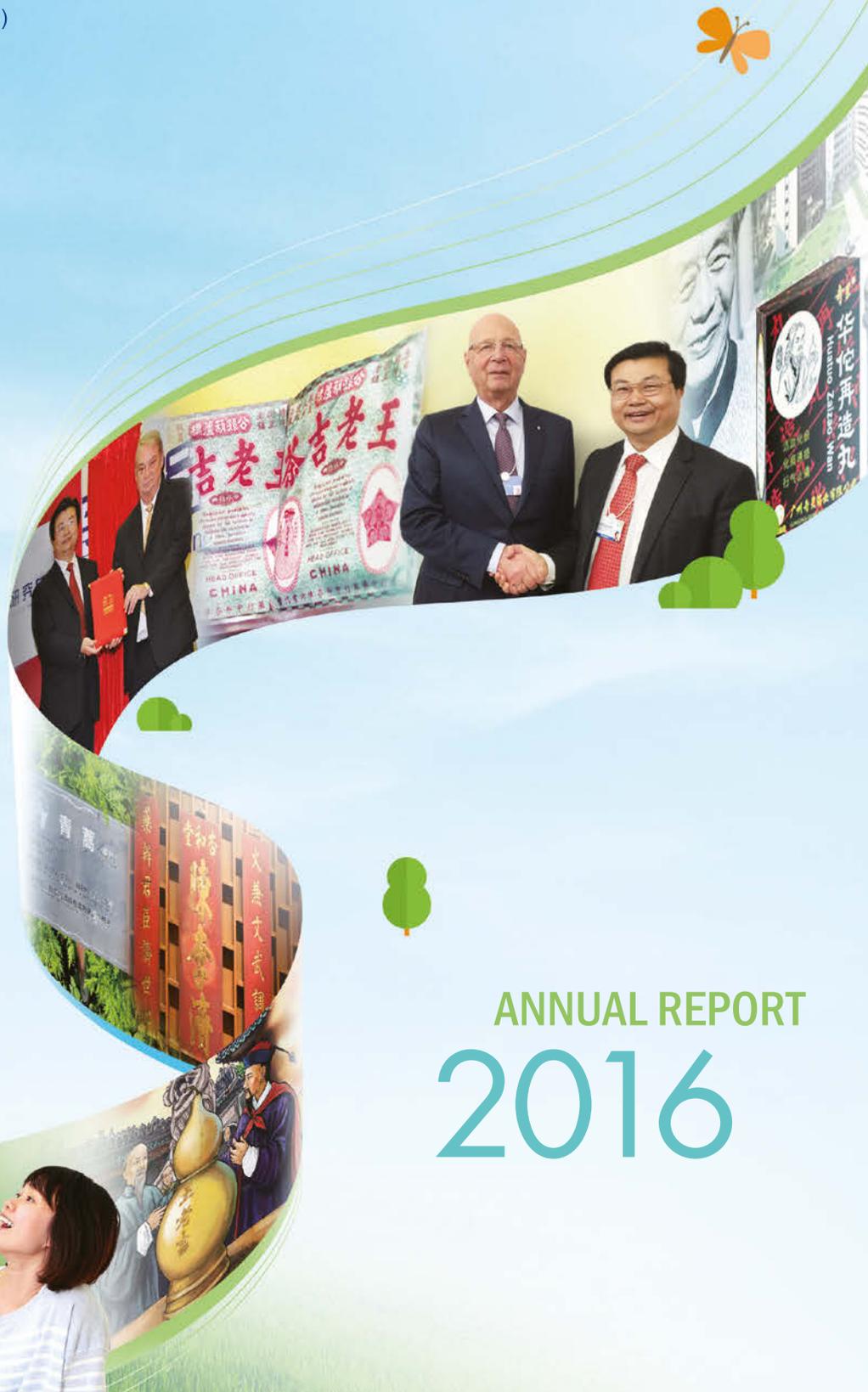




廣州白雲山醫葯集團股份有限公司

GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS CO., LTD.

(Stock code: 874)



ANNUAL REPORT  
2016

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## IMPORTANT NOTICE

- I. The Board, the Supervisory Committee and the Directors, supervisors and senior management collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this annual report and confirm that there are no false information, misleading statements or material omissions in this annual report.
- II. The Directors were present at the 29th meeting of the sixth session of the Board, among whom, Mr. Li Chuyuan (chairperson of the Board), was unable to attend the meeting due to business reason and had appointed Mr. Chen Mao (vice chairperson of the Board) to attend the meeting and vote on his behalf. Mr. Wong Lung Tak Patrick and Mr. Jiang Wenqi, both independent non-executive directors, attended the meeting by telephone.
- III. The financial report of the Group and the Company for the year ended 31 December 2016 was prepared in accordance with the China Accounting Standards for Business Enterprises, which are audited by BDO China Shu Lun Pan CPAs LLP which had issued unqualified auditors' reports thereon.
- IV. Mr. Li Chuyuan (chairperson of the Board), Mr. Wu Changhai (executive director and deputy general manager) and Ms. Yao Zhizhi (deputy director of Finance and head of the finance department) declared that they warranted that the financial report 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 of the Group attributable to the shareholders of the Company of 2016 amounted to RMB1,508,302,671.07. Based on the net profit of the Company of RMB1,215,121,566.06 in 2016, a 10% statutory surplus reserve in the amount of RMB121,512,156.61 was provided, with the addition of the undistributed profit carried over from last year in the amount of RMB2,949,214,644.89, and after reducing the cash dividends of 2015 by RMB487,737,284.70, the actual distributable profits amounted to RMB3,555,086,769.64.

# Contents

Based on the actual circumstances of the Company, it is proposed that based on the share capital of 1,625,790,949 shares as at the end of 2016, a cash dividend of RMB2.8 (inclusive of tax) for every 10 shares and an aggregate of RMB455,221,465.72 be distributed. The undistributed portion shall be transferred to the next distribution. There will not be any capitalization of capital reserve for 2016.

The profit distribution plan will be submitted to the 2016 Annual General Meeting for approval.

- 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 terms have the meaning as follows:

Company/the Company/GYBYS	Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited
PRC or China	the People's Republic of China
Reporting Period/Year/the current year	the 12 months ended 31 December 2016
Post Reporting Period	the period after the end of the Reporting Period up to the date of this annual report, being 1 January 2017 to 15 March 2017
Group	the Company and its subsidiaries
Board	the board of directors of the Company
Directors	the 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 Shanghai Stock Exchange
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Model Code	The Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules of HKEx
GPHL	Guangzhou Pharmaceutical Holdings Limited (廣州醫藥集團有限公司)

# Definitions

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

# Definitions

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

# Definitions

Baxter Healthcare	Baxter Healthcare (Guang Zhou) Co., Ltd. (廣州百特醫療用品有限公司)
Bozhou Baiyunshan	Bozhou Baiyunshan Pharmaceutical Co., Ltd. (亳州白雲山製藥有限公司)
Guangyao General Institute	Guangzhou Pharmaceutical Research General Institute (廣州醫藥研究總院有限公司)
Guangyao Haima	Guangzhou Haima Pharmaceutical Advertising Co., Ltd. (廣州醫藥海馬品牌整合傳播有限公司)
Baiyunshan Pharmaceutical Marketing	Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd. (廣州白雲山醫藥銷售有限公司)
Baiyunshan Medical and Healthcare Industry Company	Guangzhou Baiyunshan Medical and Healthcare Industry Investment Co., Ltd. (廣州白雲山醫療健康產業投資有限公司)
WLJ Investment	Guangzhou WLJ Investment Co., Ltd. (廣州王老吉投資有限公司)
Medical Instrument Investment Company	Guangzhou Baiyunshan Medical Instrument Investment Company (廣州白雲山醫療器械投資公司)
Guangzhou Baiyunshan Hospital	Guangzhou Baiyunshan Hospital Co., Ltd. (廣州白雲山醫院有限公司)
Golden Eagle Fund	Golden Eagle Fund Management Co., Ltd. (金鷹基金管理有限公司)
Chongqing Pharmaceutical	Chongqing Pharmaceutical (Group) Company Limited (重慶醫藥(集團)股份有限公司)
Chuangmei Medicines	Chuangmei Pharmaceutical Company Limited (創美藥業股份有限公司)
Elim Biotech	Guangzhou Elim Biotech Industrial Venture Capital Management Company (廣州以琳生物產業創業投資管理有限公司)
Sino-Israel Fund	Guangzhou Sino-Israel Bio-industry Investment Fund (LLP) (廣州中以生物產業投資基金合夥企業(有限合夥))

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 that 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.

# Definitions

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
CFDA	China Food and Drug Administration (國家食品藥品監督管理總局)
GZ SOA Development	Guangzhou State-owned Asset Development Holdings Limited (廣州國資發展控股有限公司)
GZ Chengfa	Guangzhou China Life Urban Development Industry Investment Enterprise (Limited Partnership) (廣州國壽城市發展產業投資企業 (有限合夥))
Yunfeng Investment	Shanghai Yunfeng Xinchuang equity investment center (limited partnership) (上海雲鋒新創股權投資中心 (有限合夥))
Placement Prosperous Age Exclusive Account No.66	China Universal-Private Placement Prosperous Age Exclusive Account No. 66 Asset Management Scheme (匯添富一定增盛世專戶66號資產管理計劃)

# Company Profile and Financial Highlights

## 1. COMPANY PROFILE

- (1) 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
- (2) 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 1216/6628 1219  
Fax: (8620) 6628 1229  
E-mail: chenjing@gybys.com.cn/huangxz@gybys.com.cn
- (3) 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](mailto:sec@gybys.com.cn)  
Principal place of business in Hong Kong: Room 2005, 20th Floor, Tower Two Lippo Center, 89 Queensway, Hong Kong
- (4) 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 Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited
- (5) Stock exchanges, name and codes of the Company's shares: A Shares: SSE  
Stock Code: 600332  
Stock Abbreviation: BAIYUNSHAN  
H Shares: HKEx  
Stock Code: 0874  
Stock Abbreviation: BAIYUNSHAN PH

# Company Profile and Financial Highlights

## 1. COMPANY PROFILE *(Continued)*

(6) Other information:	
First registration date:	1 September 1997
First place of registration:	45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC
Registration date for subsequent change:	25 January 2016
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

# Company Profile and Financial Highlights

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

### (1) PRINCIPAL FINANCIAL DATA

Principal financial data	2016	2015	Year on year increase/ (decrease) (%)	2014		2013		2012	
				After restatement	Before restatement	After restatement	Before restatement	After restatement	Before restatement
Income from operations (RMB'000)	<b>20,035,681</b>	19,124,658	4.76	18,818,232	18,799,881	17,628,142	17,608,193	12,081,764	12,062,642
Net profit attributable to the shareholders of the Company (RMB'000)	<b>1,508,033</b>	1,300,351	15.97	1,194,141	1,192,472	979,376	980,045	728,150	729,040
Net profit attributable to the shareholders of the Company after deducting non-recurring items (RMB'000)	<b>1,071,111</b>	1,128,765	(5.11)	1,092,530	1,112,771	873,052	891,802	687,910	706,882
Net cash flow from operating activities (RMB'000)	<b>2,444,672</b>	1,941,956	25.89	1,751,690	1,761,382	1,341,176	1,339,140	1,003,536	999,230
Total profit (RMB'000)	<b>1,945,053</b>	1,628,122	19.47	1,468,061	1,467,177	1,228,521	1,229,190	880,173	881,063

Principal financial data	As at 31 December 2016	As at 31 December 2015	Year on year increase/ (decrease) (%)	As at 31 December 2014		As at 31 December 2013		As at 31 December 2012	
				After restatement	Before restatement	After restatement	Before restatement	After restatement	Before restatement
Net assets attributable to the shareholders of the Company (RMB'000)	17,345,080	8,450,814	105.25	7,705,137	7,739,301	6,795,505	6,831,768	5,530,786	5,566,352
Total assets (RMB'000)	25,897,170	15,870,577	63.18	14,266,903	14,210,784	12,321,777	12,249,123	9,482,369	9,394,208
Total liabilities (RMB'000)	8,243,380	7,186,644	14.70	6,344,908	6,251,805	5,335,803	5,226,886	3,761,972	3,638,244
Equity attributable to the shareholders of the Company per share (RMB)	10.67	6.55	62.99	5.97	5.99	5.26	5.29	4.39	4.41
Total equity (RMB'000)	1,625,791	1,291,079	25.92	1,291,341	1,291,341	1,291,341	1,291,341	1,261,240	1,261,240

