and payments:*

	The year ended 31 December 2015	The year ended 31 December 2014
Conversion of debt into capital Convertible company bonds due within one year	–	–
	–	–
Fixed assets held under finance leases	–	–

(iii) *Net movement in cash and cash equivalents*

	The year ended 31 December 2015	The year ended 31 December 2014
Cash at the end of period	3,837,603,553.98	3,049,528,750.47
Less: Cash at the beginning of year	3,049,528,750.47	1,952,053,678.69
Add: Cash equivalents at end of the period	–	–
Less: Cash equivalents at beginning of the year	–	–
Net movement in cash and cash equivalents	788,074,803.51	1,097,475,071.78

The cash and cash equivalents do not include housing fund amounted to RMB583 thousand, deposit of letter of guarantee amounted to RMB300 thousand, deposit of direct commerce enterprise amounted to RMB270 thousand, security deposit for bank payable notes amounted to RMB77,309 thousand, blocked account amounted to RMB202,225 thousand.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(55) Supplementary information of cash flow statements *(Continued)*

(b) Details of cash and cash equivalents:

	31 December 2015	31 December 2014
Cash	3,837,603,553.98	3,049,528,750.47
Including: Cash on hand	637,187.57	739,550.33
Bank deposits that are readily available for payment	3,831,098,568.48	3,044,796,675.90
Other cash that are readily available for payment	5,867,797.93	3,992,524.24
Cash equivalents	–	–
Total cash and cash equivalent	3,837,603,553.98	3,049,528,750.47
Including: Cash and cash equivalents that are restricted	–	–
	31 December 2015	31 December 2014
Balance of cash at bank and on hand	4,118,291,426.52	3,201,280,198.61
Less: Balance of cash at bank and on hand that are restricted to use	280,687,872.54	151,751,448.14
Balance of cash and cash equivalents	3,837,603,553.98	3,049,528,750.47

(56) Assets that restricted for ownership or use right

	31 December 2015	31 December 2014
Cash at bank and on hand	280,687,872.54	151,751,448.14

Notes to the Financial Statement

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(57) Monetary items denominated in foreign currency

(a) Monetary items denominated in foreign currency

	Ending balance	Conversion rate Balance	Converted to RMB
Cash at bank and on hand			26,029,298.27
Including: USD	1,022,672.15	6.4936	6,640,823.87
HKD	22,272,547.81	0.8378	18,659,495.10
JPY	13,530,938.28	0.0539	728,979.30
Other receivable			21,983.67
Including: HKD	26,240.39	0.8378	21,983.67
Accounts receivable			4,286,557.82
Including: USD	474,042.15	6.4936	3,078,240.11
HKD	1,442,285.22	0.8378	1,208,317.71
Other payable			2,825,464.82
Including: HKD	3,372,561.79	0.8378	2,825,464.82
Accounts payable			859,245.58
Including: USD	132,321.91	6.4936	859,245.58
Advances from customers			82,711.45
Including: USD	12,737.38	6.4936	82,711.45
Long-term borrowings			39,755,174.34
Including: HKD	47,453,000.00	0.8378	39,755,174.34

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

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6. CHANGES IN SCOPE OF CONSOLIDATION

(1) Business combination involving enterprises not under common control

(a) Details of business combination involving enterprises not under common control:

Acquiree	Time of acquiring equity	Cost of acquiring equity	Ratio of acquiring equity (%)	Mode of acquiring equity	Acquisition date	Determination basis of acquisition date	Income of acquiree from acquisition date to the end of period	Net profit of acquiree from acquisition date to the end of period
Guangyao Haima	January 2015	7,000,000.00	100.00	Acquisition	January 2015	Transfer of corporate control	565,003,499.91	1,289,922.99

(b) Cost of consolidation and goodwill

Cost of consolidation

--- Cash	7,000,000.00
Total cost of consolidation	7,000,000.00
Less: proportion of fair value of obtained identifiable net assets	4,717,047.82
Goodwill	2,282,952.18

The fair value of cost of consolidation is recognized by appraisal report (ZHPBZ(2014) No. GZV1004) which was issued by Zhong He Assets Appraisal Co., Ltd.

Notes to the Financial Statement

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

6. CHANGES IN SCOPE OF CONSOLIDATION (Continued)

(1) Business combination involving enterprises not under common control (Continued)

(c) Identifiable assets and liabilities of acquired at acquisition date

	Guangyao Haima	
	Fair value at acquisition date	Book value at acquisition date
Assets:		
Cash at bank and on hand	8,512,691.75	8,512,691.75
Notes receivable	12,102,093.00	12,102,093.00
Receivable	30,758,189.85	30,758,189.85
Advance to supplier	25,241,310.22	25,241,310.22
Fixed assets	489,127.56	321,127.69
Intangible assets	21,276.41	10,077.97
Construction in progress	387,802.24	387,802.24
Liabilities:		
Payables	64,363,968.38	64,363,968.38
Advances for customers	7,081,175.97	7,081,175.97
Employee benefits payable	98,945.45	98,945.45
Taxes payable	1,251,165.28	1,251,165.28
Deferred income	188.13	188.13
Net assets	4,717,047.82	4,537,849.51
Less: minority interests	-	-
Obtained net assets	4,717,047.82	4,537,849.51

The fair value of identifiable assets and liabilities is recognized by appraisal report (ZHPBZ(2014)No. GZV1004) which was issued by Zhong He Assets Appraisal Co., Ltd.

There are no contingent liabilities of acquiree to assume in business combination.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6. CHANGES IN SCOPE OF CONSOLIDATION (Continued)

(2) Business combination involving enterprises under common control

(a) Business combination involving enterprises under common control at current period

Name of merged party	Equity ratio of business combination	Basis of business combination involving enterprises under common control	Merger date	Basis of merger date	Merged party's income from the beginning period of combination to merger date	Merged party's net profit from the beginning period of combination to merger date	Merged party's income during comparing period	Merged party's net profit during comparing period
Guangyao General Institute	100%	Controlled by the same parent company	2015.8.31	Transfer of control right to company	9,858,146.71	(372,567.56)	19,655,788.37	884,514.90

(b) Cost of business combination

Cost of business combination

– Cash 161,147,900.00

Notes to the Financial Statement

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

6. CHANGES IN SCOPE OF CONSOLIDATION *(Continued)*

(2) Business combination involving enterprises under common control *(Continued)*

(c) Book value of merged party's assets and liabilities on merger date

Item	Guangyao General Institute	
	Merger date	Last Ending amount
Assets:		
Cash at bank and on hand	15,442,150.89	20,392,665.76
Accounts receivable	1,887,267.70	5,128,922.70
Other receivable	77,987,513.79	516,448.33
Inventory	2,576,275.66	2,662,296.53
Other current assets	1,816.92	42,729.70
Available-for-sale financial assets	3,150,000.00	3,150,000.00
Investment properties	1,315,004.28	1,360,243.48
Fixed assets	20,488,021.06	21,802,435.72
Long-term prepaid expenses	3,875,311.82	4,213,782.54
Liabilities:		
Payables	85,637,454.25	13,848,543.78
Advances from customers	2,360,485.15	3,447,967.24
Deferred income	18,939,757.68	21,580,104.42
Provisions	53,644,043.68	54,226,778.00
Net assets	(33,858,378.64)	(33,833,868.68)
Less: minority interests	—	—
Obtained net assets	(33,858,378.64)	(33,833,868.68)

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6. CHANGES IN SCOPE OF CONSOLIDATION (Continued)

(3) Disposal of subsidiaries

(a) Details of once disposal for the ceased control arising from investment to subsidiaries:

Name of subsidiary	Amount of disposal for equity	Disposal ratio (%)	Mode of disposal	Time of control ceases	Recognition	Differences arising from between disposal amount and portion of net assets held by disposal investment for the range of consolidated financial statements	Ratio of the remaining equity	Book value of the remaining equity at the date of ceased control	Fair value of the remaining equity at the date of ceased control	Gain or loss arising from the remaining equity re-measured at fair value	Recognition and assumption for fair value	Profit or loss arising from transformation of other comprehensive income which is related to equity investment
Guangzhou Pan Gao Shou Food Beverage Co., Ltd.	-	87.77	liquidation	October 2015	cancelled	8,499.86	-	-	not applicable	not applicable	not applicable	-
Chongqing Guangyao Chinese Herb Development Co., Ltd.	-	100.00	liquidation	May 2015	cancelled	-	-	-	not applicable	not applicable	not applicable	-

Notes to the Financial Statement

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

6. CHANGES IN SCOPE OF CONSOLIDATION *(Continued)*

(4) Changes in scope of consolidation arising from other reasons:

The reasons for the addition of 6 companies in scope of consolidation comparing to the previous period are:

- (1) Baiyunshan Medical and Health, a subsidiary of the Company, established Tibet Linzhi Baiyunshan Tibetan Health Castle Management Co., Ltd. in January 2015 with registered capital of RMB35 million, and holds 100% equity interest.
- (2) Wang Lao Ji Great Health, a subsidiary of the Company, established Guangzhou Wang Lao Ji Industry Company in January 2015 with registered capital of RMB1 million, and holds 100% equity interest.
- (3) Wang Lao Ji Great Health, a subsidiary of the Company, established Wang Lao Ji Great Health Industry (Beijing) Sales Co., Ltd. in February 2015 with registered capital of RMB5 million, and holds 100% equity interest.
- (4) The Company established Guangzhou Baiyunshan pharmaceutical Sales Co., Ltd. in March 2015 with registered capital of RMB10 million, and holds 100% equity interest.
- (5) Wang Lao Ji Great Health, a subsidiary of the Company, established Guangzhou Wang Lao Ji Great Health Enterprise Development Co., Ltd. in April 2015 with registered capital of RMB10 million, and holds 100% equity interest.
- (6) Wang Lao Ji Great Health, a subsidiary of the Company, established Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd. in July 2015 with registered capital of RMB50 million, and holds 100% equity interest.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

7. EQUITY IN OTHER ENTITIES

(1) Equity in subsidiaries

(a) Details of the Group:

Name of subsidiary	Principal place of business	Registration place	Nature of business	Registered capital ('0000)	% equity interest held		% voting rights held		Acquisition method
					Direct	Indirect	Direct	Indirect	
Xing Qun	Guangzhou	Guangzhou	Pharmaceutical manufacturing	7,717.00	88.99		88.99		Establishment or Investment
Zhong Yi	Guangzhou	Guangzhou	Pharmaceutical manufacturing	21,741.00	100.00		100.00		Establishment or Investment
Chen Li Ji Pharmaceutical Factory	Guangzhou	Guangzhou	Pharmaceutical manufacturing	11,285.00	100.00		100.00		Establishment or Investment
Han Fang Pharmaceutical (1)	Guangzhou	Guangzhou	Pharmaceutical manufacturing	24,606.00	99.96		100.00		Establishment or Investment
Guangzhou Qi Xing. Pharmaceutical Factory Co.Ltd	Guangzhou	Guangzhou	Pharmaceutical manufacturing	8,242.00	100.00		100.00		Establishment or Investment
Jing Xiu Tang	Guangzhou	Guangzhou	Pharmaceutical manufacturing	8,623.00	88.40		88.40		Establishment or Investment
Pan Gao Shou	Guangzhou	Guangzhou	Pharmaceutical trading	6,544.00	87.77		87.77		Establishment or Investment
Cai Zhi Lin	Guangzhou	Guangzhou	Pharmaceutical trading	3,222.00	100.00		100.00		Establishment or Investment
Pharmaceutical Import & Export	Guangzhou	Guangzhou	Pharmaceutical manufacturing	2,400.00	100.00		100.00		Establishment or Investment
Guangzhou Bai Di	Guangzhou	Guangzhou	Food manufacturing	13,160.00	100.00		100.00		Establishment or Investment
Wang Lao Ji Great Health	Guangzhou	Guangzhou	Pharmaceutical manufacturing	10,000.00	100.00		100.00		Establishment or Investment
Guangzhou Guang Yao Yi Gan Biological Product Co.,Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	2,100.00	60.00		60.00		Establishment or Investment
Xing Zhou	Guangzhou	Guangzhou	Assets management, investment, management,	8,648.00	75.00		75.00		Establishment or Investment
Baiyunshan Medical and Health	Guangzhou	Guangzhou	Pharmaceutical trading	4,500.00	100.00		100.00		Establishment or Investment
Guangzhou Baiyunshan Chemical Medicine Technology Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	2,600.00	100.00		100.00		Establishment or Investment
Guangzhou Baiyunshan Pharmaceutical Sales CO.,Ltd	Guangzhou	Guangzhou	Pharmaceutical manufacturing	1,000.00	100.00		100.00		Establishment or Investment
Qi Xing Pharmaceutical	Guangzhou	Guangzhou	Pharmaceutical trading	10,000.00		100.00		100.00	Establishment or Investment
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd. (1)	Guangzhou	Guangzhou	Pharmaceutical manufacturing	300.00		45.08		51.00	Establishment or Investment
Guangzhou Pan Gao Shou Natural Healthcare Products Co., Ltd (1)	Guangzhou	Guangzhou	Pharmaceutical trading	1,400.00		87.77		100.00	Establishment or Investment