# Company Profile and Financial Highlights

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

### (2) PRINCIPAL FINANCIAL INDICATORS

Principal financial indicators	2016	2015	Year on year increase/ (decrease) (%)	2014		2013		2012	
				After restatement	Before restatement	After restatement	Before restatement	After restatement	Before restatement
Basic earnings per share (RMB)	<b>1.075</b>	1.007	6.76	0.925	0.923	0.767	0.768	0.577	0.578
Diluted earnings per share (RMB)	<b>1.075</b>	1.007	6.76	0.925	0.923	0.767	0.768	0.577	0.578
Basic earnings per share after deducting non-recurring items (RMB)	<b>0.764</b>	0.874	(12.65)	0.846	0.862	0.684	0.699	0.545	0.560
Weighted average return on net assets ratio (%)	<b>12.75</b>	15.91	A decrease of 3.16 percentage points	16.48	16.38	15.70	15.71	13.87	13.89
Ratio of weighted return on net assets after deducting non-operating items (%)	<b>9.06</b>	13.81	A decrease of 4.75 percentage points	15.08	15.29	13.99	14.30	13.11	13.47
Return on total equity attributable to shareholders of the Company (%)	<b>8.69</b>	15.39	A decrease of 6.70 percentage points	15.50	15.41	14.41	14.35	13.17	13.10
Ratio on total equity attributable to shareholders of the Company to total assets(%)	<b>66.98</b>	53.25	An increase of 13.73 percentage points	54.01	54.46	55.15	55.77	58.33	59.25
Gearing ratio (%)	<b>31.83</b>	45.28	A decrease of 13.45 percentage points	44.47	43.99	43.30	42.67	39.67	38.73

Notes:

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

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

# Company Profile and Financial Highlights

## 3. PRINCIPAL FINANCIAL DATA OF 2016 ON QUARTERLY BASIS

	The first quarter (January – March) (RMB'000)	The second quarter (April – June) (RMB'000)	The third quarter (July – September) (RMB'000)	The fourth quarter (October – December) (RMB'000)
Income from operations	5,050,887	5,806,381	4,686,416	4,491,997
Net profit attributable to the shareholders of the Company	409,319	422,488	224,616	451,610
Net profit attributable to the shareholders of the Company after deducting non-recurring items	393,747	303,582	173,294	200,488
Net cash flow from operating activities	743,266	969,725	705,391	26,290

## 4. NON-RECURRING ITEMS AND THEIR AMOUNTS

Items	Amount in 2016 (RMB'000)	Notes	Amount in 2015 (RMB'000) (After restatement)	Amount in 2014 (RMB'000) (After restatement)
Gain/(Loss) on disposal of non-current assets	15,244		(1,285)	(9,939)
Tax reduction or refund of ultra vires approval or without formal approval documents	—		12	322
Government subsidies recognized as gain/(loss)	496,824	This is the amount of government subsidies received by the Company's subsidiaries which was transferred to non-operating income in the Reporting Period.	307,220	185,775
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	(1,087)		1,814	1,323
Write-off of provision for impairment of accounts receivable undergoing independent impairment test	3,110		671	—
Gain/Loss from entrusted loans	—		(1,743)	(1,048)
Other non-operating income and expenses excluding the above items	(33,640)		(88,140)	(51,005)
Income tax effect	(40,659)		(45,633)	(23,376)
Effect on minority interest (after tax)	(2,871)		(1,329)	(441)
Total	436,921		171,587	101,611

# Company Profile and Financial Highlights

## 5. CHANGES IN SHAREHOLDERS' EQUITY IN 2016 (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	1,291,080	2,346,435	(733)	930,522	3,883,510	8,450,814
Additions	334,711	7,528,738	10,739	121,512	1,508,033	9,503,733
Deductions	—	—	218	—	609,249	609,467
Closing balance	1,625,791	9,875,173	9,788	1,052,034	4,782,294	17,345,080

## 6. ITEMS RELATED TO FAIR VALUE MEASUREMENT

Items	Balance at the beginning of the Reporting Period (RMB'000)	Balance at the end of the Reporting Period (RMB'000)	Changes during the Reporting Period (RMB'000)	Impact on the profit for the Reporting Period (RMB'000)
Available for sale financial assets	76,415	25,932	(50,483)	12,460
Financial assets base on fair value to confirm profit or loss	6,500	6,026	(474)	(459)
Total	82,915	31,958	(50,957)	12,001

# Company's Business Profile

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

### (1) Main Business and Products

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

#### (i) *Great Southern TCM (pharmaceutical manufacturing business)*

There are 25 pharmaceutical manufacturing companies and organizations under the Company (including 3 branches, 18 subsidiaries and 4 joint ventures). The above enterprises or institutions engaged in the R&D and manufacturing of Chinese patent medicine and western medicine, chemical raw materials, intermediates chemical raw materials, biomedicine and natural medicine, etc..

- 1) The Group is an epitome of the southern TCM. The Company has 12 China time honored brand enterprises such as Zhong Yi, Chen Li Ji, Qi Xing, Jing Xiu Tang, Pan Gao Shou, etc. (including subsidiaries and joint ventures), among which, 10 of them are century old time-honored enterprises. The Company and its joint ventures has 4 protected Chinese traditional medicine of national grade, and 54 exclusively made Chinese traditional medicine. Main products include Xiao Ke Pill, Hua Tuo Zai Zao Pill, compound Salvia Milltiorrhiz slice, Ban Lan Gen Granule, Qing Kai Ling series, An Gong Niu Huang Pill, Zi Shen Yu Tai Pill, Zhui Feng Tou Gu Pill etc. The Group boasts clear brand and variety advantages in proprietary Chinese medicines in southern China and even countrywide.
- 2) The Group has a complete antibiotic production chain ranging from raw material medicine to preparation and male medicine, with products covering commonly used antibiotic varieties. The Group integrated the antibiotic brands with the famous trademark "Kang Zhi Ba", striving to make a market image with the number one brand of oral antibacterial anti-inflammatory. The Group's chemical medicine includes Cefathiamidine, Cefixime, Amoxicillin and Sildenafil Citrate Tablets, etc..

# Company's Business Profile

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

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

#### (ii) **Great Health Industry**

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

#### (iii) **Great Commerce (Pharmaceutical distribution business)**

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

#### (iv) **Great Medical Care**

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

In the field of medical services, the Group has completed the acquisition of Guangzhou Baiyunshan Hospital, which will be gradually built into a special integrated medical service institution based on rehabilitation and supplemented by orthopedics and urology. In the field of health maintenance based on traditional Chinese medicine, the Tibetan-style Health-keeping Fort invested by the Group has been completed and put into trial operation.

# Company's Business Profile

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

### (2) Operating Model

#### (i) **Great Southern TCM**

##### 1) *Procurement Model*

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

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

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

# Company's Business Profile

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

### (2) Operating Model *(Continued)*

#### (i) **Great Southern TCM** *(Continued)*

##### 2) *Production Model*

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

##### 3) *Sales Model*

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

#### ① The sales mode for national essential drugs

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

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

# Company's Business Profile

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

### (2) Operating Model *(Continued)*

#### (i) **Great Southern TCM** *(Continued)*

##### 3) Sales Model *(Continued)*

###### ② The sales mode for non-national essential drugs

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

###### (a) Pharmaceutical industry sales sub-platform

The Company established the pharmaceutical industry sales sub-platform in the mode of "industrial operation + commercial platform", which integrated with the Group's pharmaceutical industry marketing resources to improve the sale level of pharmaceutical industry enterprises, creating overall pharmaceutical marketing advantages. During the Reporting Period, the Group established the OTC integrated marketing platform with HWBYS as the subject, deepening in-depth cooperation with retail drug stores, especially the Top 100 Chains, and also set up Baiyunshan Pharmaceutical Marketing Company, starting integration of marketing resources for the pharmaceutical manufacturing enterprises under the Company.

###### (b) E-commerce sales sub-platform

E-commerce sales sub-platform was a platform of brands and new products promotion for complementing the existing sale systems. It is also one of the sales channels that the Company will focus on development. Currently, Cai Zhi Lin, a subsidiary of the Company, has set up e-commerce terminal marketing platform on Taobao, Number One Shop, Suning E-commerce and others. Tianmao franchise store of Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory was successfully launched. Guangyao Jian Min Chain Co., Ltd. set up modern community flagship drugstores to interface with WeChat team, initially establishing 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 throughout the country, Jian Min 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)*

### (2) Operating Model *(Continued)*

#### (ii) **Great Health Industry**

##### 1) *Purchasing Mode*

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

##### 2) *Production Mode*

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

##### 3) *Sales Mode*

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

# Company's Business Profile

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

### (2) Operating Model *(Continued)*

#### (iii) Great Commerce

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

GP Corp., a joint venture of the Company, is leading medicine circulation enterprise in south China, with good business reputation, huge sales network, a wide range of sales channels and stronger pharmaceutical distribution capacity. The Group 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.

As at 31 December 2016, the Group and its joint ventures had 63 retail chain pharmacy outlets, including 30 "Cai Zhi Lin" pharmacy outlets which specialized in traditional Chinese medicines, 33 "Jian Min" pharmacy outlets which specialized in western medicine, medical apparatus and instruments, and one pharmacy named Ying Bang.

*The main performance driving factors:*

During the Reporting Period, the Group's revenue amounted to RMB20,035,681,000, representing an increase of 4.76% compared with the corresponding period last year. The revenue growth was mainly attributable to strategic upgrading the three segments of "Great Southern TCM, Great Health, Great Commerce" by the Group, strengthening market promotion and marketing.

### (3) Current circumstances of the development of the industry

In recent years, with the increasingly intensified efforts in medicine bidding and medical insurance cost control, as well as the slowdown in GDP growth and the completion of full coverage in the medical insurance, the growth rate of the pharmaceutical industry has declined. The total industrial output value of medicines in 2016 was RMB2,806.3 billion, representing an increase of 9.7%; total profit amounted to RMB300.3 billion, representing an increase of 13.9%.

# Company's Business Profile

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

### (4) Periodic Characteristics

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

### (5) Position of the Company in the Industry

After years of development, the Group 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 medicine, chemical raw materials intermediates, 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 medicine, chemical medicine preparation etc..

In 2012, the Company founded WLJ Great Health, with "Wang Lao Ji" brand leading the great health industry, helping the Group to open up new growth impetus and strategic space. 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.

# Company's Business Profile

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

The closing balance of the Group's projects under construction to produce was RMB255,276,000, representing a decrease of 54.08%, mainly because the Group's production base construction project completed gradually in this year.

## 3. CORE COMPETITION CAPACITY ANALYSIS DURING THE REPORTING PERIOD

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

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

- 1) Products: The Group has formed complete series in areas such as diabetes, cardiovascular and cerebrovascular diseases, anti-bacteria and anti-infection, cooling and detox, parenteral nutrition, coughing, bone-setting and pain relief, rheumatism and bone pain, gynaecological and paediatric medication, and nurturing and health. The Group has more than 30 forms and nearly 2,000 specifications and over 100 exclusive products.
- 2) Brands: Currently, the Group has trademarks of 9 nationally renowned brands, 21 renowned brands in Guangdong Province and 29 renowned brands in Guangzhou City. Among which, the brand awareness and reputation of "BYS" have a greater impact and appeal among consumers in the country, and is one of the most valuable pharmaceutical brands in the country. After completion of the major assets reorganization 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 Great Health Industry by promoting the development of Great Commerce, expanding the Great Medical Care and cultivating the development of new forms like capital finance, e-commerce and medical equipment, the Group has extended its coverage of brand value from traditional medical products to Great health products.