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7. EQUITY IN OTHER ENTITIES (Continued)

(1) Equity in subsidiaries (Continued)

(a) Details of the Group: (Continued)

Name of subsidiary	Principal place of business	Registration place	Nature of business	Registered capital ('0000)	% equity interest held		% voting rights held		Acquisition method
					Direct	Indirect	Direct	Indirect	
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	Guangzhou	Guangzhou	Pharmaceutical manufacturing	294.00		100.00		100.00	Establishment or Investment
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Guangzhou	Guangzhou	Pharmaceutical trading	2,000.00		100.00		100.00	Establishment or Investment
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	500.00		100.00		100.00	Establishment or Investment
Guangzhou Ao Ma Medical Apparatus Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	668.00		100.00		100.00	Establishment or Investment
Tibet Lin Zhi Guangyao Development Co., Ltd (1)	Linzi	Linzi	Pharmaceutical trading	200.00		54.82		55.00	Establishment or Investment
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Wulanchabu	Wulanchabu	Pharmaceutical trading	100.00		80.00		80.00	Establishment or Investment
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Linqi	Linqi	Pharmaceutical Trading	200.00		60.00		60.00	Establishment or Investment
Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd. (1)	Kaili	Kaili	Pharmaceutical trading	200.00		67.67		70.00	Establishment or Investment
Jingyuxian Dong E Guangyao Chinese Raw Medicine Development Co., Ltd (1)	Jingyu	Jingyu	Pharmaceutical trading	300.00		57.50		60.00	Establishment or Investment
Heilongjiang Sen Gong Guangyao Raw Medicine Development Co., Ltd.	Haerbin	Haerbin	Pharmaceutical manufacturing	300.00		60.00		60.00	Establishment or Investment
Wang Lao Ji Great Health (Ya'an) Co., Ltd.	Yaan	Yaan	Pharmaceutical manufacturing	5,000.00		100.00		100.00	Establishment or Investment
Guang Hua Health(1)	Guangzhou	Guangzhou	Pharmaceutical trading	180.00		63.36		75.00	Establishment or Investment
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Fengshun	Fengshun	Pharmaceutical manufacturing	200.00		60.00		60.00	Establishment or Investment
Zhejiang Guang Kang Pharmaceutical Co., Ltd.	Shengzhou	Shengzhou	Pharmaceutical manufacturing	4,400.00		51.00		51.00	Establishment or Investment
Tibet Linzhi Baiyunshan Tibetan Health Castle Management Co., Ltd.	Linzi	Linzi	Pharmaceutical manufacturing	3,500.00		100.00		100.00	Establishment or Investment

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7. EQUITY IN OTHER ENTITIES (Continued)

(1) Equity in subsidiaries (Continued)

(a) Details of the Group: (Continued)

Name of subsidiary	Principal place of business	Registration place	Nature of business	Registered capital ('0000)	% equity interest held		% voting rights held		Acquisition method
					Direct	Indirect	Direct	Indirect	
Guangzhou Wang Lao Ji Great Health Enterprise Development Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	1,000.00		100.00		100.00	Establishment or Investment
Guangzhou Wang Lao Ji Industry Company	Guangzhou	Guangzhou	Pharmaceutical trading	100.00		100.00		100.00	Establishment or Investment
Wang Lao Ji Great Health Industry (Beijing) Sales Co., Ltd.	Beijing	Beijing	Pharmaceutical trading	500.00		100.00		100.00	Establishment or Investment
Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd.	Meizhou	Meizhou	Pharmaceutical manufacturing	5,000.00		100.00		100.00	Establishment or Investment
Tian Xin	Guangzhou	Guangzhou	Pharmaceutical manufacturing	4,569.00	82.49		82.49		Business combinations involving entities under common control
Guang Hua	Guangzhou	Guangzhou	Pharmaceutical manufacturing	5,529.00	84.48		84.48		Business combinations involving entities under common control
Ming Xing	Guangzhou	Guangzhou	Pharmaceutical manufacturing	2,649.00	100.00		100.00		Business combinations involving entities under common control
Wei Ling Pharmaceutical	Jiexi	Jiexi	Pharmaceutical trading	1,179.00	100.00		100.00		Business combinations involving entities under common control
BYS Pharmaceutical Technological	Guangzhou	Guangzhou	Hotel	200.00	51.00		51.00		Business combinations involving entities under common control
Great Health Hotel	Guangzhou	Guangzhou	Pharmaceutical trading	50.00	100.00		100.00		Business combinations involving entities under common control
Guangyao Baiyunshan Hong Kong Company	Hongkong	Hongkong	Medical research	HKD7,500	100.00		100.00		Business combinations involving entities under common control
Guangyao General Institute	Guangzhou	Guangzhou	Advertising	8,000.00	100.00		100.00		Business combinations involving entities under common control
Guangyao Haima	Guangzhou	Guangzhou	Pharmaceutical	50.00	100.00		100.00		Business combinations involving entities not under common control
Guangxi Ying Kang	Nanning	Nanning	manufacturing	3,188.00	51.00		51.00		Business combinations involving entities not under common control

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7. EQUITY IN OTHER ENTITIES *(Continued)*

(1) Equity in subsidiaries *(Continued)*

(a) Details of the Group: *(Continued)*

Reasons for ratio of equity interest held is different from the ratio of voting rights held in subsidiaries:

Note 1: The reason of difference between ratio of equity interest held and ratio of voting rights held of these 7 companies is that the Company indirectly holds these 7 companies through subsidiaries which are not wholly-owned by the Company, making the ratio of equity interest held lower than ratio of voting rights held.

Note 2: Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, acquired 25% equity interest of Qi Xing Pharmaceutical held by Guangyong Financial Co., Ltd. through transfer agreement in April 2015, which the comprehensive share holding changed from 75% to 100%.

(2) Equity in joint venture or associates

(a) Summary of joint venture and associates that are insignificant

Item	Ending balance/ Current amount	Opening balance/ Prior amount
Joint venture:		
Total carrying amount of investments	2,073,127,925.62	1,919,999,790.04
Calculated by rate of interests held:		
– Net profit	208,783,994.99	165,518,796.56
– Other comprehensive income	(3,501.34)	267,447.68
– Total comprehensive income	208,780,493.65	165,786,244.24
Associates:		
Total carrying amount of investments	38,085,050.82	30,765,309.31
Calculated by rate of interests held:		
– Net profit	7,129,769.54	179,851.84
– Other comprehensive income	95,411.50	–
– Total comprehensive income	7,225,181.04	179,851.84

Notes to the Financial Statement

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8. FINANCIAL INSTRUMENT AND RISK

The Group's activities expose it to a variety of financial risks: market risk (mainly currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(1) Market risk

(a) Foreign exchange risk

The Group's major operating activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. Nevertheless, the Group is exposed to foreign exchange risk arising from the recognized assets and liabilities and future transactions denominated in foreign currencies (mainly USD and HKD). The Group's finance department (Group Finance) is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies, in order to minimize the foreign exchange risk. The Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk.

As at 31 December 2015 and 31 December 2014, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarized as follows:

	31 December 2015					
	USD	HKD	EUR	JPY	GBP	Total
Financial assets denominated in foreign currency –						
Cash at bank and on hand	6,640,823.87	18,659,495.10	-	728,979.30	-	26,029,298.27
Accounts receivable	3,078,240.11	1,208,317.71	-	-	-	4,286,557.82
Other receivables	-	21,983.67	-	-	-	21,983.67
	<u>9,719,063.98</u>	<u>19,889,796.48</u>	<u>-</u>	<u>728,979.30</u>	<u>-</u>	<u>30,337,839.76</u>
Financial liabilities denominated in foreign currency –						
Accounts payable	859,245.58	-	-	-	-	859,245.58
Advances from customers	82,711.45	-	-	-	-	82,711.45
Other payable	-	2,825,464.82	-	-	-	2,825,464.82
Long-term borrowings	-	39,755,174.34	-	-	-	39,755,174.34
	<u>941,957.03</u>	<u>42,580,639.16</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,522,596.19</u>

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8. FINANCIAL INSTRUMENT AND RISK (Continued)

(1) Market risk (Continued)

(a) Foreign exchange risk (Continued)

	31 December 2014					
	USD	HKD	EUR	JPY	GBP	Total
Financial assets denominated in foreign currency -						
Cash at bank and on hand	9,293,961.31	4,070,922.70	2.00	4,794,120.62	-	18,159,006.63
Accounts receivable	11,159,483.05	534,836.23	-	-	-	11,694,319.28
Other receivables	-	1,299,466.33	-	-	-	1,299,466.33
	<u>20,453,444.36</u>	<u>5,905,225.26</u>	<u>2.00</u>	<u>4,794,120.62</u>	<u>-</u>	<u>31,152,792.24</u>
Financial liabilities denominated in foreign currency -						
Accounts payable	1,392,289.27	-	-	-	-	1,392,289.27
Other payables	-	3,102,060.33	-	-	-	3,102,060.33
	<u>1,392,289.27</u>	<u>3,102,060.33</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,494,349.60</u>

As at 31 December 2015, if RMB had strengthened/weakened by 10% against the USD, HKD, EUR and JPY with all other variables held constant, the Group's net profit for the period would have been approximately RMB989 thousand (As at 31 December 2014: approximately RMB(1,999) thousand) higher/lower.

(b) Interest rate risk

As at 31 December 2015, long-term interest bearing borrowings of the Group amounted to RMB39,755 thousand, if annual interest rate declined 50 basic point with all other variables held constant, the Group's net profit would increase RMB1,404 thousand (As at 31 December 2014: nil).

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8. FINANCIAL INSTRUMENT AND RISK (Continued)

(1) Market risk (Continued)

(c) Other price risk

Equity of listed companies held by the Company is as below:

Item	31 December 2015	31 December 2014
Financial assets based on fair value to confirm profit or loss	6,499,789.60	4,686,023.00
Available-for-sale financial assets	76,415,058.59	32,207,055.60
Total	82,914,848.19	36,893,078.60

As at 31 December 2015, under the circumstance of variables unchanged, if the value of equity instruments rise or decline 10%, the Company would increase or decrease net profit amounted to RMB650 thousand, other comprehensive income amounted to RMB7,209 thousand accordingly (as at 31 December 2014: RMB469 thousand, RMB2,728 thousand). Management considers 10% a reasonable range where the value of equity instruments might change in next period.

(2) Credit risk

Credit risk is managed on a group basis. Credit risk mainly arises from cash at bank, accounts receivable, other receivables, notes receivable etc.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on accounts receivable, other receivables and notes receivable. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

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8. FINANCIAL INSTRUMENT AND RISK (Continued)

(3) Liquidity risk

Cash flow forecast is performed by each subsidiary of the Group and aggregated by Group Finance. Group Finance monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institution so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

As at 31 December 2015, the financial assets and liabilities of the Group at the balance sheet date are analyzed by their maturity date below at their undiscounted contractual cash flows:

	31 December 2015					Total
	Within 1 year	1 – 2 years	2 – 5 years	Over 5 years	Without fixed maturity	
Financial assets –						
Cash at bank and on hand	4,118,291,426.52	-	-	-	-	4,118,291,426.52
Notes receivable	1,450,035,581.39	-	-	-	-	1,450,035,581.39
Accounts receivable	1,121,270,222.95	-	-	-	-	1,121,270,222.95
Other receivables	232,828,701.78	-	-	-	-	232,828,701.78
	6,922,425,932.64	-	-	-	-	6,922,425,932.64
Financial liabilities						
Short-term borrowings	641,392,962.78	-	-	-	-	641,392,962.78
Long-term borrowings	1,411,515.42	1,411,515.42	39,842,758.45	-	-	42,665,789.29
Notes payable	292,607,099.65	-	-	-	-	292,607,099.65
Accounts payable	2,636,474,108.05	-	-	-	-	2,636,474,108.05
Other payables	1,755,251,103.41	-	-	-	-	1,755,251,103.41
Long-term payables	-	-	-	22,219,899.34	-	22,219,899.34
	5,327,136,789.31	1,411,515.42	39,842,758.45	22,219,899.34	-	5,390,610,962.52
Provision of guarantees	-	-	-	-	-	-

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8. FINANCIAL INSTRUMENT AND RISK (Continued)

(3) Liquidity risk (Continued)

	31 December 2014					Total
	Within 1 year	1 – 2 years	2 – 5 years	Over 5 years	Without fixed maturity	
Financial assets-						
Cash at bank and on hand	3,201,280,198.61	-	-	-	-	3,201,280,198.61
Notes receivable	1,465,748,952.32	-	-	-	-	1,465,748,952.32
Accounts receivable	1,053,696,314.29	-	-	-	-	1,053,696,314.29
Other receivables	328,669,568.86	-	-	-	-	328,669,568.86
	<u>6,049,395,034.08</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,049,395,034.08</u>
Financial liabilities						
Short-term borrowings	575,954,732.36	-	-	-	-	575,954,732.36
Long-term borrowings	-	-	-	-	-	-
Notes payable	356,573,197.95	-	-	-	-	356,573,197.95
Accounts payable	2,075,921,273.45	-	-	-	-	2,075,921,273.45
Other payables	1,557,351,681.94	-	-	-	-	1,557,351,681.94
Long-term payables	-	-	-	22,361,807.40	-	22,361,807.40
	<u>4,565,800,885.70</u>	<u>-</u>	<u>-</u>	<u>22,361,807.40</u>	<u>-</u>	<u>4,588,162,693.10</u>
Provision of guarantees	<u>60,000,000.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,000,000.00</u>

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

	31 December 2015		31 December 2014	
	Bank borrowings	Other borrowings	Bank borrowings	Other borrowings
Wholly repayable within 5 years	<u>684,058,752.06</u>	<u>-</u>	<u>575,954,732.36</u>	<u>-</u>

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9. DISCLOSURE OF FAIR VALUE

(a) Financial instruments not measured at fair value

Financial assets and liabilities not measured at fair value mainly represent receivables, short-term borrowings, payables and long-term payables.

The carrying amount of financial assets and liabilities not measured at fair value is a reasonable approximation of their fair values.

(b) Financial instruments measured at fair value

Based on the lowest level input that is significant to the fair value measurement in its entirety, the fair value hierarchy has the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that is not based on observable market data (that is, unobservable inputs).

The level of measurement of fair value is determined by the lowest level of input, which is significant for it.

As at 31 December 2015, the financial assets measured at fair value by the above three levels are analyzed below:

	Level 1	Level 2	Level 3	Total
Financial assets –				
Financial assets based on fair value to confirm profit or loss				
Investments in equity instrument held for trading	6,499,789.60	–	–	6,499,789.60
Available-for-sale financial assets –				
Available-for-sale equity instruments	76,415,058.59	–	–	76,415,058.59
	<u>82,914,848.19</u>	<u>–</u>	<u>–</u>	<u>82,914,848.19</u>

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9. DISCLOSURE OF FAIR VALUE (Continued)

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

As at 31 December 2014, the financial assets measured at fair value by the above three levels are analyzed below:

	Level 1	Level 2	Level 3	Total
Financial assets –				
Financial assets based on fair value to confirm profit or loss				
Investments in equity instrument held for trading	4,686,023.00	–	–	4,686,023.00
Available-for-sale financial assets –				
Available-for-sale equity instruments	32,207,055.60	–	–	32,207,055.60
	<u>36,893,078.60</u>	<u>–</u>	<u>–</u>	<u>36,893,078.60</u>

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using valuation techniques. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, and discounted cash flow analysis. Inputs to valuation techniques include prepayment rates, rates of estimated credit losses, and interest rates or discount rates.

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10. FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

	31 December 2014	Profit or loss arising from changes in fair value during the current period	Available-for- sale financial assets measured at fair value	Accumulated changes in fair value recognized in equity during the current period	Impairment loss recognized during the current period	31 December 2015
Financial assets –						
Financial assets based on fair value to confirm profit or loss	4,686,023.00	1,813,766.60	-	-	-	6,499,789.60
Available-for-sale financial assets	32,207,055.60	-	57,539,647.51	(12,724,293.96)	(607,350.56)	76,415,058.59
	<u>36,893,078.60</u>	<u>1,813,766.60</u>	<u>57,539,647.51</u>	<u>(12,724,293.96)</u>	<u>(607,350.56)</u>	<u>82,914,848.19</u>

11. FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

	31 December 2014	Profit or loss arising from changes in fair value during the current period	Accumulated changes in fair value recognized in equity during the current period	Impairment loss recognized during the current period	31 December 2015
Financial assets–					
Cash and bank	18,159,006.63	-	-	-	26,029,298.27
Accounts receivable	11,694,319.28	-	-	-	4,286,557.82
Other receivables	1,299,466.33	-	-	-	21,983.67
	<u>31,152,792.24</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,337,839.76</u>
Financial liabilities					
Short-term borrowings	-	-	-	-	-
Accounts payable	1,392,289.27	-	-	-	859,245.58
Advances from customers	-	-	-	-	82,711.45
Other payables	3,102,060.33	-	-	-	2,825,464.82
Long-term borrowings	-	-	-	-	39,755,174.34
	<u>4,494,349.60</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,522,596.19</u>

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12. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) General information of the parent company:

Name of the Parent company	Relationship	Business Type	registration place	Legal Representative	Nature of business	Registered Capital (RMB '0000)	% equity interest	% voting rights	Ultimate holding company	Organization code
GPHL	Parent Company	Limited liability company (wholly state-owned)	No. 45, North Street, Shamian Liwan District Guangzhou	Li Chuyuan	Manufacturing and trading	125,281	45.23%	45.23%	the State-owned Assets and Administration Commission of Guangzhou Municipal Government	23124735-0

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

	31 December 2015 (RMB '0000)
GPHL	125,281

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

	31 December 2015	
	% equity interest held	% voting rights held
GPHL	45.23%	45.23%

(2) Information of subsidiaries

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

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

(3) Information of joint venture and associates

Details of joint venture or associates that had connected transactions with the Company at current period or at previous period are as below:

Name	Relation with the Company
GP Corp.	joint venture
Wang Lao Ji	joint venture
Nuo Cheng	joint venture
HWBYS	joint venture
Baxter Qiaoguang	joint venture

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

Name of entity	Relationship with the Group	Organization code
Guangzhou Yu Fa Medical Apparatus Co., Ltd.	Controlled by the same parent company	618407881
Guangzhou South China Medical Apparatus Co., Ltd.	Controlled by the same parent company	23123789-X

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

(5) Related party transactions

(a) For the subsidiaries which are controlled by the Company and consolidated into the consolidated financial statements, the transactions amongst them and that between the Company and them have been eliminated.

(b) Purchase of goods from related parties

Name of related party	Type of transaction	Nature of transaction	Pricing Policies and procedures for decision-making	For the year ended 31 December 2015		For the year ended 31 December 2014	
				Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
HWBYS	Purchase of goods	Chinese raw medicine or medicine	Market price	726,457,876.03	6.93	389,573,040.35	4.31
GP Corp.	Purchase of goods	Chinese raw medicine or medicine	Market price	266,633,872.65	2.54	156,670,195.50	1.73
Wang Lao Ji	Purchase of goods	Chinese raw medicine or medicine	Market price	630,068,063.32	6.01	15,753,026.00	0.17
				1,623,159,812.00	15.48	561,996,261.85	6.21

Notes to the Financial Statement

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

12. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(c) Sales of goods to related parties

Name of related party	Type of transaction	Nature of transaction	Pricing Policies and procedures for decision-making	For the year ended 31 December 2015		For the year ended 31 December 2014	
				Amount	Percentage of similar transactions (%)	Amount	Percentage of similar transactions (%)
GPHL	Sales of goods	Chinese raw medicine or medicine	Market price	61,376.00	0.00	57,426.41	0.00
HWBYS	Sales of goods	Chinese raw medicine or medicine	Market price	208,869,571.73	1.13	163,774,174.27	0.88
GP Corp.	Sales of goods	Chinese raw medicine or medicine	Market price	472,107,564.70	2.54	318,762,641.02	1.71
Wang Lao Ji	Sales of goods	Chinese raw medicine or medicine	Market price	441,333,650.86	2.38	124,237,362.59	0.67
Nuo Cheng	Sales of goods	Chinese raw medicine or medicine	Market price	8,957.27	0.00	102,222.23	0.00
Baxter Qiaoguang	Sales of goods	Chinese raw medicine or medicine	Market price	1,611,366.65	0.01	1,554,767.95	0.01
				1,123,992,487.21	6.06	608,488,594.47	3.27

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

12. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(d) Rendering of service to related party

Name of related party	Type of transaction	Nature of transaction	Pricing Policies and procedures for decision-making	For the year ended 31 December 2015		For the year ended 31 December 2014	
				Amount	Percentage of similar transactions (%)	Amount	Percentage of similar transactions (%)
HWBYS	Rendering of service	Advertising agency	Market price	44,094,673.94	87.93	-	-
GP Corp.	Rendering of service	Advertising agency	Market price	308,414.15	0.61	-	-
Wang Lao Ji	Rendering of service	Advertising agency	Market price	2,516,816.43	5.02	-	-
Baxter Qiaoguang	Rendering of service	Advertising agency	Market price	92,455.65	0.18	-	-
Subtotal				47,012,360.17	93.74	-	-
Wang Lao Ji	Rendering of service	Consigned processing	Market price	17,491,424.62	83.99	12,586,542.91	77.98
HWBYS	Rendering of service	Service of research and development	Market price	113,207.55	1.33	75,471.70	0.59
GPHL	Rendering of service	Service of research and development	Market price	-	-	1,886,792.52	14.74
Subtotal				113,207.55	1.33	1,962,264.22	15.33

Notes to the Financial Statement

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

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

(5) Related party transactions *(Continued)*

(e) Other related party transactions

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

There are no guarantee for subsidiaries in year of 2015

(ii) *Leases*

1) Tenancy Agreement

Pursuant to a tenancy agreement entered into by the Group and GPLH, GPLH has granted to the Group the right to use certain premises such as warehouses and offices for a fixed annual rental. The term is from 1 January 2014 to 31 December 2016. The Group should pay GPLH RMB13,815 thousand of the above-mentioned for the current period (For the year ended 31 December 2014: RMB2,874 thousand)

2) Office Tenancy Agreement – No. 5 front stalls of GPLH located at No. 45 North Shamian Street

Pursuant to the Tenancy Agreement entered into by the Company and GPLH on 27 June 2013, the Company rents the No. 5 front stalls of GPLH located at No. 45 North Street Shamian at a fixed annual rent., which term is 3 years, the Company should pay GPLH RMB549 thousand in current period. (For the year ended 31 December 2014: RMB523 thousand)

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

(5) Related party transactions *(Continued)*

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

(ii) Leases *(Continued)*

3) Warehouse and Office Building Tenancy Agreement

Pursuant to the Tenancy Agreement entered into by the Company and GPLH, the Company rents certain buildings to GP Corp. at fixed amount per annum with a lease term from 1 January 2014 to 31 December 2016 and the rental amounted to RMB2,566 thousand. (For the year ended 31 December 2014: RMB2,684 thousand)

Pursuant to the Tenancy Agreement entered into by the Company and Baxter Qiaoguang, the Company rents the building located in No.25, Fangcun Avenue to Baxter Qiaoguang at fixed amount per annum with a lease term from 10 May 2007 to the relocated date and the rental amounted to RMB3,000 thousand (For the year ended 31 December 2014: RMB2,500 thousand)

Pursuant to the Tenancy Agreement entered into by the Company and GP Corp., the Company rents the building located in No.74, Duobao Road to GP Corp. at fixed amount per annum with a lease term from 1 January 2015 to 31 August 2016 and the rental amounted to RMB64 thousand (For the year ended 31 December 2014: RMB48 thousand)

Pursuant to the Tenancy Agreement entered into by Guangzhou Bai Di and Nuocheng Biological, Guangzhou Bai Di rents the building located in No.1, Wanbao Street North, Panyu District, Guangzhou to Nuocheng Biological at fixed amount per annum with a lease term from 15 March 2011 to 14 March 2016 and the rental amounted to RMB1,949 thousand (For the year ended 31 December 2014: RMB1,879 thousand)

Pursuant to the Tenancy Agreement entered into by Guang Hua, a subsidiary of the Company, and HWBYS, Guang Hua rents the building located in No.355, Shatai Rd North, Guangzhou to HWBYS at fixed amount per month with a lease term from 10 March 2014 to 9 March 2016 and the rental amounted to RMB73 thousand (For the year ended 31 December 2014: 61 thousand).

Notes to the Financial Statement

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

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

(5) Related party transactions *(Continued)*

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

(ii) Leases (Continued)

3) Warehouse and Office Building Tenancy Agreement *(Continued)*

Pursuant to the Tenancy Agreement entered into by Guang Hua, a subsidiary of the Company, and GP Corp., Guang Hua rents the building located in No.355, Shatai Rd North, Guangzhou to GP Corp. at fixed amount per month with a lease term from 17 July 2015 to 14 July 2020 and the rental amounted to RMB218 thousand (For the year ended 31 December 2014: nil).

(iii) License Agreement

1) Pursuant to the Trademark License Agreement entered into by Wang Lao Ji Great Health and GPLH on 25 May 2012 and 26 April 2013, GPLH authorized the use of 5 trademarks by Wang Lao Ji Great Health; Wang Lao Ji Great Health agreed to pay license fees to GPLH at 2.1% of its aggregate net sales, GPLH and the Company are to entitled by 53% and 47% of the license fee respectively.

Pursuant to the Trademark License Supplementary Agreement entered into by the Company, Wang Lao Ji and GPLH on 28 July 2005, Wang Lao Ji agreed to pay license fees to GPLH for the use of the trademarks at 2.1% of its aggregate net sales since Wang Lao Ji become to be a foreign-invested company limited. GPLH and the Company are to entitled by 53% and 47% of the license fee respectively.