# Company's Business Profile

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

- (ii) Long history in Chinese traditional medicine history and cultural soft power. The Group has 12 long lasting enterprises in Chinese pharmaceutical industry, among which Chen Li Ji, Zhong Yi, Pan Gao Shou, Jing Xiu Tang, Cai Zhi Lin, Wang Lao Ji, Xing Qun, Qi Xing, Ming Xing and Guang Hua have been established for over a hundred years. Also, the Group has 6 items admitted as the nation's Intangible Cultural Heritage, namely "Xia Sang Ju" (夏桑菊) of Xing Qun, "Da Shen Kou Yan Qing" (大神口焱清) of BYS, Wang Lao Ji Herbal Tea, the traditional Chinese medicine culture of each of Chen Li Ji and Pan Gao Shou as well as the "Production Technology of Bao Zi Tang Bao Ying Dan" (保滋堂保嬰丹製作技藝) of Zhong Yi. The Group had established the Chen Li Ji Museum (陳李濟博物館), "Chen Li Ji Health Preservation Research Institute" (陳李濟健康養生研究院), "Lingnan Experience Centre of Chinese Medicine Culture" (嶺南中醫藥文化體驗館), Shen Nong Cottage (神農草堂), Cai Zhi Lin Museum (采芝林博物館) and Wang Lao Ji Herbal Tea Museum and had established a number of platforms for the promotion of the "Grand Southern TCM" culture and demonstration of the long history and splendid culture of Chinese medicine and rebuilding the famous brands of Chinese medicine.
- (iii) The Group has a relatively complete production chain system, including the existing major pharmaceutical assets. Through the internal and external forward integration and backward integration, the Group has formed a thorough raw materials, research and development, production, circulation and terminal production chain. In respect of the supply of Chinese herbs, the Group has more than 69 GAP herbs bases nationwide, which effectively ensure the quality and supply of Chinese herbs and controls the production costs. In respect of research and development of products, the Group continues to build a comprehensive technological innovation system. The Group has built an extensive collaborative network with renowned scientific research institutions 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.
- (iv) The Group has a large sales network and a broad and stable customer base. The Group has 60 retail chain pharmacy outlets, the Company is one of the first pharmaceutical trading enterprises in Guangdong Province that obtained the GSP certificate. The Group has also established the 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.

# Company's Business Profile

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

- (v) The Group has an ever-improving technological innovation system. The Group has continuously strengthening the construction of platforms for many years, improving the scientific research innovation system. As at the date of this report, the Group 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 CO<sub>2</sub> 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.
  
- (vi) The Group has a forward-thinking, high quality, reasonably structured and extremely innovative team of talents. In recent years, the Group has insisted on attracting talents with competitive work environment and remuneration package, nurturing them with its excellent corporate culture and motivating them with promising corporate visions. Currently, the Group has a strong high-level talent team with 2 Nobel Prize winners, 9 domestic academicians, 7 foreign academicians, 2 State Council Special Allowance experts in-service, 24 chief experts (scientists), 53 doctors and post doctors. The Group also has nearly 6,202 technology personnels, 1,411 of which have intermediate professional title or above.

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

# Discussion and Analysis of Operations

## 1. MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the Group made great efforts in vigorously building “four major segments” of Great Southern TCM, Great Health Industry, Great Commerce and Great Medical Care, and cultivating “three major new forms” of e-commerce, capital finance and medical equipment through the strategic path of “capitalization and going-out” according to the development idea of “year of corporate quality improvement”, in order to actively improve the industrial structure, enhance the industrial quality, improve the industrial efficiency and has achieved steady growth.

In 2016, the Group’s revenue amounted to RMB20,035,681,000, increased by 4.76% year-on-year; the total profit was RMB1,945,053,000, increased by 19.47% year-on-year; and the net profit attributable to shareholders of the Company was RMB1,508,033,000, increased by 15.97% year-on-year.

During the Reporting Period, the Group made the following efforts:

The first is implementing the Great Southern TCM revitalization project to achieve high growth in key products. (a) Promote the healthy development of the pharmaceutical manufacturing enterprises under the Group through measures like top-level design of technological innovation in Great Southern TCM, sales integration, bringing strength into full play to overshadow weakness, growth project list, inactive variety investment invitation, salary incentives; (b) further promote production and operation integration and sales resources integration of the enterprises under the Group. During the Reporting Period, the Group consolidated the marketing of Baiyunshan General Factory, Guang Hua and Jing Xiu Tang into a deep integration stage by using Baiyunshan Pharmaceutical Marketing as a marketing and integration platform; (c) strengthen marketing innovation, focus on cultivating star products, and have achieved good results, Zi Shen Yu Tai Pill of Zhong Yi, Shu Jin Jian Yao Pill of Chen Li Ji and Sildenafil Citrate Tablet (“Jin Ge”) grew rapidly with a year-on-year growth rate of over 70%.

The second is further consolidating the brand influence and market position of Wang Lao Ji Herbal Tea, actively promoting the diversification of Great Health Industry products category and establish the Great Health Industry product system. (a) Around the priority of “year of catering marketing”, vigorously expand catering channels and promote the new development of the catering market through cooperation with large catering enterprises; (b) Seize the consuming season to create a gift market and maximize the market share of the Wang Lao Ji Herbal Tea; (c) through a number of activities like the establishment of the China Time-Honored Brand Union, development of campus football, establishment of Wang Lao Ji Scholarship in Tsinghua University, implementation of the “Let Love Come Home Early”, cooperation with Zhejiang TV’s flagship program – “Challenger Union”, sponsoring of the popular IP – Yes Boss! Season II and cross-industry marketing with Taobao and mobile games, consolidate the brand image and market position of Wang Lao Ji Herbal Tea; (d) promote the diversification of Great Health Industry products, introduce the new low-sugar and sugar-free products of Wang Lao Ji Herbal Tea by taking the opportunity of the Summer Davos Forum and cooperate with relevant domestic groups and institutions to develop and expand the walnut drink market and jointly operate Great Health Industry experience stores to achieve the diversification of Great Health Industry product categories.

# Discussion and Analysis of Operations

## 1. MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The third is keeping up with the change and the development trend of pharmaceutical business, attach importance to innovative ideas to expand the sales network and develop new business to achieve Great Commerce transformation and development. (a) Further promote the business extension of pharmaceutical services. As of the end of 2016, the commercial enterprises under the Group have cooperated with more than 90 medical institutions in Guangdong Province to carry out business extension of pharmaceutical services cooperation. Only in Guangzhou, they cooperated with 40 medical institutions (including eight 3A-level hospitals, one 3B-level hospital, six 2A-level hospitals and 25 community medical institutions) in various forms and contents and achieved good social benefits; (b) solidly promote the development of innovative business. In terms of e-commerce, the Company put its shop in Tmall.com into official operation in March and the enterprises under GP Corp., namely Jian Min, explored O2O operation with JD.com's door-to-door service. In terms of offline retail, Cai Zhi Lin implemented business integration of its chain stores, introduced convenience measures for consumers and constantly explored innovative development modes. GP Corp. opened its 4th new-concept Jian Min, namely the Hengfu store and was highly welcomed by consumers. Jian Min was listed in China's Top 50 Most Valuable Pharmacies.

The fourth is continuing the expansion of expand Great Health Industry and medical equipment industries and promote the completion of major projects. (a) In terms of Great Health Industry, during the Reporting Period, the Baiyunshan Tibetan-style health-keeping fort project in Nyingchi City, Tibet was successfully opened, which became the new beginning of the Group in terms of health maintenance and rehabilitation; in April 2016, the Baiyunshan Medical and Health Industry Company signed a cooperation framework agreement with CapitalBio Corporation, a domestically leading third-party independent medical examination institution, to make full use of respective advantages for joint development of third-party medical examination based on genetic testing; (b) in terms of the medical equipment industry, the Group will cooperate with Time Medical Holdings Company Limited to jointly build a high-end medical equipment R&D and production base with independent intellectual property rights in the Development Zone of Guangzhou, and work with Guangzhou OSMUNDA Medical Device Technology, Inc., Ltd. to jointly build an "International Medical Equipment R&D and Incubation Industry Platform" for the establishment of a strategic cluster of emerging medical equipment industry.

# Discussion and Analysis of Operations

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

The fifth is promoting the integration of scientific research and quality management resources of the Group and to rebuild the quality management system. (a) Strengthen the top-level design to ensure corporate investment in scientific research to improve the enthusiasm and initiative of scientific research personnel; (b) strengthen the system development to build up a scientific research integration platform based on Guangyao General Institute, basically realizing centralized management of the Group's scientific research projects. Meanwhile, the Group established Guangzhou Wang Lao Ji Great Health Industry Research Institute to focus on the Group's Great Health Industry research work; (c) strengthen the implementation of project. During the Reporting Period, generic gefitinib API and tablet for non-small cell lung cancer treatment made by the Baiyunshan General Factory passed clinical approval; the "Chinese herbal medicine DNA bar code species identification system" that WLJ Great Health took part in won the second prize of national scientific and technological progress award; the national 863 plan of Wang Lao Ji Herbal Tea achieved stage study results, proving extension of animal life after long-term drinking of Wang Lao Ji Herbal Tea; the "research on and application of key technologies of online allocation of Wang Lao Ji Herbal Tea" won the third prize of scientific and technological progress awarded by China National Light Industry Council; the "one proprietary Chinese medicine for treatment of peptic ulcer and its preparation method" of Zhong Yi, the "application of sarcandra glabra extracts in reducing the susceptibility of influenza virus" of Jing Xiu Tang, the "one proprietary Chinese medicine for treatment of uterine fibroids and its preparation and quality control methods" of Pan Gao Shou and the "preparation method of Xia Sang Ju Granule" of Xing Qun respectively won the 17th China Patent Excellence Awards. During the Reporting Period, the Group received 13 clinical approvals and 9 production approvals, obtained 48 authorized domestic invention patents, 1 authorized foreign patent, 2 utility models and 18 appearance design patents, and newly added 2 provincial key corporate laboratories of provincial level and 4 technology innovation alliances; (d) strengthen quality control and improve quality management level through strengthening of internal quality inspection, implementation of QC activities and standardized technical transformation and other measures.

# Discussion and Analysis of Operations

## 2. CIRCUMSTANCES OF THE OPERATION DURING THE REPORTING PERIOD

### (1) Analysis of principal operations

Items	The	The	Increase/ (Decrease) over
	Reporting Period (RMB'000)	corresponding period of 2015 (RMB'000)	the same period of 2015 (%)
Revenue	20,035,681	19,124,658	4.76
Include: income from principal operations	19,875,179	18,966,492	4.79
Cost of sales	13,412,063	12,200,500	9.93
Include: cost from principal operations	13,372,298	12,165,563	9.92
Selling and distribution expenses	3,823,589	4,167,681	(8.26)
General and administrative expenses	1,439,734	1,374,806	4.72
Financial expenses	(96,520)	(21,938)	(339.97)
Profit before tax	1,945,053	1,628,122	19.47
Net profit attributable to shareholders of the Company	1,508,033	1,300,351	15.97
Net cash flow from operating activities	2,444,672	1,941,956	25.89
Net cash flow from investing activities	(249,158)	(806,004)	69.09
Net cash flow from financing activities	6,724,722	(347,449)	2,035.46
Research and development expenses	330,368	315,736	4.63

Notes:

- (a) The financial expenses for the Reporting Period decreased as compared with the same period of last year, mainly due to improvement in the Group's fund management, reduction in bank borrowings, increase in interest income and reduction in financial costs as a result of the Group's reasonable fund allocation, increase in investment financing as well as optimization in types of deposits.
- (b) Net cash flow from investing activities for the Reporting Period increased as compared with same period of last year, mainly due to decrease in investment of the Group's production sites and equipment and funds paid for investment projects in the Year.
- (c) Net cash flow from financing activities for the Reporting Period increased as compared with the same period of last year, mainly because the Company received proceeds for the non-public offering of Renminbi-denominated ordinary shares (A shares) in the Year.

# Discussion and Analysis of Operations

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

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

#### (i) Analysis of revenue and cost

In 2016, 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.