The Company should receive license fee amounted to RMB82,565 thousand for the current period (For the year ended 31 December 2014: RMB102,328 thousand)and GPLH should receive RMB93,105 thousand (For the year ended 31 December 2014: RMB115,391 thousand)

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

(5) Related party transactions *(Continued)*

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

(iii) License Agreement *(Continued)*

- 2) The arrangement of the Trademark Trusteeship Agreement and Trademark Trusteeship Supplementary Agreement entered into by GPLH and the Company (GPLH is consignor and the Company is consignee): (1) During the period of validity of Trusteeship Agreement, consignor shall authorize all the use rights of "Wang Lao Ji" trademark to consignee; (2) During the period of validity of Trusteeship Agreement, consignee shall pay the expenses arising from trusteeship. (but consignor shall pay the expenses arising from dispute to the authority and the expenses arising from the dispute to the previous Trademark Trusteeship Agreement and Trademark Trusteeship Supplementary Agreement); (3) Consignee shall directly receive the trademark license fee which is arranged in the Trademark License Agreement signed during the trusteeship (including the supplementary agreement or new agreement which is signed by consignor or consignee). (4) During the period of validity of Trusteeship Agreement, consignor should pay the company RMB1,000 thousand for the basic trusteeship fee before the end of every March; (5) On the premise of non-violation to the Trademark License Agreement or supplementary which is entered into by consignor and third party before this Agreement become effective, for the Trademark License Agreement which is signed during the period of validity of Trusteeship Agreement, (including the supplementary agreement or new agreement which is signed during the expiry date of Trusteeship), consignee should pay consignor 80% of the trademark license fee of the previous year before the end of every March. (or the lower portion which is negotiated by consignor and consignee, the portion could not higher than 80% in any case, it could be 80% if both parties failed to reach an agreement for that.) as the authorized income for consignor. (the basic trusteeship fee of previous year of consignor shall directly deducted from this expenses by consignee) As the confirmed trademark "Wang Lao Ji", the portion to be shared of consignor and consignee shall be confirmed in accordance with the previous arrangement before this agreement was signed, and shall not be limited to the trademark trusteeship agreement. This agreement became effective on 5 July 2013, and will expire on the date of trademark transfer or the date of termination from both parties' negotiation. 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 regulations.

Notes to the Financial Statement

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

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

(5) Related party transactions *(Continued)*

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

(iii) License Agreement *(Continued)*

2) *(Continued)*

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.

- 3) Pursuant to <Trademark License Agreement> entered into by Xing Qun and the Company on 5 September 2014, Xing Qun is able to use 32 kinds of trademark owned by GPLH for 32 kinds of plant beverage and coke products from 5 September 2013 to 6 March 2016 (both parties otherwise agreed to extend the term if need to, 2.1% of net sale volume for the products which use these 32 kinds of trademark shall be paid to the Company as a license fee by Xing Qun. <Trademark License Agreement> will expire on 6 March 2016. Xing Qun should pay the Company license fee amounted to RMB1,347 thousand at current period. (For the year ended 31 December 2014: RMB1,774 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 RMB1,347 thousand (For the year ended 31 December 2014: RMB1,774 thousand), and pay GPLH RMB1,078 thousand (For the year ended 31 December 2014: RMB1,419 thousand)

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

12. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(e) Other related party transactions (Continued)

(iv) Employee benefits of key management personnel

Employee benefits of the Group's key management personnel amounted to RMB4,496 thousand For the year ended 31 December 2015 (For the year ended 31 December 2014: RMB3,906 thousand). The Group's key management personnel include director, supervisor, general manager, vice general manager, and secretary to the Board of Director ("BOD"). The key management includes 16 persons for the year ended 31 December 2015 (For the year ended 31 December 2014: 15 persons), among which 10 persons received their salaries from the Group (For the year ended 31 December 2014: 9 persons).

(f) Remuneration of directors and supervisors

Remuneration of each director and supervisor for the year ended 31 December 2015 is as below:

Name	Remuneration of directors and supervisors	Salary and subsidy	Pension	Bonus	Sign-on bonus	Severance package	Others	Total
Name of director								
Li Chuyuan	-	-	-	-	-	-	-	-
Chen Mao	-	-	-	-	-	-	-	-
Liu Juyan	-	-	-	-	-	-	-	-
Chen Ning	-	-	-	-	-	-	-	-
Ni Yidong	-	-	-	-	-	-	-	-
Wu Changhai	-	733,894.00	72,160.00	316,485.00	-	-	-	1,122,539.00
Wang Wenchu	-	598,244.00	72,160.00	325,135.00	-	-	-	995,539.00
Qiu Hongzhong	80,000.00	-	-	-	-	-	-	80,000.00
Jiang Wenqi (Note: 1)	63,334.00	-	-	-	-	-	-	63,334.00
Chu Xiaoping	80,000.00	-	-	-	-	-	-	80,000.00
Fang Shuting (Note: 2)	16,667.00	-	-	-	-	-	-	16,667.00
Wong Lung Tak Patrick	80,000.00	-	-	-	-	-	-	80,000.00
Name of supervisor								
Xian Jiaxiong	-	-	-	-	-	-	-	-
Wu Quan	-	513,183.92	49,684.08	161,000.00	-	-	-	723,868.00
Wu Yan	30,000.00	-	-	-	-	-	-	30,000.00

Notes to the Financial Statement

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

12. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(f) Remuneration of directors and supervisors (Continued)

Remuneration of each director and supervisor for the year ended 31 December 2014 is as below:

Name	Remuneration of directors and supervisors	Salary and subsidy	Pension	Bonus	Sign-on bonus	Severance package	Others	Total
Name of director								
Li Chuyuan	-	-	-	-	-	-	-	-
Chen Mao (Note: 3)	-	-	-	-	-	-	-	-
Liu Juyan (Note: 4)	-	-	-	-	-	-	-	-
Cheng Ning	-	-	-	-	-	-	-	-
Ni Yidong (Note: 5)	-	-	-	-	-	-	-	-
Wu Changhai	-	539,335.20	75,755.00	382,269.80	-	-	270.00	997,630.00
Wang Wenchu (Note: 6)	-	550,596.80	78,923.00	284,563.20	-	-	270.00	914,353.00
Qiu Hongzhong	80,000.00	-	-	-	-	-	-	80,000.00
Fang Shuting (Note: 7)	73,333.00	-	-	-	-	-	-	73,333.00
Chu Xiaoping (Note: 8)	73,333.00	-	-	-	-	-	-	73,333.00
Wong Lung Tak Patrick	80,000.00	-	-	-	-	-	-	80,000.00
Liu Jinxiang (Note: 9)	6,667.00	-	-	-	-	-	-	6,667.00
Li Shanmin (Note: 10)	6,667.00	-	-	-	-	-	-	6,667.00
Zhang Yonghua (Note: 11)	6,667.00	-	-	-	-	-	-	6,667.00
Name of supervisor								
Xian Jiaxiong (Note: 12)	-	-	-	-	-	-	-	-
Wu Quan	-	511,601.22	53,700.78	204,262.00	-	-	-	769,564.00
Wu Yan (Note: 13)	27,500.00	-	-	-	-	-	-	27,500.00
Zhong Yugan (Note: 14)	2,500.00	-	-	-	-	-	270.00	2,770.00

Note 1: 17 March 2015 appointed as a director.

Note 2: 17 March 2015 resigned as a director.

Note 3: 28 January 2014 appointed as a vice president.

Note 4: 28 January 2014 appointed as an executive director.

Note 5: 28 January 2014 appointed as an executive director.

Note 6: 28 January 2014 appointed as an executive director.

Note 7: 28 January 2014 appointed as a director.

Note 8: 28 January 2014 appointed as a director.

Note 9: 28 January 2014 left his post of a director.

Note 10: 28 January 2014 left his post of a director.

Note 11: 28 January 2014 left his post of a director.

Note 12: 28 January 2014 appointed as a chairman of supervisor.

Note 13: 28 January 2014 appointed as a supervisor.

Note 14: 28 January 2014 left his post of supervisor.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

(5) Related party transactions *(Continued)*

(f) Remuneration of directors and supervisors *(Continued)*

Besides the above-mentioned remuneration of directors and supervisors, Li Chuyuan, Chen Mao, Liu Juyan, Cheng Ning, Ni Yidong and Xian Jiexiong received remuneration amounted to RMB1,088,402.00, RMB949,566.00, RMB850,099.00, RMB818,837.00, RMB959,452.00, RMB857,888.00 respectively from the subsidiaries of the Company. (As at 31 December 2014: Li Chuyuan, Chen Mao, Liu Juyan, Cheng Ning, Ni Yidong and Xian Jiexiong received remuneration amounted to RMB1,193,164.00, RMB1,058,101.00, RMB962,436.00, RMB956,144.00, RMB975,510.00, RMB922,210.00 respectively from the subsidiaries of the Company.), part of that is remuneration for service to the Group, directors consider it's difficult to allocate the amount for the service to the Group, subsidiaries and jointly controlled entities, no amortization is made of it.

As at 31 December 2015, no directors have give up or agreed to give up any arrangements of remuneration. (2014: nil).

(g) Top five of remuneration

Top five of remuneration of the Group for the year ended 31 December 2015 includes 2 directors (For the year ended 31 December 2014: includes 2 directors and 1 supervisor). 3 among top five of remuneration of the Group for the year ended 31 December 2015 are as below:

	The year ended 31 December 2015	The year ended 31 December 2014
Salary and subsidies	1,368,327.00	1,162,054.00
Pension	134,001.00	79,431.00
Bonus	1,192,942.00	686,158.00
Others	2,700.00	581.00
Total	2,697,970.00	1,928,224.00

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)
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12. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(g) Top five of remuneration

	Number of people	
	The year ended 31 December 2015	The year ended 31 December 2014
Scope of remuneration		
RMB0 – RMB1,000,000	3	1
Over RMB1,000,000	0	1

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

12. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(h) Balance of current account for related parties

(i) Receivables from related parties

	Related party	31 December 2015		31 December 2014	
		Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Notes					
receivable:	GP Corp.	24,524,200.00	-	36,822,600.56	-
	HWBYS	-	-	4,880,000.00	-
		24,524,200.00	-	41,702,600.56	-
Accounts					
receivable:	GPHL	-	-	2,001,968.00	20,019.68
	HWBYS	31,332,414.44	313,324.14	15,640,378.14	156,403.78
	GP Corp.	16,814,175.95	168,141.76	10,214,641.14	102,146.41
	Wang Lao Ji	63,598,489.35	876,655.25	8,182,297.26	81,822.97
	Baxter Qiaoguang	761,300.00	7,613.00	453,000.00	4,530.00
		112,506,379.74	1,365,734.15	36,492,284.54	364,922.84
Other					
receivables:	GPHL	6,000,573.30	-	4,757,008.06	-
	Guangzhou South China Medical Apparatus Co., Ltd.	100,000.00	100,000.00	100,000.00	100,000.00
	HWBYS	20,159,243.27	-	19,480,981.55	-
	GP Corp.	57,600.00	-	112,617.46	-
	Wang Lao Ji	3,098,563.65	-	15,434,323.01	-
	Baxter Qiaoguang	-	-	700.00	-
		29,415,980.22	100,000.00	39,885,630.08	100,000.00
Advances to					
suppliers:	HWBYS	5,945,156.25	-	4,550,970.59	-
	GP Corp.	270,257.00	-	1,607.00	-
	Wang Lao Ji	38,780.21	-	1,123,061.47	-
	Guangzhou Yu Fa Medical Apparatus Co., Ltd.	210,278.62	-	210,278.62	-
		6,464,472.08	-	5,885,917.68	-

Notes to the Financial Statement

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

12. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(h) Balance of current account for related parties (Continued)

(ii) Payables to related parties

	Related party	31 December 2015	31 December 2014
Notes			
Payable:	HWBYS	1,000,000.00	4,636,460.00
	Wang Lao Ji	1,410,000.00	864,975.00
		2,410,000.00	5,501,435.00
Accounts			
Payable:	HWBYS	2,593,012.54	1,421,572.23
	GP Corp.	12,450,440.51	9,760,056.27
		15,043,453.05	11,181,628.50
Other			
Payables	GPHL	42,574,153.82	36,434,514.42
	HWBYS	520,000.00	20,000.00
	GP Corp.	237,599.54	61,000.00
	Baxter Qiaoguang	25,992.04	26,526.69
		43,357,745.40	36,542,041.11
Advances			
from			
customers:	HWBYS	4,010,690.63	1,479,948.69
	GP Corp	13,754,837.05	23,263,974.93
	Wang Lao Ji	–	12,289,251.93
		17,765,527.68	37,033,175.55

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

13. COMMITMENTS

(1) Capital expenditures commitments

- (a) Capital expenditures commitments are contracted but not yet necessary to be recognized on the balance sheet.

The Group's capital expenditures commitments that are contracted for but not yet necessary to be recognized on the balance sheet are as follows:

	31 December 2015	31 December 2014
Investment	59,878,887.68	61,598,100.00
Building, machinery and equipment	221,569,932.06	263,048,243.13
	281,448,819.74	324,646,343.13

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

	31 December 2015	31 December 2014
Building, machinery and equipment	52,332,142.50	57,770,952.86

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

	31 December 2015	31 December 2014
Investment	320,000,000.00	–
Building, machinery and equipment	386,062,983.80	812,029,680.08
	706,062,983.80	812,029,680.08

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)
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13. COMMITMENTS (Continued)

(2) Operating lease commitments

The Group's rental assets from operating lease are mainly buildings, the minimum lease payments of significant rental under operating lease are summarized as follows:

Remaining leasing term	Minimum lease payables	
	31 December 2015	31 December 2014
Within 1 year	54,584,993.02	45,974,959.73
1 to 2 years	23,726,819.62	12,119,980.31
2 to 3 years	22,363,443.20	9,353,876.36
Over 3 years	198,784,413.03	49,923,557.72
	299,459,668.87	117,372,374.12

The rental expenses under operating lease amounted to RMB74,291 thousand are recognized in the profit or loss For the year ended 31 December 2015 (For the year ended 31 December 2014: RMB65,553 thousand).

(3) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 31 December 2015.

14. CONTINGENCIES

Contingencies related to litigation refer to Note 16(1).

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15. EVENTS AFTER THE BALANCE SHEET DATE

- (1) In January 2016, the Company prepared to enter into <Letter of Intent> with Mei Shi Medical Holdings Co., Ltd. ("Mei Shi"). The Company will establish a company for importing, researching, developing and manufacturing medical apparatus with Mei Shi. The Company holds 60% stock right, Mei Shi holds 40% stock right.

16. OTHER SIGNIFICANT EVENTS

(1) Litigation

- (a) Litigation of A company, a subsidiary of the Company

- (i) Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. started a suit to the unreceived payment amounted to RMB36,880 thousand by A company, a subsidiary of the Company on 5 February 2015, and required A company to pay maturity payment and overdue interest.

Pursuant to <Written Civil Ruling> with reference of (2015)SuiYueFaMinErChuZi No.328-3 issued by Guangzhou Yue Xiu District People's Court on 14 March 2016, the prosecution by Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. was rejected.

Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. started a suit to the unreceived payment amounted to RMB18,440 thousand by A company, a subsidiary of the Company on 4 February 2015, and required A company to pay maturity payment and overdue interest.

Pursuant to <Written Civil Ruling> with reference of (2015)SuiLiFaMinErChuZi No.774-3 issued by Guangzhou Li Wan District People's Court on 21 December 2015, the prosecution by Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. was rejected, and transferred to public security organization to handle as criminal case.

As at reporting date, Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. has lodged an appeal.

Guangzhou Meijian Co., Ltd. started a suit to the unreceived payment amounted to RMB5,014.8 thousand by A company, a subsidiary of the Company on 1 June 2015, and required A company to pay maturity payment and overdue interest.

As at reporting date, this case is still under a trial.

Notes to the Financial Statement

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

16. OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

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

(i) *(Continued)*

Guangzhou Fuel Group Co., Ltd. started a suit to the unreceived payment amounted to RMB5,075.7 thousand by A company, a subsidiary of the Company on 1 June 2015, and required A company to pay maturity payment and overdue interest.

As at reporting date, this case is still under a trial.

Guangdong Guangsheng Investment Group Energy Co., Ltd. started a suit to the unreceived payment amounted to RMB47,400 thousand by A company, a subsidiary of the Company on 25 December 2014, required to block the account of A company, and required A company to pay maturity payment and overdue interest.

Pursuant to <Written Civil Ruling> with reference of (2015) SuiLiFaMinErChuZi No.455-1 issued by Guangzhou Li Wan District People's Court on 21 December 2015, the prosecution by Guangdong Guangsheng Investment Group Energy Co., Ltd. was rejected, and transferred to public security organization to handle as criminal case.

As at reporting date, Guangdong Guangsheng Investment Group Energy Co., Ltd. has lodged an appeal to Guangzhou Intermediate People's Court

The above litigation involved the same party related to the case, A company has taken an action to the case:

On 23 December 2014, A company, a subsidiary of the Company, started a suit for the unreceived payment amounted to RMB20,087.2 thousand by Guangzhou Defenghang Petrochemical Co., Ltd. to Guangzhou Luogang District People's Court, and required Guangzhou Defenghang Petrochemical Co., Ltd. to pay maturity payment and overdue interest.

On 23 December 2014, A company, a subsidiary of the Company, started a suit for the unreceived payment amounted to RMB6,036 thousand by Guangzhou Tongtai Fuel Chemical Co., Ltd. to Guangzhou Luogang District People's Court, and required Guangzhou Tongtai Fuel Chemical Co., Ltd. to pay maturity payment and overdue interest.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

16. OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

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

(i) *(Continued)*

According to the above case, A company has applied to Guangzhou Luogang District People's Court (now for Guangzhou Huangpu District People's Court) for property preservation before litigation. Guangzhou Huangpu District People's Court has frozen the equity of Zhuhai Rural Commercial Bank Co., Ltd. held by the guarantor, Zhuhai Yemai Energy Co., Ltd., the mineral rights for the guarantor, Guangxi Zhongke Mining Industry Co., Ltd., sealed up the mortgaged manufacturing equipment of the guarantor, Guangzhou Yeda Investment Co., Ltd. and Dongguan Ye Lian Road Modified Asphalt Co., Ltd. (Yelian), sealed up the land use right(451 square meters) for the guarantor, Jiangmen Yeli Energy Co., Ltd., the land parcel is located in Nanyangwei, Haidachong Village Committee, Muzhou Town, Xinhui District, Jiangmen City.

Guangzhou Defenghang Petrochemical Co., Ltd., Guangzhou Tongtai Fuel Chemical Co., Ltd., Dongguan Ye Lian Road Modified Asphalt Co., Ltd. and its actual controller, Chen Xijiang are suspected of commercial fraud, A company reported to Guangzhou Public Security accordingly, the case is under investigation.

According to the opinion of external lawyer, upstream customers of A company could not provide logistics certificates of delivery to Guangzhou Defenghang Petrochemical Co., Ltd. and Guangzhou Tongtai Fuel Chemical Co., Ltd., the relationship of liabilities may not be established, A company does not have to pay to the upstream customers, and the overdue accounts receivable are not existed.

Management of A company has assessed the case with external opinion of lawyer, the accounts receivable for Guangzhou Defenghang Petrochemical Co., Ltd. and Guangzhou Tongtai Fuel Chemical Co., Ltd. are no longer individual subject to separate provision for bad debts but the subject in group 1 by aging. For the accounts that have been paid, which includes other receivables amounted to RMB10,315.7 thousand of Guangzhou Defenghang Petrochemical Co., Ltd., other receivables amounted to RMB10,541.8 thousand of Guangzhou Tongtai Fuel Chemical Co., Ltd., are individual subject to separate provision for bad debts, ratio of provision is 50%.

Notes to the Financial Statement

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

16. OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

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

- (ii) On 1 June 2015, A company, a subsidiary of the Company, received a notice of responding to prosecution which of the contract dispute of financial borrowings of the subsidiary, Jiangmen Yuehui Fuel Co., Ltd. and another 7 companies accused by Xingye Bank Jiangmen Branch from Guangdong Province Jiangmen City Intermediate People's court, according to indictment, Jiangmen Yuehui Fuel Co., Ltd. applied to Xingye Bank for a borrowing amounted to RMB86,080 thousand by the payment receivable amounted to RMB95,320 thousand of the subsidiary as a pledge, required A company to take the responsibility of settlement or compensation. A company have submitted a verification report, and considered they should not bear any legal responsibility for fake official seal and signature.

As at reporting date, this case is under trial. Management of A company considers that it is not probable that it will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

- (iii) On 30 January 2015, A company, a subsidiary of the Company, received a notice of responding to prosecution which of the contract dispute of financial borrowings of the subsidiary, Jiangmen Yuehui Fuel Co., Ltd. and another 5 companies accused by Xingye Bank Jiangmen Branch from Guangdong Province Jiangmen City Fengjiang District Intermediate People's court, according to indictment, Jiangmen Yuehui Fuel Co., Ltd. applied to Xingye Bank for a commercial bank acceptance amounted to RMB16,800 thousand by the payment receivable amounted to RMB17,000 thousand of the subsidiary as a pledge, required A company to take the responsibility of settlement or compensation. A company considered they should not bear any legal responsibility for fake official seal and signature.

As at reporting date, this case is under trial. Management of Pharmaceutical Import & Export considers that it is not probable that it will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

16. OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

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

- (iv) Guangzhou Linhai Trading Industry Co., Ltd. started a suit to the unreceived payment amounted to RMB8,364.9 thousand by A company, a subsidiary of the Company on 11 November 2014, and required A company to pay maturity payment and overdue interest.

Pursuant to <Written Civil Ruling> with reference of (2015) SuiLiFaMinErChuZi No.2424, 2425-4 issued by Guangzhou Li Wan District People's Court on 30 December 2014, A company should pay maturity payment and overdue interest to Guangzhou Linhai Trading Industry Co., Ltd.

A company has lodged an appeal to Guangzhou Intermediate People's Court, the above case is still under second trial. Management of A company considers that it is not probable that it will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

- (v) On 29 October 2014, A company, a subsidiary of the Company received a notice of responding to prosecution which of the contract dispute of financial borrowings of the subsidiary, Jiangmen Yuehui Fuel Co., Ltd. and another 7 companies accused by Guangdong Nanyue Bank and Guangdong Nanyue Bank Jiangmen Branch, according to indictment, Jiangmen Yuehui Fuel Co., Ltd. applied to Guangdong Nanyue Bank for the payment receivable amounted to RMB37,500 thousand of the subsidiary as factoring financing amounted to RMB30,000 thousand, required the subsidiary to take the responsibility of settlement or compensation. The subsidiary considered they should not bear any legal responsibility for fake official seal and signature.

As at reporting date, this case is under trial. Management of A company considers that it is not probable that it will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

Notes to the Financial Statement

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

16. OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

(b) Other litigation of A company

- (i) Guangzhou Gelingkang Pharmaceutical Co., Ltd. started a suit to the unreceived payment amounted to RMB5,582 thousand by A company, a subsidiary of the Company on 19 October 2015, and required A company to pay maturity payment and overdue interest.

This case is still under trial, management of A company assessed this case with external opinion of layer, and has made provision for bad debts of the above accounts receivable amounted to RMB5,582 thousand, ratio of provision is 50%.

- (ii) A company, a subsidiary of the Company, started a suit for the unreceived payment amounted to RMB5,191.2 thousand by Hengshan Zhongkong Paper Co., Ltd. on to Hunan Province Hengyang City Intermediate People's Court on 10 December 2014, and required Hengshan Zhongkong Paper Co., Ltd. to pay maturity payment and overdue interest.

On 5 December 2014, Hunan Porvince Hengshan County People's Court accepted and heard the bankruptcy liquidation of Hengshan Zhongkong International Paper Co., Ltd. According to the application of Hengshan County Urban and Rural Construction Investment Co., Ltd. The litigation of Hengshan Zhongkong International Paper Co., Ltd. was rejected, creditor's rights of A company will be dealt with in the procedure of bankruptcy liquidation.

On 20 November 2015, the accountant in bankruptcy considered the seal of the contract for declaring creditor's right by A company is inconsistent with the one used by Hengshan Zhongkong International Paper Co., Ltd., A company is not creditor. A company has reported to Guangzhou Public Security on 29 February 2016.

Management of A company has assessed this case with external opinion of lawyer, and has made provision for bad debts of the above accounts receivable amounted to RMB5,191.2 thousand, ratio of provision is 100%.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

16. OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

(b) Other litigation of A company

- (iii) A company, a subsidiary of the Company, has not received payment amounted to RMB5,028.3 thousand from Foshan Sanshui Changshun Fuel Co., Ltd., on 21 October 2014, Guangzhou City Liwan District People's Court sealed up the 3 land parcel of Foshan Sanshui Changshun Fuel Co., Ltd., which are located in "Shuigangdi", Wudinggang Village Committee, South west Street, Sanshui District, Foshan City, East "Gaozhoukeng", Jinbenjianggen Village Committee, South west Street, Sanshui District, Foshan City and West "Gaozhoukeng", Jinbenjianggen Village Committee, South west Street, Sanshui District, Foshan City. On 15 January 2015, Foshan Intermediate People's Court announced Foshan Sanshui Changshun Fuel Co., Ltd. enter the procedure of bankruptcy liquidation. On 7 July 2015, the accountant in bankruptcy of Foshan Sanshui Changshun Fuel Co., Ltd. acknowledged creditor's rights that declared by A company in accordance with <Notice of Advise in Respect of Checking on Credit of Bankrupt >.

Management of A company has assessed this case with external opinion of lawyer, and has made provision for bad debts of the above accounts receivable amounted to RMB5,028.3 thousand, ratio of provision is 50%.

- (iv) A company, a subsidiary of the Company, has not received payment amounted to RMB1,059.7 thousand from Guangdong Taimei Pharmaceutical Co., Ltd., pursuant to <Written Civil Ruling> with reference of (2015)SuiZhongFaMinErZhongZi No.01569 issued by Guangzhou Intermediate People's Court on 3 November 2015, Guangdong Taimei Pharmaceutical Co., Ltd. should pay RMB1,059.7 thousand, maturity payment and overdue interest to A company.

As at reporting date, the above case is under execution, Guangzhou Tianhe District People's Court has blocked the bank account amounted to RMB129 thousand of Guangdong Taimei Pharmaceutical Co., Ltd..