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

Operations	Results of principal operations by industry					
	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
	Income from principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2015 (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2015 (%)	Profit margin of principal operations (%)	Increase/ (Decrease) over the same period of 2015 (percentage point)
Great Southern TCM	6,906,387	2.18	3,893,998	3.93	43.62	A decrease of 0.95 percentage point
Great Health	7,769,431	0.01	4,601,045	6.54	40.78	A decrease of 3.63 percentage points
Great Commerce	5,148,331	16.00	4,839,249	18.03	6.00	A decrease of 1.63 percentage points
Other	51,030	9,233.54	38,006	8,531.77	25.52	An increase of 6.05 percentage points
Total	19,875,179	4.79	13,372,298	9.92	32.72	A decrease of 3.14 percentage points

# Discussion and Analysis of Operations

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

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

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

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

Types of products	Results of principal operations by products					
	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
	Income from principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2015 (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2015 (%)	Profit margin of principal operations (%)	Increase/ (Decrease) over the same period of 2015 (percentage point)
Chinese patent medicine	3,218,028	(0.27)	1,763,874	3.73	45.19	A decrease of 2.11 percentage points
Chemical medicine	3,688,359	4.41	2,130,124	4.09	42.25	An increase of 0.18 percentage point
Total of Great Southern TCM	6,906,387	2.18	3,893,998	3.93	43.62	A decrease of 0.95 percentage point

Regions	Results of principal operations by regions					
	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
	Income from principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2015 (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2015 (%)	Profit margin of principal operations (%)	Increase/ (Decrease) over the same period of 2015 (percentage point)
Southern China	10,819,595	9.54	7,645,737	14.96	29.33	A decrease of 3.34 percentage points
Eastern China	3,563,653	(3.84)	2,291,061	0.07	35.71	A decrease of 2.51 percentage points
Northern China	2,262,849	(6.06)	1,310,360	(2.42)	42.09	A decrease of 2.16 percentage points
North-Eastern China	335,257	13.84	206,755	14.71	38.33	A decrease of 0.47 percentage point
South-Western China	2,194,768	10.10	1,495,607	20.64	31.86	A decrease of 5.95 percentage points
North-Western China	629,943	29.15	355,340	30.36	43.59	A decrease of 0.52 percentage point
Exports	69,114	(65.24)	67,438	(64.53)	2.42	A decrease of 1.95 percentage points

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

# Discussion and Analysis of Operations

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

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

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

##### 2) Analysis on quantities of production and sales

Main products	Production	Sales	Inventory	Production increase/ (decrease) over the same period of 2015 (%)	Sales increase/ (decrease) over the same period of 2015 (%)	Inventory increase/ (decrease) over the same period of 2015 (%)
Xiao Ke Pill (thousand bottles)	40,519.65	44,766.06	3,989.43	(30.39)	(14.96)	(55.37)
Sildenafil Citrate Tablet (thousand boxes)	10,418.63	9,865.82	1,068.34	81.00	62.29	83.87
Cephathiamidine for Injection (thousand ampoules)	65,906.80	61,926.74	4,602.51	22.00	3.65	471.31
Cefixime series (thousand boxes)	50,929.35	51,546.13	3,629.28	15.00	11.45	(16.41)
Xiao Chai Hu Granule (thousand packs)	30,992.26	30,431.91	5,590.46	30.94	1.46	10.74
Amoxicillin series (thousand boxes)	44,745.08	33,458.61	8,090.70	(10.00)	6.47	(10.27)
Xia Sang Ju Granule 10g (thousand packs)	347,516.97	329,119.79	39,611.70	21.79	6.77	82.22
Qing Kai Ling Granule (thousand packs)	345,809.96	294,526.29	66,413.13	(23.91)	(35.00)	1.00
Paracetamol Caffeine and Aspirin Powder (thousand boxes)	21,733.29	22,844.52	3,093.49	(4.76)	3.65	(26.48)
Shu Jin Jian Yao Pill (thousand bottles)	25,375.00	25,670.00	6,888.00	18.44	81.15	(5.03)

# Discussion and Analysis of Operations

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

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

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

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

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

- ① Production and inventory as at the end of the Reporting Period of Xiao Ke Pill fell by 30.39% and 55.37% respectively year on year, mainly due to excessive market inventory, production decrease and inventory reduction;
- ② Production of Sildenafil Citrate Tablet increased by 81.00% year on year, mainly due to increase in sales demand and expansion of mass production. The sales volume increased by 62.29% year on year, mainly due to the expansion of the market and the implementation of promotional tools, which drove increase in ultimate sale; inventory as at the end of the Reporting Period increased by 83.87% year on year, mainly due to increase in inventory year on year with increasing market demand;
- ③ Inventory as at the end of the Reporting Period of cephalosporanamidine for injection increased 471.31% year on year, mainly due to: substantial increase in inventory year on year with increasing market demand
- ④ Production of Xiao Chai Hu Granule increased by 30.94% year on year, mainly due to increase in market demand and resulting increase in sales;
- ⑤ Inventory as at the end of the Reporting Period of Xia Sang Ju Granule 10g increased by 82.22% year on year, mainly due to reasonable increase in product inventory to ensure the normal sales of products;
- ⑥ Sales of Qing Kai Ling Granule fell by 35.00% year on year, mainly due to the excessive inventory at the beginning of the Year and the weak terminal work, thus leading to reduced sales.

# Discussion and Analysis of Operations

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

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

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

##### 3) Analysis of cost

Principal Operation	Components	Principal operations by regions		Amount (RMB'000)	Percentage of the proportion of operation cost (%)	2015 Amount (RMB'000)	Percentage of the proportion of operation cost (%)	Percentage of Changes in the proportion (%)
		2016 Amount (RMB'000)	Percentage of the proportion of operation cost (%)					
Great Southern TCM	Raw materials	2,604,306	66.88	2,564,685	68.45	1.54		
	Fuel	107,864	2.77	94,419	2.52	14.24		
	Labor costs	284,262	7.30	270,894	7.23	4.93		
	Others	897,566	23.05	816,802	21.80	9.89		
Great Health	Raw materials	3,567,190	77.53	3,410,274	78.97	4.60		
	Fuel	7,822	0.17	3,455	0.08	126.41		
	Labor costs	9,202	0.20	4,318	0.10	113.09		
	Others	1,016,831	22.10	900,395	20.85	12.93		
Great Commerce	Procurement costs	4,839,249	100.00	4,099,881	100.00	18.03		
Others	Other costs	38,006	100.00	440	100.00	8,531.77		

# Discussion and Analysis of Operations

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

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

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

##### 4) Major suppliers and sale

During the Year, sales of goods and services to the 5 largest customers amounted to RMB2,592,605,000 (2015: RMB2,047,539,000) representing approximately 13.04% of the total sales (2015: 10.80%). The sales to the 5 largest customers included RMB1,685,412,000 being sale to related parties representing 8.48% of the total sales.

During the Year, purchases of goods and services from the 5 largest suppliers amounted to RMB2,267,462,000 (2015: RMB2,101,636,000) representing approximately 21.14% of the total purchases (2015: 20.05%). The purchases from the 5 largest suppliers included RMB1,779,868,000 being purchases from related parties representing 16.59% of the total purchases.

The Group maintains good cooperative relationships with its customers and suppliers, both parties shall, settle payment for goods in accordance with the normal commercial terms.

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

#### (ii) Expenses

During the Reporting Period, the Group's selling and distribution expenses was approximately RMB3,823,589,000 (2015: RMB4,167,681,000) representing a decrease of 8.26% as compared with last year, mainly due to changes in the settlement method of the Group, thus significantly reduced the expenses on publicity.

During the Reporting Period, the Group's general and administrative expenses was approximately RMB1,439,734,000 (2015: RMB1,374,806,000) representing a growth of 4.72% as compared with last year, mainly due to the Group's continuous expansion of business and increase in employee remuneration and R&D costs.

# Discussion and Analysis of Operations

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

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

#### (ii) Expenses *(Continued)*

During the Reporting Period, the Group's financial expense was approximately RMB(96,520,000) representing a decrease of 339.97% as compared with last year, mainly due to improvement in the Group's fund management, reduction in bank borrowings, increase in interest income and reduction in financial costs as a result of the Group's reasonable fund allocation, increase in investment financing as well as optimization in types of deposits.

During the Reporting Period, the Group's income tax expenses was approximately RMB386,379,000 with a growth of 36.61% as compared with last year, mainly due to the increase in the profits of the Company's subsidiaries.

#### (iii) Research and development expenses

Current cost of research and development expenses (RMB'000)	330,368
Current capitalization of research and development expenses (RMB'000)	0
Total research and development expenses (RMB'000)	330,368
Ratio of research and development expenses to income from operations	1.65
Ratio of research and development expenses to income from principal operations of the Great Southern TCM (%)	4.78
Total research and development expenses accounted for the proportion of net assets (%)	1.87
Number of the research and development personnel of the Company	674
Percentage of total number of the research and development personnel in the total number of personnel of the Company (%)	3.02
Percentage of the research and development of capitalization (%)	0

# Discussion and Analysis of Operations

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

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

#### (iv) Cash flow

Items	The Reporting Period (RMB'000)	The corresponding period of 2015 (RMB'000)	Increase/ (Decrease) as compared with the same period of 2015 (%)	Reasons
Net cash flow from operating activities	2,444,672	1,941,956	25.89	This is mainly due to increase in government compensation for land relocation, government subsidies and incomes received by the Company's subsidiaries, and decrease in the paid taxes during the Reporting Period.
Net cash flow from investing activities	(249,158)	(806,004)	69.09	This is mainly due to decrease in the funds paid for production sites, equipment and investment projects of the Group during the Reporting Period.
Net cash flow from financing activities	6,724,722	(347,449)	2,035.46	This is due to that Company received proceeds for the non-public offering of Renminbi-denominated ordinary share (A shares) during the Reporting Period.

# Discussion and Analysis of Operations

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

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

Applicable Not applicable

### (3) Analysis on Financial Conditions

#### (i) *Liquidity*

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

#### (ii) *Financial resources*

As at 31 December 2016, cash and cash equivalents of the Group amounted to RMB12,756,470,000 (31 December 2015: 3,837,604,000), of which approximately 99.87% and 0.13% were denominated in Renminbi and foreign currencies, such as Hong Kong dollar, respectively.

As at 31 December 2016, the Group had bank borrowings of RMB58,718,000 (31 December 2015: RMB669,439,000), including short-term borrowings of RMB25,216,000 (31 December 2015: RMB629,684,000) and long-term borrowings of RMB33,502,000 (31 December 2015: RMB39,755,000).

#### (iii) *Capital structure*

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

# Discussion and Analysis of Operations

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

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

#### (iv) Capital expenditure

The Group expects that the capital expenditure for 2017 to be approximately RMB987 million (2016: RMB293 million), which would be mainly applied in the construction of production sites and information system. The Group will raise funds to meet the capital requirements of capital expenditure by resorting to its internal funds, bank loans, etc.

#### (v) Assets and liabilities

Item	As at		As at		Increase/ (Decrease) over 2015 (%)	Reasons for changes
	31 December 2016 (RMB'000)	% of the total assets (%)	31 December 2015 (RMB'000)	% of the total assets (%)		
Cash at bank and on hand	13,091,008	50.55	4,118,291	25.95	217.87	As at 31 December 2016, the Company has raised funds through the non-public offerings of Renminbi-denominated ordinary shares (A shares) and increased the recoupment of funds.
Advances to suppliers	414,074	1.60	316,796	2.00	30.71	This is mainly due to the increase in advance payment for purchasing raw materials and packaging materials by the Company's subordinated enterprises as at 31 December 2016.
Dividends receivable	52,939	0.20	0.00	0.00	100.00	This is mainly due to increase in dividends receivable from joint ventures by the Company's subsidiaries as at 31 December 2016.
Other current assets	250,191	0.97	108,318	0.68	130.98	This is mainly due to increase in enterprise income taxes prepaid and disposed relocated assets by the Company's subsidiaries as at 31 December 2016.
Construction in progress	255,276	0.99	555,906	3.50	(54.08)	This is mainly due to the gradual completion of the Group's construction of production bases as at 31 December 2016.
Development costs	3,017	0.01	5,509	0.03	(45.24)	This is mainly due to decrease in the ending balance of the Group's development expenses as at 31 December 2016.

# Discussion and Analysis of Operations

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

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

#### (v) Assets and liabilities *(Continued)*

Item	As at		As at		Increase/ (Decrease) over 2015 (%)	Reasons for changes
	31 December 2016 (RMB'000)	% of the total assets (%)	31 December 2015 (RMB'000)	% of the total assets (%)		
Goodwill	11,500	0.04	2,283	0.01	403.71	This is mainly due to the acquisition of equity interest in Guangzhou Baiyunshan Hospital by the Company's subsidiary as at 31 December 2016.
Long-term prepaid expenses	37,939	0.15	24,112	0.15	57.35	This is mainly due to increase in reconstruction costs of fixed assets rented by the Company's subsidiaries as at 31 December 2016.
Other non-current assets	35,970	0.14	0.00	0.00	100.00	This is mainly because that the assets purchased by the Company's subsidiaries have been in the stage of going through formalities for transfer of property rights as at 31 December 2016.
Short-term borrowings	25,215	0.10	629,683	3.97	(96.00)	This is mainly due to decrease in bank borrowings as the Company's subsidiaries gradually repaid their banks loans as at 31 December 2016.
Advances from customers	1,552,886	6.00	974,514	6.14	59.35	This is mainly due to increase in advances for good from distributors by the Company's subsidiaries as at 31 December 2016.
Employee benefits payable	546,523	2.11	413,030	2.60	32.32	This is mainly due to payroll payable but not paid by the Group as at 31 December 2016.
Taxes payable	384,192	1.48	74,514	0.47	415.59	This is mainly due to increase in the value-added tax and enterprise income tax payable by the Group as at 31 December 2016.
Deferred income	612,084	2.36	183,588	1.16	233.40	This is mainly due to the receipt of government compensation for land relocation and increase in government subsidies received by the Company's subsidiaries as at 31 December.
Deferred tax liabilities	76,581	0.30	29,064	0.18	163.49	This is mainly due to increase in difference in income tax payable by the Group as at 31 December 2016.