Management of A company has assessed this case with external opinion of lawyer, and has made provision for bad debts of the above accounts receivable amounted to RMB1,059.7 thousand, ratio of provision is 50%.

Notes to the Financial Statement

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

16. OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

(b) Other litigation of A company *(Continued)*

- (v) A company, a subsidiary of the Company, has not received payment amounted to RMB1,228.1 thousand (Besides, A company should pay purchasing amounted to RMB147.9 thousand to it) from Guangdong Yinhe Pharmaceutical Co., Ltd., pursuant to <Written Civil Ruling> with reference of (2014)SuiYunFaMinErZhongZi No.1390 issued by Guangzhou Baiyun District People's Court on 13 October 2015, Guangdong Yinhe Pharmaceutical Co., Ltd. should pay RMB1,080.2 thousand, maturity payment and overdue interest to A company.

As at reporting date, the above case is under execution, it is expected to recover the payment, the accounts receivable amounted to RMB1,228.1 thousand is no longer individual subject to separate provision for bad debts but the subject in group 1 by aging.

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

- (i) In year 2012, Wang Lao Ji Great Health, the wholly-owned subsidiary was sued with its unauthorized use of the specific name, package and decoration of famous products by JDB.

Guangdong Higher People's Court rejected the appeal of unauthorized use of the specific name, package and decoration of famous products accrued from Guangdong Jiaduobao Co., Ltd. on 19 December 2014. JDB lodged an appeal.

As at reporting date, this case has been under the jurisdiction of the Guangdong Higher People's Court as specified by the Supreme People's Court. The Company considers that it is not probable that Wang Lao Ji Great Health will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

- (ii) In year 2012, Wang Lao Ji Great Health, the wholly-owned subsidiary was sued with its unauthorized use of the slogan "怕上火，喝王老吉" by JDB. Chongqing First intermediate people's court rejected the appeal of illicit competition for slogan "怕上火，喝王老吉" accrued from Guangdong Jiaduobao Co., Ltd. on 24 December 2013. Meanwhile, the appeal of destroying, no longer using advertisement "怕上火，喝王老吉" and promotion, declaration of apology and compensation amounted to RMB10,000 thousand was rejected. JDB lodged an appeal. Pursuant to the final judgement of Chongqing Higher People's Court in August 2015, the prosecution by Guangdong Jiaduobao Co., Ltd. was rejected.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

16. OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

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

- (iii) In year of 2014, Tong Xing Pharmaceutical conducted prosecution to China International Economic and Trade Arbitration Commission with “V20140834”, which reason is: the use of “Wang Lao Ji” trademark by Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. violates the agreement of <Shareholder Contract> and <Articles of Association> of Wang Lao Ji Pharmaceutical. The Company has submitted objection of jurisdiction to Shenzhen Intermediate People’s court and China International Economic and Trade Arbitration Commission.

China International Economic and Trade Arbitration Commission notified the suspension of action on 22 April 2015.

- (iv) Guangzhou Hao Cheng Estate Management Development Co., Ltd. started a suit to the dispute of lease contract by B company, a subsidiary of the Company, and applied for termination to contract and compensating for loss. B company also instituted an action for the unreceived rental of Guangzhou Hao Cheng Estate Management Development Co., Ltd and its guarantor.

The above cases are still under investigation at the moment, the rental of this property was not recognized since January 2015, Management of B company considers that it is not probable that it will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

- (v) Guangdong Guangsheng Investment Group Energy Co., Ltd. started a suit to the unreceived payment amounted to RMB81,408.50 thousand by C company, a subsidiary of the Company, and applied for a sequestered account to it in year of 2015. C company has reported to Guangzhou Public Security. It shall be investigated for criminal responsibility requirements.

The above case is still under investigation, Management of C company considers that it is not probable that it will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

- (vi) Guangdong Guangsheng Investment Group Energy Co., Ltd. started a suit to the unreceived payment amounted to RMB58,900 thousand by a subsidiary of the Company, and applied for a sequestered account to it in year of 2014. The subsidiary have started a suit accordingly and applied for sealing up related assets, report to Guangzhou Public Security. It shall be investigated for criminal responsibility requirements.

Notes to the Financial Statement

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

16. OTHER SIGNIFICANT EVENTS *(Continued)*

(1) Litigation *(Continued)*

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

(vi) *(Continued)*

Pursuant to <Written Civil Ruling> with reference of (2014)SuiTianHeFaMinErChuZi No.4583 issued by Guangzhou Tian He District People's Court on 5 February 2016, the prosecution by Guangdong Guangsheng Investment Group Energy Co., Ltd. was rejected, and transferred to public security organization to handle as criminal case.

The above cases are still under investigation, Management of this subsidiary considers that it is not probable that it will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

(2) Pursuant to the resolution of the eighth meeting of the sixth board of directors and the thirteenth meeting of the sixth board of directors, the Company intended to issue public A share less than 419,463,087 shares, raise a fund less than RMB10 billion, specific object are GPLH (a shareholder of the Company), Tianfu-Dingzengshengshi No.66 asset management plan(Tianfu-Dingzengshengshi No.66), Guangzhou State-owned Development Holding Co., Ltd., Guangzhou Guoshou City Development Industrial Investment(Limited Partnership), Shanghai Yunfeng Xinchuang Equity Investment Center (Limited Partnership). Benchmark date of this new shares issuance is 13 January 2015, the notice date of the eighth meeting of the sixth board of directors. The issued price of new A share amounted to RMB23.84 per share, no less than 90% of average price of transaction within 20 transaction days before benchmark date. This issued price and amount will be adjusted if there is any dividend distribution, delivering of stock, transfer of capital surplus transferring to share capital between benchmark day and issued date.

The price of non-public offering for A share was adjusted to RMB23.56 per share after the completion of profit distribution for the year ended 31 December 2014. This price would be adjusted if DR, XR, distributing dividends, stock distribution, conversion of capital surplus to stock capital occurred during the period from the base pricing date of non-public offering for A share to the date of issue.

The above events have adopted by the First Extraordinary General Meeting on 13 March 2015, the First Domestic Share Separate Meeting of Classified of Shareholders 2015 and the First Foreign Share Separate Meeting of Classified of Shareholders.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

16. OTHER SIGNIFICANT EVENTS *(Continued)*

(2) *(Continued)*

This preplanning of issuance was revised in accordance with resolution of the sixteenth meeting of the sixth session board of directors. After adjustment, the total amount of fund-raising is not exceed RMB8.3 billion, issued number is not exceed 352,292,020 shares.

This non-public offering of A share is verified by China's Securities Regulatory Commission on 9 December 2015, the official document is not yet obtained.

- (3) The Company is planning to contribute RMB150 million as a share for limited partnership to Guangzhou Zhongyi Biological Industry Investment Funds (Limited Partnership) (or a company name approved by the department of administration for industry and commerce) (hereinafter referred to as "Zhongyi Funds"), and contribute RMB500 thousand (10% of contribution) as participate is establish Guangzhou Yilin Biological Industry Entrepreneurial Investment Management Co., Ltd. (hereinafter referred to as "Yilin Investment"). The overall scale of Zhongyi Funds is RMB606.06 million, which is established by stages, first stage is 1/3 of overall scale. The Company shall purchase RMB150 million for a share for limited partnership, first contribution amounted to RMB50 million.
- (4) Upon the approval of the fifteenth, sixth meeting of board of directors, the Company entered into <Cooperation Framework Agreement> ("*<Framework>*") with Jining City Health and Family Planning Commission ("*Jining Commission*"), Shenzhen City Jishi Entrepreneurial Investment Management Co., Ltd. ("*Jishi Investment*") and Jining High tech Industrial Development Zone Management Committee ("*Jining HT Zone*"), the Company is planning to contribute RMB1 billion to participate in establishing a company.
- (5) The Company is planning to enter into <Letter of Intent in respect of China Medical Diagnostic Center > ("*<Letter of Intent>*") with Siemens Medical Diagnostic Product (Shanghai) Co., Ltd. ("*Siemens Shanghai*"). Base on the respective resource advantage, abiding by the principle of "favored treatment, free will, mutual benefits & reciprocity, common development", the Company and Siemens Shanghai are planning to establish a joint venture ("*Joint Venture*") which is engaged in the diagnostic center of imaging diagnosis, body check, in vitro diagnosis and other business agreed by both parties. The Company and Guangzhou Baiyunshan Medical Health Industry Investment Co., Ltd. ("*Baiyunshan Medical*"), a wholly-owned subsidiary of the Company, holds 51% of stock right of joint venture and Siemens Shanghai holds 51% of stock right of it.

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17. SEGMENT INFORMATION

With the strategic management and business development, the Group basically completed the industrial chain layout and internal structure of 4 sectors, which include "Great Southern TCM", "Great Commerce", "Great Health", "Great Medical Care", according to the requirements of regulatory laws, regulations and company management, 4 sectors are divided into 4 operating segments, as business scale of "Great Medical Care" is fall to 10%, details for other segments are as below:

- "Great South TCM": Research, development, manufacturing and sales for Chinese and Western medicine, chemical raw medicine, natural drug, biological medicine and intermediates of chemical raw medicine;
- "Great Health": Research, development, manufacturing and sales for the products of Great Health;
- "Great Commerce": Wholesale, retail, import and export for Western medicine, Chinese medicine and medical apparatus and instruments.

Price transfer between segments are carried out in accordance with the price of sales to third party.

Assets and liabilities are allocated based on the segment operations, expenses attributable indirectly to each segment are allocated among segments based on the portion of revenue.

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

17. SEGMENT INFORMATION (Continued)

- (1) The segment information for the year ended 31 December 2015 and as of 31 December 2015 is as follows:

	Great Southern TCM	Great Health	Great Commerce	Other	Elimination	Total
Revenue	6,865,581,579.02	7,768,545,826.20	4,460,171,397.89	30,359,495.79	-	19,124,658,298.90
Inter-segment revenue	2,528,796,429.66	14,324,671.82	6,338,750,490.42	119,023,463.64	(9,000,895,055.54)	-
Interest income	(14,494,877.34)	(38,840,735.75)	(13,647,554.93)	(6,411,454.41)	8,348,716.50	(65,045,905.93)
Interest expenses	28,286,228.36	371,888.38	69,126,445.92	27,809,036.77	(84,878,879.26)	40,714,720.17
Share of profit or loss of associates and jointly controlled entities	11,196,316.81	-	-	198,837,752.58	(3,188,929.81)	206,845,139.58
Asset impairment losses	6,247,251.92	6,505.17	40,378,282.05	-	(10,319,168.52)	36,312,870.62
Depreciation and amortization	191,320,358.76	8,825,361.94	7,392,484.35	16,475,299.77	(144,105.00)	223,869,399.82
Total profit	719,144,624.97	522,681,959.48	45,363,190.73	762,791,912.55	(421,859,614.13)	1,628,122,073.60
Income tax expenses	50,699,668.72	132,138,504.96	10,444,321.98	77,704,798.00	11,847,807.75	282,835,101.41
Net profit (Including: Minority interests)	668,444,956.24	390,543,454.52	34,918,868.75	685,087,114.55	(433,707,421.87)	1,345,286,972.19
Total assets	7,704,680,636.46	3,883,794,696.88	4,374,126,249.76	8,017,210,356.26	(8,109,234,672.16)	15,870,577,267.20
Total liabilities	4,442,907,371.01	3,275,323,820.46	4,142,247,157.89	1,067,328,341.52	(5,741,162,572.59)	7,186,644,118.29
Long-term equity investments in associates and jointly controlled entities	128,016,390.34	-	-	1,983,196,586.10	-	2,111,212,976.44
Additions of non-current assets other than long-term equity investments	309,237,055.63	146,876,826.70	19,207,211.50	129,766,380.84	-	605,087,474.67

- (2) The segment information for the year ended 31 December 2014 and as of 31 December 2014 is as follows:

	Great Southern TCM	Great Health	Great Commerce	Other	Elimination	Total
Revenue	6,941,672,648.92	7,096,130,102.12	4,733,832,523.82	46,596,711.87	-	18,818,231,986.73
Inter-segment revenue	1,434,397,516.40	13,959,061.66	4,933,224,315.02	120,540,442.03	(6,502,121,335.11)	-
Interest income	(11,462,462.10)	(26,222,416.26)	(4,319,856.84)	(2,554,789.30)	4,972,076.46	(39,587,448.04)
Interest expenses	29,503,650.31	-	50,910,158.37	22,863,089.28	(65,283,703.64)	37,993,194.32
Share of profit or loss of associates and jointly controlled entities	66,599,571.84	-	-	94,337,405.27	(4,764,856.96)	156,172,120.15
Asset impairment losses	32,742,317.86	(6,798.75)	39,544,330.01	(4,172.07)	(11,076,612.23)	61,199,064.82
Depreciation and amortization	176,737,478.56	4,459,120.34	6,209,047.92	16,483,743.07	(180,131.25)	203,709,258.64
Total profit	799,969,985.35	456,837,076.56	97,493,360.33	603,219,356.29	(489,458,395.82)	1,468,061,382.71
Income tax expenses	61,118,818.25	116,481,326.85	22,646,086.78	71,221,591.03	(14,934,472.90)	256,533,350.01
Net profit (Including: Minority interests)	738,851,167.10	340,355,749.71	74,847,273.55	531,997,765.26	(474,523,922.92)	1,211,528,032.70
Total assets	6,994,484,860.19	3,184,115,579.92	3,447,254,130.94	7,342,354,791.65	(6,701,306,288.79)	14,266,903,073.91
Total liabilities	3,940,714,590.81	2,782,321,432.54	3,281,426,753.02	967,715,107.47	(4,627,269,399.04)	6,344,908,484.80
Long-term equity investments in associates and jointly controlled entities	146,820,073.53	-	-	1,803,945,025.82	-	1,950,765,099.35
Additions of non-current assets other than long-term equity investments	264,577,433.31	148,967,886.54	17,216,329.44	1,576,862.60	-	432,338,511.89

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17. SEGMENT INFORMATION (Continued)

- (2) The segment information for the year ended 31 December 2014 and as of 31 December 2014 is as follows: (Continued)

The Group's revenue from external customers in the PRC and other countries/regions, and the total non-current assets other than financial assets and deferred tax assets located in the PRC and other countries/regions are summarized as follows:

	The year ended 31 December 2015	The year ended 31 December 2014
Revenue from external customers		
PRC	18,925,851,715.62	18,206,934,674.44
Other countries/regions	198,806,583.28	611,297,312.29
	<u>19,124,658,298.90</u>	<u>18,818,231,986.73</u>
Total non-current assets	31 December 2015	31 December 2014
PRC	5,639,816,203.36	4,967,151,714.60
Other countries/regions	19,855,998.99	20,033,099.69
	<u>5,659,672,202.35</u>	<u>4,987,184,814.29</u>

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

18. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Accounts receivable

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

	31 December 2015	31 December 2014
Within 1 year	335,235,055.50	116,328,699.64
1 to 2 years	39,709,959.86	40,849.16
2 to 3 years	223.20	230,909.31
3 to 4 years	20,502.80	1,552,684.23
4 to 5 years	1,552,184.23	30,193.88
Over 5 years	2,921,502.04	3,170,387.02
	379,439,427.63	121,353,723.24
Less: provision for bad debts	11,796,914.32	5,957,528.95
	367,642,513.31	115,396,194.29

Notes to the Financial Statement

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

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

(1) Accounts receivable (Continued)

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

	31 December 2015				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provisions	1,500,000.00	0.40%	1,500,000.00	100.00%	-
Subject to provision by groups: Group 1	377,084,801.39	99.37%	9,442,288.08	2.50%	367,642,513.31
Individually insignificant but subject to separate provisions	854,626.24	0.23%	854,626.24	100.00%	-
	379,439,427.63	100.00%	11,796,914.32	3.11%	367,642,513.31

	31 December 2014				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provisions	1,500,000.00	1.24%	1,500,000.00	100.00%	-
Subject to provision by groups: Group 1	118,999,097.00	98.06%	3,602,902.71	3.03%	115,396,194.29
Individually insignificant but subject to separate provisions	854,626.24	0.70%	854,626.24	100.00%	-
	121,353,723.24	100.00%	5,957,528.95	4.91%	115,396,194.29

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

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

(1) Accounts receivable (Continued)

- (c) As at 31 December 2015, individually significant and subject to separate provisions are as follow:

	Ending balance	Amount of bad debts	Ratio	Reason
Customer 1	1,500,000.00	1,500,000.00	100.00%	The action is enforced, it is expected that the amount could not be recovered

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

	31 December 2015			31 December 2014		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
Within 1 year	335,235,055.50	88.90%	3,352,350.56	116,328,699.64	97.76%	1,163,287.00
1 to 2 years	39,709,959.86	10.53%	3,970,995.98	40,849.16	0.03%	4,084.92
2 to 3 years	223.20	0.00%	66.96	230,909.31	0.19%	69,272.79
3 to 4 years	20,502.80	0.01%	10,251.40	52,684.23	0.04%	26,342.12
4 to 5 years	52,184.23	0.01%	41,747.38	30,193.88	0.03%	24,155.10
Over 5 years	2,066,875.80	0.55%	2,066,875.80	2,315,760.78	1.95%	2,315,760.78
	377,084,801.39	100.00%	9,442,288.08	118,999,097.00	100.00%	3,602,902.71

Notes to the Financial Statement

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

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

(1) Accounts receivable (Continued)

- (e) As at 31 December 2015, accounts receivable that are individually insignificant but subject to separate provision are as follows:

	Ending balance	Amount of bad debts	Ratio	Reason
Customer 1	470,000.00	470,000.00	100.00%	Its aging is over 5 years, it is expected that the amount would not be recoverable
Customer 2	315,508.74	315,508.74	100.00%	Its aging is over 5 years, it is expected that the amount would not be recoverable
Customer 3	69,117.50	69,117.50	100.00%	Its aging is over 5 years, it is expected that the amount would not be recoverable
	<u>854,626.24</u>	<u>854,626.24</u>	<u>100.00%</u>	

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

Accounts receivable	Reason of reversed or collected	Basis of determination of provision for original bad debts	Accumulated amount of provision for bad debts before reversal or collection	Collected amount	Amount of reversal to provision for bad debts
Meng Xianhua	Strengthened the work of accounts receivable, recovered debts	It is expected that the amount could not be recovered	279,519.46	279,519.46	279,519.46

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

(1) Accounts receivable (Continued)

- (g) There are no accounts receivables that are collected by restructuring or other manners during the current period.
- (h) There are no accounts receivables that written off during the current period.
- (i) As at 31 December 2015, accounts receivable with significant balance are analyzed as follows:

Name of the entity	Relation with the Company	Amount	Aging	% of total balance
Customer 1	Related party	204,841,149.21	Within 1 year	53.99%
Customer 2	Related party	70,889,176.32	Within 1 year	18.68%
Customer 3	Related party	16,698,842.31	Within 1 year	4.40%
Customer 4	Third party	7,862,322.00	Within 1 year	2.07%
Customer 5	Third party	5,810,760.93	Within 1 year	1.53%
		<hr/>		
		306,102,250.77		80.67%

- (j) There are no accounts receivables derecognized as at 31 December 2015.
- (k) As at 31 December 2015, there are no securitizations that targeted at accounts receivable.

Notes to the Financial Statement

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

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

(2) Other receivables (Continued)

	31 December 2015	31 December 2014
Receivables due from related parties	1,057,170,703.77	1,254,880,732.49
Including: Entrusted loan	618,120,000.00	467,000,000.00
Others	439,050,703.77	787,880,732.49
Rentals, deposits and staff advances	18,792,162.71	14,025,092.95
Others	29,190,075.88	22,911,387.29
	1,105,152,942.36	1,291,817,212.73
Less: Provision for bad debts	5,579,791.92	5,565,468.55
	1,099,573,150.44	1,286,251,744.18

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

	31 December 2015	31 December 2014
Within 1 year	1,079,841,799.07	1,262,142,235.17
1 to 2 years	2,541,057.08	5,376,202.52
2 to 3 years	364,946.15	725,196.87
3 to 4 years	66,172.45	282,778.11
4 to 5 years	57,035.39	294,295.00
Over 5 years	22,281,932.22	22,996,505.06
	1,105,152,942.36	1,291,817,212.73

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

(2) Other receivables (Continued)

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

	31 December 2015				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	1,040,121.11	0.09%	1,040,121.11	100.00%	-
Subject to provision by groups:					
Group 1	9,902,104.82	0.90%	1,402,101.37	14.16%	8,500,003.45
Group 2	15,110,280.51	1.37%	-	0.00%	15,110,280.51
Group 3	1,057,170,703.77	95.66%	-	0.00%	1,057,170,703.77
Group 4	18,792,162.71	1.70%	-	0.00%	18,792,162.71
Individually insignificant but subject to separate provision	3,137,569.44	0.28%	3,137,569.44	100.00%	-
	<u>1,105,152,942.36</u>	100.00%	<u>5,579,791.92</u>	0.50%	<u>1,099,573,150.44</u>

	31 December 2014				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	932,121.11	0.07%	932,121.11	100.00%	-
Subject to provision by groups:					
Group 1	10,449,870.75	0.81%	1,700,949.92	16.28%	8,748,920.83
Group 2	8,596,997.91	0.67%	-	0.00%	8,596,997.91
Group 3	1,254,880,732.49	97.13%	-	0.00%	1,254,880,732.49
Group 4	14,025,092.95	1.09%	-	0.00%	14,025,092.95
Individually insignificant but subject to separate provision	2,932,397.52	0.23%	2,932,397.52	100.00%	-
	<u>1,291,817,212.73</u>	100.00%	<u>5,565,468.55</u>	0.43%	<u>1,286,251,744.18</u>

Notes to the Financial Statement

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

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

(2) Other receivables (Continued)

- (c) Other receivables that are individually significant and subject to separate provision are analyzed as follows:

Name of entity	Ending balance	Provision for bad debts	Ratio	Reason
Other receivables 1	502,043.54	502,043.54	100.00%	it is expected that the amount would not be recoverable
Other receivables 2	430,077.57	430,077.57	100.00%	it is expected that the amount would not be recoverable
Other receivables 3	108,000.00	108,000.00	100.00%	it is expected that the amount would not be recoverable
	<u>1,040,121.11</u>	<u>1,040,121.11</u>		

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

	31 December 2015			31 December 2014		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	8,467,887.26	85.52%	84,678.88	7,927,161.10	75.86%	79,271.62
1 to 2 years	82,250.61	0.83%	8,225.06	310,094.98	2.97%	31,009.50
2 to 3 years	44,920.00	0.45%	13,476.00	698,196.87	6.68%	209,459.06
3 to 4 years	9,836.87	0.10%	4,918.43	230,178.11	2.20%	115,089.06
4 to 5 years	32,035.39	0.32%	25,628.31	90,595.00	0.87%	72,476.00
Over 5 years	1,265,174.69	12.78%	1,265,174.69	1,193,644.69	11.42%	1,193,644.68
	<u>9,902,104.82</u>	<u>100.00%</u>	<u>1,402,101.37</u>	<u>10,449,870.75</u>	<u>100.00%</u>	<u>1,700,949.92</u>

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

(2) Other receivables (Continued)

- (e) There are no receivables that are subject to fully provision or in large partial but are reversed or collected in full amount or in large partial in the current period.
- (f) There are no others receivables collected by restructuring or other manners in the current period.
- (g) As at 31 December 2015, the top five of other receivables are analyzed as follows:

Name of entity	Relation of the Company	Amount	Aging	% of total balance
Other receivables 1	Wholly-owned subsidiary	540,170,089.38	Within 1 year	48.88%
Other receivables 2	Wholly-owned subsidiary	117,117,085.83	Within 1 year	10.60%
Other receivables 3	Wholly-owned subsidiary	115,375,803.55	Within 1 year	10.44%
Other receivables 4	Indirect subsidiary	67,908,128.54	Within 1 year	6.14%
Other receivables 5	Wholly-owned subsidiary	60,100,247.38	Within 1 year	5.44%
		<hr/>		<hr/>
		900,671,354.68		81.50%

- (h) As at 31 December 2015, there are no other receivables that are derecognized.
- (i) As at 31 December 2015, there are no securitizations that targeted at other receivables.

Notes to the Financial Statement

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

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

(3) Long-term equity investments

Item	31 December 2015			31 December 2014		
	Book balance	Provision for impairment	Current amount	Book balance	Provision for impairment	Current amount
For subsidiary investment	2,075,585,363.78	171,000,000.00	1,904,585,363.78	1,796,121,363.78	171,000,000.00	1,625,121,363.78
For Joint entity, and Associates investment	1,980,392,343.67	-	1,980,392,343.67	1,801,352,083.59	-	1,801,352,083.59
Total	4,055,977,707.45	171,000,000.00	3,884,977,707.45	3,597,473,447.37	171,000,000.00	3,426,473,447.37

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

(3) Long-term equity investments (Continued)

(a) For subsidiary investment (Continued)