# Discussion and Analysis of Operations

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

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

#### (v) *Assets and liabilities (Continued)*

Item	As at		As at		Increase/ (Decrease) over 2015 (%)	Reasons for changes
	31 December 2016 (RMB'000)	% of the total assets (%)	31 December 2015 (RMB'000)	% of the total assets (%)		
Capital surplus	9,875,173	38.13	2,346,435	14.78	320.86	This is mainly due to the premium in the Company's capital as a result of its non-public offering of Renminbi-denominated ordinary shares (A shares) as at 31 December 2016.
Other comprehensive income	9,788	0.04	(733)	0.00	1,435.93	This is mainly due to the growth in prices of the Group's financial assets available for sale as at 31 December 2016.

#### (vi) *Exposure to fluctuations in exchange rates*

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

#### (vii) *Main cash resources and applications*

As at 31 December 2016, cash and cash equivalents of the Group amounted to RMB12,756,470,000 with an increase of RMB8,918,866,000 as compared with the beginning of 2016. The net cash inflow derived from operating activities amounted to RMB2,444,672,000 with an increase of RMB502,716,000 as compared with 2015, mainly due to the Company's subsidiaries received land requisition compensation and government subsidy, the interest incomes increased on a year-on-year basis, and the paid taxes decreased in the Year.

#### (viii) *Contingent liabilities*

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

# Discussion and Analysis of Operations

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

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

#### **(ix) Charge on the Group's assets**

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

#### **(x) Bank loans, overdraft and other borrowings**

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

#### **(xi) Gearing ratio**

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

#### **(xii) Material investment**

As at 31 December 2016, the Group did not have any other material additional investment.

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

Applicable Not applicable

# Discussion and Analysis of Operations

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

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

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

##### 1) *Basic information of the industry*

Applicable   Not applicable

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

##### ① Chinese patent medicine

Over the past few years, as in 2016, the traditional Chinese medicine industry development embraced a good opportunity. In February 2016, the State Council issued the Outline of the Strategic Plan for the Development of Traditional Chinese Medicine (2016-2030), which clarifies the development direction and priorities of traditional Chinese medicine in the following fifteen years; in August, the State Council issued the 13th Five-year Plan for the Development of Traditional Chinese Medicine and the Outline of the Healthy China Plan (2016-2030), confirming the status of traditional Chinese medicine in medical services and defining the future direction of development; in December, the National People's Congress promulgated the Traditional Chinese Medicine Law of the People's Republic of China, hence the development of traditional Chinese medicine has a complete legal basis and reference.

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

# Discussion and Analysis of Operations

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

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

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

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

###### ② Chemical medicine

The “supply side reform” of the pharmaceutical industry has raised its curtain. Since 2016, following the momentum of last year’s frequent policy release, CFDA has strengthened supervision to clean up the innovative environment and remove low-level redundant development to eliminate the inferior and keep the superior, promoting supply side reform of the chemical-based pharmaceutical industry. Policies and regulations like new drug registration management, clinical trial self-examination, priority review system, drug listing license holder system, generic drug consistency assessment and medical insurance directory adjustment will affect the chemical industry income and profit. Many seriously homogenized production enterprises will face industry reshuffle, and innovative and high value-added generic drugs will embrace national policy support and become the main source of income and profit of the pharmaceutical enterprises.

The Group has a complete industry chain from pharmaceutical ingredients to prepared antibiotics, and has a its product profile covering general anti-bacteria and inflammation diminishing series, and integrated and created the market image of first brand with well known Trademark “Kang Zhi Ba”, domestic anti-bacteria and inflammation diminishing drugs for oral administration. In addition, the Group released BYS Jin Ge (Sildenafil Citrate Tablet), a first generic drug, with a sales income in 2016 exceeding RMB400 million, from which good economic benefit was obtained.

# Discussion and Analysis of Operations

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

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

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

##### 2) *Policies related to the industry*

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

##### ① Drug registration, review and approval, supervision and so on

In 2016, CFDA successively issued a series of drug review policies, including the Opinions for Implementing Priority Review and Approval to Solve Drug Registration Application Backlog, Reform Plan for Chemical Drug Registration Classification, the General Office of CFDA Seeking Opinions on the Announcement on Issues Concerning Associated Review and Approval of Pharmaceutical Packaging Materials, Pharmaceutical Excipients and Drugs (Draft for Comment), and the Announcement on Administrative Measures for the Communication on Drug R&D and Technical Review (Interim).

The implementation of new regulatory policies and specific rules will increase R&D costs and risks to a certain extent, but, in the long run, will greatly shorten the time for drug approval queuing, further promote the speed of pharmaceutical enterprise review and drug quality approval criteria, strengthen the clinical trial quality management and further promote the upgrading of quality of generic drugs.

*Countermeasures:* The Group will pay close attention to drug approval and registration policies, implement strict screening from the stage of the R&D project initiation, strengthen initiation approval and risk assessment of new products, strengthen management at the R&D stage, improve R&D quality and reduce R&D risks. Meanwhile, the Group will implement consistency assessment in an orderly manner, speed up the development and imitation of chemical drugs, and actively implement the quality and efficacy consistency assessment of the quality and efficacy of generic drugs.

# Discussion and Analysis of Operations

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

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

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

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

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

##### ② Consistency assessment of generic drug

In order to promote the consistence in efficacy between generic drugs and original drugs and ensure application safety of drugs, and enhance the overall level of China's pharmaceutical industry, in March 2016 and May 2016, the State Council and CFDA respectively issued the Opinions of the State Council General Office on Carrying out Conformance Evaluation of the Quality and Efficacy of Generic Drugs, and the Announcement on Implementing Opinions of the State Council General Office on Carrying out Conformance Evaluation of the Quality and Efficacy of Generic Drugs. The documents provide that all generic drugs that have been approved for marketing before the implementation of the new registration classification of chemical drugs and that haven't been approved in accordance with the principle of consistence in quality and efficacy with originals shall all undergo consistency assessment. And the detailed rules for consistency assessment of generic drugs and the first list of generic drugs have been issued in the first half of 2016, providing that the first 289 varieties shall complete consistence assessment before 2018; where the drugs fail to pass consistency assessment, their approval numbers will be revoked.

*Countermeasures:* The Group has sorted out varieties according to the difficulty of consistence assessment, prioritized the order of conducting consistence assessment and coordinated efforts to do related work according to work arrangements.

# Discussion and Analysis of Operations

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

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

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

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

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

##### ③ Drug marketing license holder system

The lifting of the “bundling” of drug registration and production licensing is conducive to encouraging drug research and innovation and avoiding low-level redundant development. Therefore, the State Council issued the Plan for Pilot Implementation of the System of Drug Marketing License Holders in June 2016, and implement pilot work in 10 provinces (cities). The Plan provides that drug R&D institutions or personnel within the pilot administrative areas are entitled to submit the applications for clinical trials of drugs and drug marketing applications as drug registration applicants, and provides that applicants who obtain drug market licenses and drug approval numbers are entitled to become holders of drug marketing licenses.

The policy issued is conducive to stimulating enterprises to transform to asset-light strategy R&D institutions, encouraging researchers to actively participate in drug R&D and increasing new business contents of enterprises to help enterprises better optimize the allocation of resources.

*Countermeasures:* The Group is making overall consideration about project positioning and planning and making effective resources allocation and adjustment.

# Discussion and Analysis of Operations

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

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

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

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

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

##### ① “Two-vote system”

On April 26, the General Office of the State Council issued the Priorities of Deepening Medical and Health System Reform of 2016, which provides that provinces implementing pilot comprehensive medical and health reform shall implement the “two-vote system” province-wide, encouraging hospitals and pharmaceutical manufacturers to directly settle the payment of drugs, and pharmaceutical manufacturers and distribution enterprises to directly settle distribution costs, so as to reduce intermediate steps and reduce the unrealistically high prices. The pilot implementation will cut the interest chain of “unrealistically high” drug prices due to billing and price increase level after level, squeeze grey “moisture” of illegal operation by affiliation to or borrowing invoices from licensed drug enterprises, clean up the drug distribution market and promote healthy development of drug market.

*Countermeasures:* The Group actively responded to the effects of the two-vote system through sales system resources integration, marketing model transformation and upgrading, channel penetration, strengthening of terminal service capacity-building, etc.

# Discussion and Analysis of Operations

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

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

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

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

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

##### ② Remediation of illegal business activities in drug distribution

To implement the “Four Strictest” requirements of the Party Central Committee and the State Council on food and drug regulation, further rectifying and standardizing the order of drug distribution and crack down on illegal business activities, CFDA decided to carry out concentrated rectification of illegal business activities in drug distribution. On April 29, CFDA issued the Announcement on Regulating Illegal Activities in Drug distribution, calling for nationwide concentrated crackdown illegal business activities in drug distribution. The Announcement requires all pharmaceutical wholesalers to conduct self-inspection first and then the provincial food and drug administration departments shall perform targeted and focused supervision and inspection according to self-inspection and rectification of enterprises.

*Countermeasures:* The Group earnestly cooperated with the government’s self-inspection and self-correction procedures to enhance risk control and management capabilities to be fully prepared for the country’s further intensified unannounced inspection.

# Discussion and Analysis of Operations

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

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

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

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

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

③ Medical insurance cost control, Medical Insurance Catalogue adjustment, etc.

In June and September 2016, relevant government ministries and commissions respectively issued the Notice of the National Health and Family Planning Commission on Determining the Growth Rate of Medical Costs as Soon as Possible, and the 2016 Work Plan of the Ministry of Human Resources and Social Security in relation to the Adjustment of the Drug Directory of the National Basic Medical Insurance, Occupational Injury Insurance and Maternity Insurance.

In the general context of increasingly tight medical insurance funds, China's medical insurance cost control will become increasingly strict; through the cost control target breakdown level by level, the daily monitoring system and a clear accountability mechanism, China's drug structure will undergo a greater adjustment and adjuvant drugs and high-priced drugs will face drop pressure, hence greater pressure of drug price decrease; however, the impact of medical insurance cost control will be relatively small on prescription drugs that are covered by Medical insurance and have exact efficacy and meet clinical pathways and rigid treatment needs. Meanwhile, the Work Plan suggests that new drugs with high clinical value, local class-B drugs with more adjustment and increase, drugs for treatment of major diseases, child drugs, emergency rescue drugs and special drugs for occupational diseases have a higher possibility of being adjusted into the new Medical Insurance Catalogue, therefore those with stocks of the aforementioned varieties are expected to achieve a climax using the opportunity of medical insurance directory adjustment.

*Countermeasures:* The Group will reasonably reduce the production capacity of adjuvant drugs, use its resources in the R&D of Category III for drugs that can be increased as provided in the Work Plan, especially children's drugs, improve product quality and create famous brands.

# Discussion and Analysis of Operations

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

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

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

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

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

In 2016, the new Environmental Protection Law has been formally implemented for more than a year with subsequent promulgation of the Water Pollution Control Action Plan and the new Air Pollution Control Law. The implementation of the abovementioned environmental policies improve environmental monitoring, environmental impact assessment and the ecological protection the compensation system, establishes the environment and public health system, the system for control of total amount of major pollutant emission and the regional approval limitation system, clarifies citizens' rights of access to, participation in and supervision of environment, encourages and protects citizens to report environmental violations, and expand the scope of social organizations that bring environmental litigation for public interest. The establishment of joint cross-region prevention coordination mechanism and delineation of ecological protection red lines further increase the environmental remediation efforts; where enterprises violate environmental laws and regulations, the result will be penalty on a daily basis without upper limit, sequestration, restriction on production, shut-down for rectification, detention of responsible persons, etc.

The country's increasingly strict environmental regulation policies will further increase the environmental costs of pharmaceutical manufacturing enterprises, since they have to invest more resources to strengthen environmental technology transformation, accelerate the transformation and upgrading of industry and the process of mergers and acquisitions.

# Discussion and Analysis of Operations

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

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

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

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

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

*Countermeasures:* The Group will further strengthen the environmental protection and energy conservation management, promote the green production of pharmaceutical enterprises, conscientiously implement the environmental policies, strengthen the application of new technologies for environmental protection and energy conservation, actively carry out energy optimization, energy conservation and emission reduction work, use advanced environmental protection and energy conservation management modes, and establish an environmental information system, an intelligent monitoring system, a grid management system, a risk control system and an environmental information platform to promote standardization of environmental protection and energy conservation using information technology.

##### 3) *Basic information of principal medicine (products)*

Applicable   Not applicable

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

# Discussion and Analysis of Operations

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

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

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

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

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	Unit	Production quantity during the Reporting Period	Sales during the Reporting Period
	Xiao Ke Pill	Diabetes caused by deficiency of both qi and yin; type-II diabetes	From 31 March 2006 to 31 March 2026	Traditional Chinese medicine,	No	Yes	No	Thousand bottles	40,519.65	44,766.06
	Xiao Chai Hu Granule	Relieving exterior syndrome, dispelling heat and soothing the liver and regulating stomach	From 18 October 2011 to 17 October 2031	Traditional Chinese medicine	No	No	No	Thousand packs	30,992.46	30,431.91
	Xia Sang Ju Granule 10g	Clearing liver, improving vision, dispelling wind and heat, alleviating Bi-syndrome induced by dampness, and removing sore-toxin	From 27 June 2008 to 27 June 2028	Chinese patent medicine	No	No	No	Thousand packs	347,516.97	329,119.79
Chinese patent medicine	Qing Kai Ling Granule	Clearing heat, removing toxicity, tranquilizing and allaying excitement	From 13 August 2013 to 12 August 2033	Traditional Chinese medicine	No	Yes	No	Thousand little packs	345,809.96	294,526.29
	Shu Jin Jian Yao Pill	Tonifying the liver and kidney, strengthening the tendons & bones, expelling wind-damp, dredging collaterals, and relieving pain	From 30 May 2012 to 29 March 2030	Traditional Chinese medicine	No	No	No	Thousand bottles	25,375.00	25,670.00
	Mi Lian Chuan Bei Pi Pa Confection	Clearing heat, moistening lungs, relieving cough and asthma, regulating qi-flowing for eliminating phlegm	From 21 March 2008 to 20 March 2028	Category VI Chinese medicine	No	No	No	Thousand bottles	10,412.96	11,378.06

# Discussion and Analysis of Operations

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

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

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

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

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	Unit	Production quantity during the Reporting Period	Sales during the Reporting Period
	Sildenafil Citrate Tablet	The product is indicated for treatment of erectile dysfunction (ED).	From 29 April 2002 to 28 April 2020	Generic medicine	No	Yes	No	Thousand boxes	10,418.63	9,865.82
	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	Innovative medicine	No	Yes	No	Thousand ampoules	65,906.80	61,926.74
	Cefixime series	The product is indicated for bacterial infectious diseases caused by streptococcus (except enterococcus) sensitive to cefixime.	From 16 July 2009 to 15 July 2029	Generic medicine	No	Yes	No	Thousand boxes	50,929.35	51,546.13
Chemical medicinal preparations	Amoxicill series	The product is indicated for infection caused by sensitive bacteria (none- $\beta$ -lactamase-producing strains).	None	Category VI chemical drug	No	Yes	No	Thousand boxes	44,745.08	33,458.61
	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	Category VI chemical drug	No	No	No	Thousand boxes	21,733.29	22,844.52
	Cephalthiamidine	for the Staphylococcus aureus, pneumococcus and streptococcus caused by infection	From October 2013 to October 2033	Category IV chemical drug	No	Yes	No	Thousand of kilograms	63.59	50.99
	Cefditron Capsule	applicable to cefdinir-sensitive streptococcus (except enterococci) caused by bacterial infection.	None	Imported drugs	No	Yes	No	Thousand boxes	4,116.74	4,048.77
	Cefprozil Dispersible Tablet	1. Upper respiratory tract infection; 2. Lower respiratory tract infection; 3. Infection of skin and its soft tissues	From 20 December 2010 to 19 December 2030	Generic medicine	No	Yes	No	Thousand boxes	15,341.98	15,941.31
	Cefixoxime	respiratory infections, urinary tract infections, biliary tract infections, ect	From February 2014 to February 2034	Category IV chemical drug	No	No	No	Thousand of kilograms	103.82	92.83

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

# Discussion and Analysis of Operations

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

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

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

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

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	Unit	Production quantity during the Reporting Period	Sales volume during the Reporting Period
Drugs used in internal medicine department	Xiao Ke Pill	Diabetes caused by deficiency of both qi and yin; type-II diabetes	From 31 March 2006 to 31 March 2026	Traditional Chinese medicine	No	Yes	No	Thousand bottles	40,519.65	44,766.06
	Xiao Chai Hu Granule	Relieving exterior syndrome, dispelling heat and soothing the liver and regulating stomach	From 18 October 2011 to 17 October 2031	Traditional Chinese medicine	No	No	No	Thousand packs	30,992.46	30,431.91
	Xia Sang Ju Granule 10g	Clearing liver, improving vision, dispelling wind and heat, alleviating Bi-syndrome induced by dampness, and removing sore-toxin	From 27 June 2008 to 27 June 2028	Chinese patent medicine	No	No	No	Thousand packs	347,516.97	329,119.79
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	Innovative medicine	No	Yes	No	Thousand ampoules	65,906.80	61,926.74
	Cefixime series	The product is indicated for bacterial infectious diseases caused by streptococcus (except enterococcus) sensitive to cefixime.	From 16 July 2009 to 15 July 2029	generic medicine	No	Yes	No	Thousand boxes	50,929.35	51,546.13
	Amoxicill series	The product is indicated for infection caused by sensitive bacteria (none- $\beta$ -lactamase-producing strains).	None	Category VI chemical drug	No	Yes	No	Thousand boxes	44,745.08	33,458.61
	Cefditron Capsule	applicable to cefdinir-sensitive streptococcus (except enterococci) caused by bacterial infection.	None	Imported drugs	No	Yes	No	Thousand boxes	4,116.74	4,048.77

# Discussion and Analysis of Operations

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

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

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

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

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 during the Reporting Period	Unit	Production quantity during the Reporting Period	Sales volume during the Reporting Period
Antimicrobial drugs	Cefprozil Dispersible	1. Upper respiratory tract infection; 2. Lower respiratory tract infection; 3. Infection of skin and its soft tissues	From 20 December 2010 to 19 December 2030	Generic medicine	No	Yes	No	Thousand boxes	15,341.98	15,941.31
	Cephathiamidine	for the Staphylococcus aureus, pneumococcus and streptococcus caused by infection	From October 2013 to October 2033	Category IV chemical drug	No	Yes	No	Thousands of kilograms	63.59	50.99
	Cefixoxime	respiratory infections, urinary tract infections, biliary tract infections, ect	From February 2014 to February 2034	Category IV chemical drug	No	Yes	No	Thousands of kilograms	103.82	92.83
Drugs for men	Sildenafil Citrate Tablet	The product is indicated for treatment of erectile dysfunction (ED).	From 29 April 2002 to 28 April 2020	Generic medicine	No	Yes	No	Thousand boxes	10,418.63	9,865.82
Drugs for easing pain, clearing heat, and resisting inflammation, wind-damp and gout	Paracetamol	The product is indicated for treatment of fever caused by common cold or influenza, and alleviation of mild to moderate pain.	None	Category VI chemical drug	No	No	No	Thousand boxes	21,733.29	22,844.52
	Caffeine and Aspirin Powder									
Surgical drugs	Essential balm	Cooling, alleviating pain, expelling wind, and relieving itching	None	Category IX Chinese medicine	No	No	No	Thousand bottles	43,626.24	43,184.35
Drugs used in gynecology department	Zi Shen Yu Tai Pill	Tonifying kidney and spleen, benefiting qi, strengthening primordial qi, nourishing the blood, preventing abortion and building strong body	From 27 August 2004 to 27 August 2024	Traditional Chinese medicine	No	Yes	No	Thousand bottles	6,047.34	5,341.00

# Discussion and Analysis of Operations

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

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

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

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

Applicable   Not applicable

As at the end of the Reporting Period, a total of 736 varieties and 583 product specifications of the Group and the joint ventures were included into the National 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 no admission, new entrance and logout of the main products in relation to the Essential Drug List and the Medical Insurance Catalogue.

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

Name of enterprise	Product name	Registered classification	Indications/Functions
Zhong 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.
Zhong Yi	An Gong Niu Huang Pill	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

# Discussion and Analysis of Operations

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

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

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

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

Name of enterprise	Product name	Registered classification	Indications/Functions
Zhong Yi	Zhang Yan Ming Tablet	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
HWBYS	Kou Yan Qing Granule	Traditional Chinese medicine	Nourishing yin, clearing heat, detoxifying and alleviating swelling
HWBYS	Compound Danshen Tablet	Traditional Chinese medicine	Promoting blood circulation, removing blood stasis, regulating qi and relieving pain
HWBYS	Ban Lan Gen Granule	Traditional Chinese medicine	Clearing heat, detoxifying and cooling blood
Jing Xiu Tang	Zhui Feng Tou Gu Pill	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	She Dan Chuan Bei 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	Bao Ji Pill	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.
Wang Lao Ji	Bao Ji Oral Liquid	Category-VI traditional Chinese medicine	Relieving exterior syndrome, eliminating dampness, and regulating the middle warmer. The product is indicated for cold caused by summer-heat and damp, with symptoms such as fever, headache, bellyache, diarrhea, nausea, vomit and gastrointestinal discomfort; It is also indicated for motion sickness.
Xing Qun	Motherwort Granule	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.

# Discussion and Analysis of Operations

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

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

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

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

Name of enterprise	Product name	Registered classification	Indications/Functions
Xing Qun	Shi Di Shui 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 Capsule (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 gonorrhea and etc. caused by sensitive bacteria (none- $\beta$ -lactamase-producing strains).
Baiyunshan General Factory	Levofloxacin hydrochloride tablet 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 ( $\geq 18$ years) (for details see the Instructions of product).
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	Hua Tuo Zai Zao Pill	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	Qing Kai Ling 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.

# Discussion and Analysis of Operations

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

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

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

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

Name of enterprise	Product name	Registered classification	Indications/Functions
Ming Xing	Qing Kai Ling Granule	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.
Ming Xing	Qing Kai Ling 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.

# Discussion and Analysis of Operations

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

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

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

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

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 is as follow:

Product name	Registered classification	Indications/Functions	National medical insurance catalogue	Provincial medical insurance catalogue
Zi Shen Yu Tai Pill	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
Qian Lie Tong Tablet	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

# Discussion and Analysis of Operations

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

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

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

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

Product name	Registered classification	Indications/Functions	National medical insurance catalogue	Provincial medical insurance catalogue
Ru He San Jie Tablet	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 Capsule	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

# Discussion and Analysis of Operations

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

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

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

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

Product name	Registered classification	Indications/Functions	National medical insurance catalogue	Provincial medical insurance catalogue
Nao Luo 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
Qiang Li Pi Pa Syrup	Traditional Chinese medicine	Nourishing yin and astringing lung, relieving cough and eliminating phlegm. Applied to bronchitis and cough.	Yes	No
Xiao Chai Hu Granule	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

# Discussion and Analysis of Operations

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

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

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

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

Product name	Registered classification	Indications/Functions	National medical insurance catalogue	Provincial medical insurance catalogue
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:7.5mg, 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×400cm, 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
Kou Yan Qing Granule	Traditional Chinese medicine	Nourishing yin, clearing heat, detoxifying and alleviating swelling	Yes	No
Compound Dan Shen Tablet	Traditional Chinese medicine	Promoting blood circulation, removing blood stasis, regulating qi and relieving pain	Yes	No
Ban Lan Gen Granule	Traditional Chinese medicine	Clearing heat and detoxifying, cooling blood and relieving sore throat	Yes	No
Xiao Yan Li Dan Tablet	Traditional Chinese medicine	Clearing heat, eliminating dampness, and benefiting gallbladder	Yes	No

# Discussion and Analysis of Operations

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

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

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

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

Product name	Registered classification	Indications/Functions	National medical insurance catalogue	Provincial medical insurance catalogue
Gu Xian Tablet	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
Zhong Feng Hui Chun Pill	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
Tian Huang Hou Zao 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
Zhui Feng Tou Gu Pill	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
Die Da Wan Hua 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