Name of entity	31 December 2014	Current increase	Current decrease	31 December 2015	Impairment losses recognized in current period	Provision for impairment on 31 December 2015
Xing Qun	125,322,300.00	-	-	125,322,300.00	-	-
Zhong Yi	324,320,391.34	-	-	324,320,391.34	-	-
Chen Li Ji Pharmaceutical Factory	142,310,800.00	-	-	142,310,800.00	-	-
Guangzhou Han Fang	249,017,109.58	-	-	249,017,109.58	-	55,000,000.00
Qi Xing Pharmaceutical	126,775,500.00	-	-	126,775,500.00	-	-
Jing Xiu Tang	101,489,800.00	-	-	101,489,800.00	-	-
Pan Gao Shou	144,298,200.00	-	-	144,298,200.00	-	-
Cai Zhi Lin	89,078,900.00	-	-	89,078,900.00	-	69,000,000.00
Pharmaceutical Import & Export	18,557,303.24	-	-	18,557,303.24	-	-
Guangzhou Bai Di	129,145,812.38	-	-	129,145,812.38	-	47,000,000.00
Guangxi Ying Kang	21,536,540.49	-	-	21,536,540.49	-	-
Wang Lao Ji Great Health	10,000,000.00	90,000,000.00	-	100,000,000.00	-	-
Guangzhou Guang Yao Yi Gan Biological Product Co., Ltd.	12,600,000.00	-	-	12,600,000.00	-	-
Xing Zhou	64,860,000.00	-	-	64,860,000.00	-	-
Guangyao Baiyunshan Hong Kong Company	35,410,006.87	58,464,000.00	-	93,874,006.87	-	-
Tian Xin	96,192,658.47	-	-	96,192,658.47	-	-
Guang Hua	53,659,963.75	-	-	53,659,963.75	-	-
Ming Xing	12,581,294.18	-	-	12,581,294.18	-	-
Wei Ling Pharmaceutical	10,444,783.48	-	-	10,444,783.48	-	-
Baiyunshan Pharmaceutical Technology	1,020,000.00	-	-	1,020,000.00	-	-
Great Health Hotel	500,000.00	-	-	500,000.00	-	-
Baiyunshan Medical Health	1,000,000.00	44,000,000.00	-	45,000,000.00	-	-
Guangzhou Baiyunshan Chemical Technology Co., Ltd.	26,000,000.00	-	-	26,000,000.00	-	-
Guangyao Haima	-	7,000,000.00	-	7,000,000.00	-	-
Guangzhou Baiyunshan Pharmaceutical Sales Co., Ltd.	-	10,000,000.00	-	10,000,000.00	-	-
Guangyao General Institute	-	70,000,000.00	-	70,000,000.00	-	-
Total	1,796,121,363.78	279,464,000.00	-	2,075,585,363.78	-	171,000,000.00

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

(3) Long-term equity investments (Continued)

(b) For joint ventures and associates investments

Name of entity	Investment cost	31 December 2014	Current period movement	Under the equity method to confirm the investment profit and loss	Current period movement on other comprehensive income	Other equity movement	Cash dividends declared to distribute	Others	31 December 2015	Provision for impairment	Impairment losses recognised in current period	Cash dividend in current period
Equity method:												
Jointly-controlled entities:												
GP Corp.	396,589,139.78	1,048,164,357.93	-	111,226,705.26	(3,501.34)	110,597.34	-	-	1,159,498,159.19	-	-	-
Wang Lao Ji	102,035,124.44	379,004,767.12	-	7,924,628.09	-	-	-	-	386,929,395.21	-	-	-
HWBYS	100,000,000.00	317,471,495.81	-	66,177,273.59	-	-	(20,000,000.00)	-	363,648,769.40	-	-	20,000,000.00
Baxter Qiao Guang	37,000,000.00	25,946,153.42	-	6,284,815.63	-	-	-	-	32,230,969.05	-	-	-
Associates:												
Guangzhou Jinshen Pharmaceutical Technology Co., Ltd.												
	765,000.00	-	-	-	-	-	-	-	-	-	-	-
Golden Eagle Asset Management Co., Ltd.												
	50,000,000.00	28,806,601.98	-	7,204,549.25	95,411.50	-	-	-	36,106,562.73	-	-	-
Wei Yi Co., Ltd.	2,020,000.00	1,958,707.33	-	19,780.76	-	-	-	-	1,978,488.09	-	-	-
Sub-total of equity method	688,409,264.22	1,801,352,083.59		198,837,752.58	91,910.16	110,597.34	(20,000,000.00)	-	1,980,392,343.67	-	-	20,000,000.00

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

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

(4) Revenue and cost of sales

	For the year ended 31 December 2015		
	Principal operation	Other operations	Subtotal
Revenue	2,545,360,406.29	386,128,089.92	2,931,488,496.21
Cost of operation	1,334,949,543.68	182,949,113.11	1,517,898,656.79
Gross profit	1,210,410,862.61	203,178,976.81	1,413,589,839.42

	For the year ended 31 December 2014		
	Principal operation	Other operations	Subtotal
Revenue	2,540,146,325.79	448,281,250.14	2,988,427,575.93
Cost of operation	1,457,485,322.33	222,964,655.80	1,680,449,978.13
Gross profit	1,082,661,003.46	225,316,594.34	1,307,977,597.80

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

	Revenue from principal operation		Cost of principal operations	
	For the year ended 31 December 2015	For the year ended 31 December 2014	For the year ended 31 December 2015	For the year ended 31 December 2014
Great Southern TCM	2,544,859,266.14	2,539,603,660.22	1,334,465,823.44	1,456,965,791.43
Great Commerce	501,140.15	542,665.57	483,720.24	519,530.90
	2,545,360,406.29	2,540,146,325.79	1,334,949,543.68	1,457,485,322.33

Notes to the Financial Statement

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

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

(4) Revenue and cost of sales (Continued)

(b) Revenue and cost of principal operation by regions are summarised as follows:

	Revenue from principal operation		Cost of principal operation	
	For the year ended 31 December 2015	For the year ended 31 December 2014	For the year ended 31 December 2015	For the year ended 31 December 2014
Southern China	2,148,380,442.45	2,109,005,339.30	1,160,585,650.54	1,259,764,239.19
Eastern China	194,201,509.14	231,836,905.22	58,482,066.05	79,791,037.55
Northern China	69,235,730.76	63,951,654.25	41,869,094.38	38,828,150.44
North east China	7,012,293.57	14,735,802.32	4,586,772.29	10,813,903.04
South west China	118,712,234.59	112,091,943.61	65,271,955.78	63,665,910.02
North west China	7,818,195.78	8,524,681.09	4,154,004.64	4,622,082.09
	2,545,360,406.29	2,540,146,325.79	1,334,949,543.68	1,457,485,322.33

(c) The total top five of customer sales is RMB1,885,244 thousand, which is 74.06% of revenue from principal operation this period.

	Revenue from principal operation	% of revenue from principal operation of the company
Customer 1	1,470,786,518.69	57.78%
Customer 2	264,522,376.61	10.39%
Customer 3	59,321,408.51	2.33%
Customer 4	45,630,085.56	1.79%
Customer 5	44,983,974.36	1.77%
	1,885,244,363.73	74.06%

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

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

(5) Investment income

(a) Details of Investment income

	For the year ended 31 December 2015	For the year ended 31 December 2014
Income from financial assets:		
Income from financial assets held for trading	297,403.40	26,609.76
Income from available-for-sale financial assets	5,314,895.32	5,552,944.32
Income from entrusted loans	29,385,817.24	17,501,492.52
Income from long-term equity investments under cost method	481,878,739.10	438,180,118.43
Income from long-term equity investments under equity method	198,837,752.58	94,337,405.27
Income from disposal long-term equity investments	–	(1,000,000.00)
	715,714,607.64	554,598,570.30

(b) Among the long-term equity investments measured at cost method, details of investment income accounted for more than 10% of net profit are as below:

	For the year ended 31 December 2015	For the year ended 31 December 2014
Wang Lao Ji Great Health	273,866,725.48	182,150,646.65

(c) Among the long-term equity investments measured at equity method, details of investment income accounted for more than 10% of net profit are as below:

	For the year ended 31 December 2015	For the year ended 31 December 2014
GP Corp.	111,226,705.26	101,509,499.80

Notes to the Financial Statement

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

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

(6) Supplementary information to the Company's cash flow statement

	For the year ended 31 December 2015	For the year ended 31 December 2014
(a) Reconciliation from net profit to cash flows from operating activities		
Net profit	1,150,350,559.84	916,674,526.23
Add: Provisions for asset impairment	8,137,243.96	19,998,482.93
Depreciation and amortization of fixed assets and investment property	55,307,540.54	51,534,324.88
Amortization of intangible assets	6,654,277.61	5,435,221.01
Amortization of long-term prepaid expenses	339,753.51	197,973.50
Gains on disposal of fixed assets, intangible assets and other long-term assets	459,236.86	961,396.44
Losses on scrapping of fixed assets	-	449,087.35
Loss (less: gains) on change in fair value	(1,813,766.60)	(1,323,355.80)
Financial expenses	29,683,301.81	26,652,209.11
Investment income	(715,714,607.64)	(554,598,570.30)
Decrease in deferred tax assets (less: increase)	4,779,524.45	(2,204,304.24)
Increase (less: decrease) in deferred tax liabilities	(43,880.46)	(149,846.21)
Decrease (less: increase) in inventories	42,120,393.97	(61,528,500.28)
Decrease in operating receivables (less: increase)	(127,693,597.88)	(3,576,991.18)
Increase in operating payables (less: decrease)	221,433,294.60	73,306,257.79
Others	-	-
Net cash flows from operating activities	673,999,274.57	471,827,911.23
(b) Investing and financing activities that do not involve cash receipts and payments		
Conversion of debt into capital	-	-
Convertible company bonds due within one year	-	-
Fixed assets held under finance leases	-	-
(c) Net movement in cash and cash equivalents		
Cash at end of period	960,889,437.00	709,868,368.22
Less: Cash at beginning of year	709,868,368.22	462,902,261.84
Add: Cash equivalents at end of period	-	-
Less: Cash equivalents at beginning of year	-	-
Net movement in cash and cash equivalents	251,021,068.78	246,966,106.38

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

19. SUMMARY OF NON-RECURRING PROFIT OR LOSS

Item	For the year ended 31 December 2015	For the year ended 31 December 2014
Losses on disposal of non-current assets	(1,285,197.07)	(9,939,101.09)
Tax return or exemption without proper authorization	11,769.02	322,209.50
Government grants recognised in profits or losses(excluding those government grants that are closely relevant to the Group's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government)	307,220,284.09	185,775,224.03
Interests received from entities other than financial institutions recognised in profits or losses	-	-
Gains arising from the difference between Investment cost on subsidiaries, associates and jointly controlled entities and the fair value of the net assets attributable to the Group	-	-
Gains or losses arising from non-monetary assets exchange	-	-
Gains or losses arising from entrusted investments or entrusted asset management	-	-
Asset impairment provided in current year due to forced majeure (e.g. natural disasters)	-	-
Gains or losses arising from debt restructuring	-	-
Corporate restructuring costs (e.g. staff replacement costs and costs during the course of integration)	-	-
Gains or losses arising from the difference between the fair value and transaction price in obviously unfair transactions	-	-
Net profit of subsidiaries acquired under common control from beginning of year to the merger date	-	-
Gains or losses arising from contingencies irrelevant to the Group's normal business	-	-

Notes to the Financial Statement

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

19. SUMMARY OF NON-RECURRING PROFIT OR LOSS (Continued)

Item	For the year ended 31 December 2015	For the year ended 31 December 2014
Gains or losses from changes in fair value of financial assets and liabilities held for trading except for hedging contracts and disposal of financial assets and liabilities held for trading and available-for-sale financial assets	1,813,766.60	1,323,355.80
Reversal of provision for bad-debts of accounts receivable subject to separate provision	671,482.01	–
Gains or losses arising from entrusted loan granted to other entities	(1,743,226.43)	(1,048,049.14)
Gains or losses arising from changes in fair value of investment properties under fair value model	–	–
One-off adjustments to profit or loss as required by taxation and accounting laws and regulations	–	–
Consignment fee income arising from entrusted operations	–	–
Other non-operating income and expenses other than the above-mentioned items	(88,140,063.02)	(51,005,919.80)
Other profit or loss items meeting the definition of non-recurring profit or loss	–	–
Impact on income tax	(45,632,804.27)	(23,375,574.73)
Impact on minority interests (post-tax)	(1,329,376.52)	(440,817.18)
Total	171,586,634.41	101,611,327.39

Notes to the Financial Statement

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

19. SUMMARY OF NON-RECURRING PROFIT OR LOSS (Continued)

For the year ended 31 December 2015	Weighted average return on net assets	Earnings per share	
		Weighted average basic earnings per share	Weighted average diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	15.91%	1.007	1.007
Net profit after deducting non- recurring profit or loss attributable to ordinary shareholders of the Company	13.81%	0.874	0.874

For the year ended 31 December 2014	Weighted average return on net assets	Earnings per share	
		Weighted average basic earnings per share	Weighted average diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	16.48%	0.925	0.925
Net profit after deducting non- recurring profit or loss attributable to ordinary shareholders of the Company	15.08%	0.846	0.846

Notes to the Financial Statement

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

19. SUMMARY OF NON-RECURRING PROFIT OR LOSS (Continued)

For the year ended 31 December 2015	Overall diluted return on net assets	Earnings per share	
		Overall diluted basic earnings per share	Overall diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	15.39%	1.007	1.007
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	13.36%	0.874	0.874

For the year ended 31 December 2014	Overall diluted return on net assets	Earnings per share	
		Overall diluted basic earnings per share	Overall diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	15.50%	0.925	0.925
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	14.18%	0.846	0.846

The Group presented return on net assets and earnings per share in accordance with the regulations of <Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No.9 – Calculation and Disclosure of Return on Net Assets and Earnings Per Share> (revised 2010).

Documents Available for Inspection

- (1) The financial statements signed by the legal representative and the Financial Controller of the Company;
- (2) The auditor's reports signed by BDO China Shu Lun Pan CPAs LLP together with the financial statements prepared in accordance with PRC Accounting Standards;
- (3) The original company documents disclosed and announcements published in China Securities News, Shanghai Securities News and Securities Times during the Reporting Period;
- (4) The documents listed above are being kept at the Secretariat to the Board.