# Discussion and Analysis of Operations

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

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

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

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

Product name	Registered classification	Indications/Functions	National medical insurance catalogue	Provincial medical insurance catalogue
Enema Glycerini (containing glycerin)	Traditional Chinese medicine	The product is indicated for constipation.	Yes	No
Qing Re Xiao Yan Ning Capsule	Traditional Chinese medicine	Heat-clearing and detoxifying, anti-inflammation and relieving pain. Applied to cold and acute pharyngitis.	No	Yes
Hua Zhi 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
She Xiang Die Da Feng Shi Paste	Traditional Chinese medicine	Dispelling wind and eliminating dampness, removing blood stasis and relieving pain. Used for rheumatism, traumatic injuries, swelling.	No	Yes
Mi Lian Chuan Bei Pi Pa 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
She Dan Chuan Bei Pi Pa Confection	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

# Discussion and Analysis of Operations

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

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

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

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

Product name	Registered classification	Indications/Functions	National medical insurance catalogue	Provincial medical insurance catalogue
Zhi Ke Chuan Bei Pi Pa 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
Xiao Er Qing Re Li Fei 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
She Dan Chuan Bei 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
Bao Ji Pill	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

# Discussion and Analysis of Operations

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

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

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

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

Product name	Registered classification	Indications/Functions	National medical insurance catalogue	Provincial medical insurance catalogue
Bao Ji Oral Liquid	Category-VI traditional Chinese medicine	Relieving exterior syndrome, eliminating dampness, and regulating the middle warmer The product is indicated for cold caused by summer-heat and damp, with symptoms such as fever, headache, bellyache, diarrhea, nausea, vomit and gastrointestinal discomfort; It is also indicated for motion sickness.	Yes	No
Fu Ke Tiao Jing Capsule	Category-VI traditional Chinese medicine	Nourishing blood, regulating menstruation and relieving pain. Used for irregular menstruation and abdominal pain during menstruation	Yes	Yes
Pi Pa Zhi Ke Particle	Category-IX traditional Chinese medicine	Stopping cough and reducing phlegm. Applied to cough and bronchitis-induced cough.	Yes	Yes
Motherwort Granule	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
Ju Hong Tan Ke Particle	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

# Discussion and Analysis of Operations

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

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

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

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

Product name	Registered classification	Indications/Functions	National medical insurance catalogue	Provincial medical insurance catalogue
Huo Xiang Zheng Qi 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
Shi Di Shui	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
An Shen Bu Nao 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
Xiao Er Qing Re Zhi Ke 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

# Discussion and Analysis of Operations

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

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

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

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

Product name	Registered classification	Indications/Functions	National medical insurance catalogue	Provincial medical insurance catalogue
Xia Sang Ju Granule	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
Xiao Er Qing Yan Granule	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
Tong Qiao Jiu Xin 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 Sulfurate 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

# Discussion and Analysis of Operations

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

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

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

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

Product name	Registered classification	Indications/Functions	National medical insurance catalogue	Provincial medical insurance catalogue
Jian Er Xiao Shi 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 (Tablet: 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

# Discussion and Analysis of Operations

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

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

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

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

Product name	Registered classification	Indications/Functions	National medical insurance catalogue	Provincial medical insurance catalogue
Cefixime (Dispersible Tablet: 0.1g; 0.2g) (Capsule: 50mg; 0.1g) (Granule: 50m) (Tablet: 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 (Capsule: 0.125g; 0.25g) (Granule: 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 Tablet: 0.25g) (Granule: 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

# Discussion and Analysis of Operations

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

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

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

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

Product name	Registered classification	Indications/Functions	National medical insurance catalogue	Provincial medical insurance catalogue
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 (Capsule: 0.125g, 0.25g, 0.5g) (Granule: 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- $\beta$ -lactamase-producing strains).	Yes	Yes

# Discussion and Analysis of Operations

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

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

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

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

Product name	Registered classification	Indications/Functions	National medical insurance catalogue	Provincial medical insurance catalogue
Gan Mao Qing Capsule (YILI) (Each capsule weights 0.5g (containing 24mg 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
Yin Qiao Jie Du Tablet	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
Ke Te Ling Capsule (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
Ke Te Ling Pill (YILI) (Each pill contains 0.18g of ficus microcarpa dry extract and 0.7 mg 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
Fu Ke An Tablet	Traditional Chinese medicine	Clearing heat and promoting diuresis, astringing and relieving pain. For treatment of stomachache, diarrhea and vomiting caused by dyspepsia.	No	Yes

# Discussion and Analysis of Operations

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

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

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

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

Product name	Registered classification	Indications/Functions	National medical insurance catalogue	Provincial medical insurance catalogue
Xiao Er Ke Chuan Ling Granule (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
Xu Han Ting Granule	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
She Dan Chuan Bei 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
She Dan Chen Pi Powder	Traditional Chinese medicine	Regulating qi for eliminating phlegm, dispelling wind-evil and invigorating stomach.	Yes	Yes
Xin Xue Granule	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
Xin Xue Tablet	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

# Discussion and Analysis of Operations

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

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

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

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

Product name	Registered classification	Indications/Functions	National medical insurance catalogue	Provincial medical insurance catalogue
Hou Zao 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
Qing Kai Ling 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
Qing Kai Ling Granule	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

# Discussion and Analysis of Operations

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

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

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

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

Product name	Registered classification	Indications/Functions	National medical insurance catalogue	Provincial medical insurance catalogue
Qing Kai Ling 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.	Yes	Yes
Qing Kai Ling 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

# Discussion and Analysis of Operations

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

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

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

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

Product name	Registered classification	Indications/Functions	National medical insurance catalogue	Provincial medical insurance catalogue
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

# Discussion and Analysis of Operations

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

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

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

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

According to the Notice on the printing and distribution of “the National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2017 edition) (Renshebufa[2017]15) published on 23 February 2017, a total of 13 new varieties were added to the National Basic Medical Insurance, Work-Related Insurance and Maternity Insurance Drugs List (2017 edition), main products included in the Essential Drugs List are as follows:

Product name	Registered classification	Indications/Functions
Paracetamol	Benzamides	For fever caused by common cold or influenza in children. Also for mild to moderate pain, such as headache, joint pain, migraine, toothache, muscle pain, neuralgia.
Compound banlangen Granule	Formula for clearing heat and removing toxicity	Clearing heat and detoxicating, cooling blood. For wind-heat type common cold and sore throat.
Huo Xin Capsule	Blood stasis agent – blood stasis and broad chest agent	Tonifying qi to activate blood and warming meridians to smooth collaterals. Major for chest discomfort and heartache. For coronary heart disease and angina pectoris.
Cefprozil	Other $\beta$ -lactam antimicrobial agents-Second generation cephalosporins	For mild to moderate infections caused by sensitive bacteria.
Cefaclor	Other $\beta$ -lactam antimicrobial agents -Second generation cephalosporins	This product is mainly applicable to infections in respiratory system, urinary system, Department of ENT, skin and soft tissue caused by sensitive bacteria.
Cefradine	Other $\beta$ -lactam antimicrobial agents -First generation cephalosporins	This product is mainly applicable to acute pharyngitis, tonsillitis, otitis media, respiratory infections such as bronchitis and pneumonia, urogenital tract infection and skin soft tissue infection caused by sensitive bacteria. This product is oral preparation, should not be used for severe infection.

# Discussion and Analysis of Operations

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

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

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

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

Product name	Registered classification	Indications/Functions
Xiao Er Qi Xing Cha Granule (oral liquid, syrup)	Digestant-reinforcing spleen to promote digestion	Promoting appetite to remove food retention and clearing away heat to tranquilize mind. For children with heat produced by dietary stagnation, indigestion, poor appetite, irritable and easily be frightened, restless sleep at night, difficult defecation and scanty and dark urine.
Xin Tong Jian (Cefradine for Suspension)	Western medicine	This product is mainly applicable to acute pharyngitis, tonsillitis, otitis media, respiratory infections such as bronchitis and pneumonia, urogenital tract infection and skin soft tissue infection caused by sensitive bacteria.
Pemetrexed Disodium for Injection	Anti metabolite drug	Combined with cisplatin for inoperable malignant pleural mesothelioma.
Kun Xian Capsule	Qufeng desiccant agent	Tonifying kidney to smooth collaterals, removing wind pathogen to alleviate dampness. Advisable for rheumatoid arthritis due to accumulation of wind and dampness combined with kidney deficiency.
She Dan Chuan Bei Soft Capsule	Clearing heat and resolving phlegm- Clearing heat and resolving phlegm and stopping coughing	Clearing away the lung-heat, relieving cough and eliminating phlegm. For cough with lung heat cough, excessive phlegm.
Qian Bai Bi Yan Tablet	Nasal disease	Clearing away heat to remove toxicity, activating blood to dispel wind, ascending lung to open orifices. It is advisable for rhinobyon, rhinocnesmus with pneumatic hydrothermal, yellow sticky snivel, or persistent rhinobyon and baryodmia caused by wind-heat invading lung which accumulate internally to transfer into fire and block circulation of qi and blood. And it is also applied for patients with acute and chronic rhinitis and nasosinitis marked by above symptoms.
Xiao Er Qi Xing Syrup	Digestive agent	Relieving convulsion and eliminating stagnation. For children with indigestion, poor appetite, stool abnormality and restless sleep at night.

# Discussion and Analysis of Operations

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

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

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

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

✓Applicable    Not applicable

The Group currently has 9 famous trademarks of China, 21 famous brands of Guangdong Province, and 29 famous brands of Guangzhou City. Among them, the brand awareness and reputation of "BYS" has greater influence and appeal among the consumers throughout the country, which makes it one of most valuable medicine brands in China.

Well-known/ Famous trademark	Trademark graph	Trademark registration class	Product general name	Classification of drug registration	Indications/Functions	Protected traditional medicine	Prescription drugs
Zhong Yi-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 Gao Shou- Well-known		Category V Medicine for human purposes	Mi Lian Chuan Bei Pi Pa; Confection	Traditional Chinese medicine	Clearing heat, moistening lungs, relieving cough and asthma, regulating qi- flowing for eliminating phlegm	No	No
Chen Li Ji-Well-known		Category V Medicine for human purposes	Zhuang Yao Jian Shen Pill	Category IX	Strengthening the loin, invigorating the kidney, nourishing blood, and expelling wind-damp	No	No
Jing Xiu Tang- Well-known		Category V Medicine for human purposes	Qing Re Xiao Yan Capsule	Traditional Chinese medicine	Clearing heat, removing toxicity, tranquilizing and Anti-inflammatory analgesic	No	No

# Discussion and Analysis of Operations

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

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

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

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

Well-known/ Famous trademark	Trademark graph	Trademark registration class	Product general name	Classification of drug registration	Indications/Functions	Protected traditional medicine	Prescription drugs
Zhong Yi-Well-known		Category V Medicine for human purposes	Zi Shen Yu Tai Pill	Traditional Chinese medicine, natural medicine	Tonifying kidney and spleen, benefiting qi, strengthening primordial qi, nourishing the blood, preventing abortion and building strong body	No	Yes
Qi Xing-Well-known		Category V Medicine for human purposes	Hua Tuo Zai Zao Pill	Traditional Chinese medicine	Promoting blood circulation, removing blood stasis and phlegm, dredging collaterals, facilitating qi circulation, and relieving pain	No	Yes
Chen Li Ji-Well-known		Category V Medicine for human purposes	Shu Jin Jian Yao Pill	Category IX	Tonifying the liver and kidney, strengthening the tendons & bones, expelling wind- damp, dredging collaterals, and relieving pain	No	No
BYS – Well-known		Category V Medicine for human purposes	Cephathiamidine for Injection	Western medicine	Antibacterial anti-inflammatory Cough and asthma	No	Yes
He Ji Gong – Well-known		Category V Medicine for human purposes	Phacetamol, Caffeine and Aspirin Powder	Chemicals	Analgesia, antipyretic, anti- inflammatory, antirheumatic, anti gout	No	No
Kang Zhi Ba- Well-known		Category V Medicine for human purposes	Amoxicillin Capsule	Chemicals	For the disease caused by sensitive bacteria	No	Yes
Ming Xing – Famous		Category V Medicine for human purposes	Qing Kai Ling Granule	Traditional Chinese medicine	Clearing heat, removing toxicity, tranquilizing and allaying excitement	No	No

# Discussion and Analysis of Operations

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

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

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

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

Well-known/ Famous trademark	Trademark graph	Trademark registration class	Product general name	Classification of drug registration	Indications/Functions	Protected traditional medicine	Prescription drugs
Shape of Green Leaves – Famous		Category V Medicine for human purposes	Xia Sang Ju Granule	Chinese patent medicine	Clearing liver, improving vision, dispelling wind and heat, alleviating Bi-syndrome induced by dampness, and removing sore-toxin	No	No
Tian Xin-well- known		Category V Medicine for human purposes	Cefuroxime Sodium for Injection	Chemicals	For the disease caused by sensitive bacteria	No	Yes
Ming Xing – Famous		Category V Medicine for human purposes	Qing Kai Ling for Injection	Traditional Chinese medicine	Clearing heat, removing toxicity, tranquilizing and allaying excitement	No	Yes
Baiyunshan – Well-known		Category V Medicine for human purposes	Cephathiamidine for Injection	Traditional Chinese medicine	Relieving cough and asthma, eliminating phlegm, and diminishing inflammation	No	Yes
Tian Xin-well- known		Category V Medicine for human purposes	Candesartan Cilexetil Tablet	Chemicals	essential hypertension	No	Yes
Pan Gao Shou – well-known		Category V Medicine for human purposes	She Dan Chuan Bei Oral Liquid	Traditional Chinese medicine	cough, sputum fights	No	No
Ying Kang – Famous		Category V Medicine for human purposes	Vc Yin Qiao tablet	Human medicine;	Cool nourish, heat-clearing and detoxicating	No	No

# Discussion and Analysis of Operations

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

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

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

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

Well-known/Famous Trademark	Product General name	Sales of 2016	Income of 2016 (RMB'000)	Gross profit margin in 2016 (%)
Ming Xing-Famous	Qing Kai Ling Granule (thousand packs)	294,526.29	161,029.00	58.37
Shape of Green Leaves-Famous	Xia Sang Ju Granule (thousand bags)	329,119.79	185,229.39	55.10
Zhong Yi-Well-known	Xiao Ke Pill (thousand bottles)	44,766.06	549,942.40	65.77
Baiyunshan diamond – +BYS – Well-known	Cephathiamidine for Injection (thousand bottles)	61,926.74	373,279.75	56.98
He Ji Gong – Well-known	Pharacetamol, Caffeine and Aspirin Powder (thousand bags)	22,840.52	154,796.59	51.50
Zhong Yi-Well-known	Zi Shen Yu Tai Pill (thousand bottles)	5,341.00	112,208.10	34.88

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

# Discussion and Analysis of Operations

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

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

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

##### 6) Important medicinal materials involved in major TCM products

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

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

# Discussion and Analysis of Operations

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

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

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

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

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

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

# Discussion and Analysis of Operations

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

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

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

##### 1) *The overall situation of research and development*

Applicable   Not applicable

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

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

##### ① Products in research

As at the end of the Reporting Period, the Group had 100 products in research, 10 products which had made applications. The main areas included the secondary development of chemical raw medicine, preparations, biological medicine, and legend products of traditional Chinese medicines.

##### ② Approvals

During the Reporting Period, the number of the Group and its jointly controlled entities applied for a total of 10 approvals for manufacturing and filed 4 applications for clinical research approval, and acquired 9 approvals for medicine manufacturing.

# Discussion and Analysis of Operations

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

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

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

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

##### ③ Science and Technology Awards

During the Reporting Period, the Group and its jointly controlled entities received a total of 6 awards and honors, including 1 state-level science and technology award, 2 provincial-level science and technology awards, 1 municipal-level science and technology award, and 2 association and district-level awards. Details of which are set out below:

Classification Level	Winning enterprises	Winning projects	Awards
National level	Wang Lao Ji	Medical herb DNA barcoding system for species identification	Second Prize of 2016 National Science and Technology Progress Award
	Tian Xin	Research on key technology of sterile micronized powder and its application in cephalosporin powder for injection	Third Prize of 2016 Guangdong Province Science and Technology Award
Provincial and municipal level	Guangxi Ying Kang	Sanwei heat-clearing anti-itch lotion research and industrialization	Third Prize of 2016 Guangxi Science and Technology Progress Award
	Guang Hua	Xiao Chai Hu Granule and preparation method	Third Prize of 2016 Guangzhou City Science and Technology Award
	Pan Gao Shou	Research on and application of inclusion of fritillaria taipaiensis as a new source of fritillaria into Chinese Pharmacopoeia	Third Prize of Science and Technology Award of China Association of Chinese Medicine
Association-level	Wang Lao Ji	Research on and application of online allocation and other key technologies of Wang Lao Ji Herbal Tea	Third Prize of Science and Technology Progress Award of China National Light Industry Council

# Discussion and Analysis of Operations

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

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

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

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

###### ④ Patents and Intellectual Property Rights

During the Reporting Period, the Group and its jointly controlled entities had applied for a total of 69 patents, among which, there were 50 patents for invention, 2 utility models; 61 licensed patents, which included 43 patent licenses for invention and 2 utility model patents.

During the Reporting Period, two companies, namely Baiyunshan General Factory and HWBYS were granted the honor of Leading Enterprise in Intellectual Property Rights in China respectively.

Accounting policies for research and development:

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

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

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.

# Discussion and Analysis of Operations

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

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

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

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

##### ④ Patents and Intellectual Property Rights *(Continued)*

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

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

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

# Discussion and Analysis of Operations

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

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

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

##### 2) The investment situation of research and development

Applicable  Not applicable

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

Company name	Products	Amount of the research and development investment (RMB'000)	Amount of the expenditure on research and development investment (RMB'000)	Amount of the capitalization on Research and development investment (RMB'000)	Research and development investment accounted for the proportion of revenue (%)	Research and development investment accounted for the proportion of cost (%)	Changes of the amount as compared with the corresponding period of last year (%)
Baiyunshan General Factory	Research on the Improvement of the Quality of Commonly Used Clinical Varieties of Drugs	13,475.15	13,475.15	0.00	0.65	1.39	5.02
Baiyunshan General Factory	R&D of special varieties of Great Southern TCM	7,469.12	7,469.12	0.00	0.36	0.77	10.50
Zhong Yi	Xiao Ke Pill	6,582.27	6,582.27	0.00	1.20	3.50	7.53
Zhong Yi	Zi Shen Yu Tai Pill	5,723.52	5,723.52	0.00	5.10	7.83	(5.94)
Tian Xin	Clopidogrel aspirin Tablet	5,000.00	5,000.00	0.00	2.87	3.58	2.06

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 2016, according to the government's policy of strengthening the implementation of assessment of consistency in quality and efficacy of generic drugs as well as marketing needs, the Group intensified efforts in carrying out the research on improving the quality of commonly used varieties of clinical drugs and preparations, R&D of special varieties of Great Southern TCM, Xiao Ke Pill, Zi Shen Yu Tai Pill and clopidogrel aspirin Tablet.

# Discussion and Analysis of Operations

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

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

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

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

Comparison within the same industry

Applicable  Not applicable

Comparable company in the same industry	Amount of the research and development investment (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.	200,840.00	1.27	2.68
China National Medicines Co., Ltd.	22,311.00	0.18	0.74
Shanghai Pharmaceuticals Holding Co., Ltd.	617,690.80	5.22	1.83
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	830,203.30	6.60	4.03
Tongrentang Chinese Medicine-Since	186,996.90	1.73	2.63
Average amount of the research and development investment			371,608.40
Amount of the research and development investment of the Company during the Reporting Period			330,367.83
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 (%)			1.87

Notes:

- (A) Full disclosure in the annual reports of the comparable companies for year 2016 is not yet available, the above information came from the annual reports of the comparable companies for year 2015.
- (B) The average R&D investment amount in the industry is the arithmetic average of the five companies in the same industry.

# Discussion and Analysis of Operations

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

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

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

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

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

Applicable   Not applicable

During the Reporting Period, the Group's research and development expenses accounted for 1.65% 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.

# Discussion and Analysis of Operations

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

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

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

##### 3) Basic information on the main research and development project

Applicable     Not applicable

R&D Program	Basic information of product	R&D (Register) Stage:	Progress status	Accumulated Research Input (RMB'000)	Number of declared manufacturers	Number of approved domestic generic manufacturers
Therapeutic two-plasmid HBV DNA vaccine projects	This vaccine features in improving specific cellular immune, combining with antiviral therapy, and effectively improving HBeAg serological conversion of patients to achieve clinical cure, which is an urgently needed medicine in clinic.	Clinical studies	IIC clinical study has been started.	53,000.00	None	None
Clinical research on the application of Zi Shen Yu Tai Pill in vitro fertilization and embryo transfer	Zi Shen Yu Tai Pill are kidney-nourishing, spleen-invigorating, primordial Qi-reinforcing, blood-nourishing, miscarriage-preventing and body-strengthening. It is fit for those who suffer spleen and kidney deficiency and miscarriage due to dysfunction of thoroughfare and conception vessels (to prevent habitual miscarriage and threatened miscarriage)	Assessment and research after marketing	Completed. The results show that Zishen Yutai Pill can significantly increase the rate of planting of IVF-ET patients and significantly improve clinical pregnancy of older women and patients with a history of miscarriage.	12,273.00	0	0
Development of rhizoma anemarrhenae polyphenol Capsule	Rhizoma anemarrhenae polyphenol Capsule belong to category-5 proprietary Chinese medicine and are fit for type-2 diabetes, Yin deficiency and pathogenic dryness-heat	Clinical research	Pre-clinical research has been completed and the clinical research is in progress.	10,660.00	0	0
Tuckahoe total glycosides	It belongs to category-5 traditional Chinese medicine for treatment of rheumatoid arthritis (RA)	Phase II clinical trial	In accordance with the newly-issued "general principles of clinical research on new traditional Chinese medicine", the reasonable plan for phase II clinical trial has been determined the clinical trial has been made.	5,223.43	Nil	Nil

# Discussion and Analysis of Operations

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

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

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

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

The impact to the Company by the research and development project

Applicable   Not applicable

In 2016, the State promulgated a series of policies and regulations to strengthen the quality of generic drugs and the evaluation of curative effect consistence, to further standardize clinical research for new drugs. Under this macro environment, the Company proactively adjusted the new product research and development as well as the declaration strategy as to comply with policies and regulations change. It focused on the new product research and development in the professional fields and the in-depth development of the market-oriented products in the subsidiary enterprises, and strengthened development of new products including biological medicine, chemical medicine, TCM and secondary development of famous products, and formed the echelon products; thus providing the scientific and technological support for the development of the Company.

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

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

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

# Discussion and Analysis of Operations

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

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

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

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

Applicable    Not applicable

During the Reporting Period, the Group received a total of 9 approvals in respect of pieces for pharmaceutical products, which will further enrich the Company's product varieties, and increase the Company's products reserves. Moreover, the Company will choose opportunities to launch the product into the market based on changes in the market.

Product name	Registered classification	Indications/Functions
Cefoxitin Sodium for Injection 1.0g	Supplementary application	For the following infection caused by bacteria sensitive to this product: 1. Upper and lower respiratory tract infection; 2. urinary tract infections, including uncomplicated gonorrhea; 3. peritonitis and other infection inside abdominal cavity and pelvis; 4. septicemia (including typhoid); 5. gynecological infection; 6. bone and joint soft tissue infection; 7. endocarditis and particularly aerobic and anaerobic mixed infection as well as infection caused by bacteria sensitive to this product for production of t $\beta$ -lactamase, since this product is effective on anaerobic bacteria and stable against $\beta$ -lactamase
Sildenafil Citrate Tablet (50mg)	Supplementary application	For the treatment of erectile dysfunction
Nimesulide particle (50mg)	Supplementary application	Anti-inflammatory analgesic
Cefathiamidine for Injection (0.5g)	Supplementary application	For respiratory system, hepatobiliary system, facial features and urinary tract infection caused by sensitive bacteria, and endocarditis and septicemia
Cefathiamidine for Injection (1.0 g)	Supplementary application	For respiratory system, hepatobiliary system, facial features and urinary tract infection caused by sensitive bacteria, and endocarditis and septicemia
Telmisartan Capsule (40 mg)	Supplementary application	For the treatment of primary hypertension

# Discussion and Analysis of Operations

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

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

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

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

Product name	Registered classification	Indications/Functions
Cefathiamidine for Injection (2.0g)	Supplementary application	For respiratory system, hepatobiliary system, facial features and urinary tract infection caused by sensitive bacteria, and endocarditis and septicemia
Cephalosporin hydrochloride for injection (1.0g)	Category VI of chemical drugs	For the following infection caused by streptococcus (except enterococci) sensitive to cefmenoxime sensitive, streptococcus pneumonia and peptostreptococcus: pneumonia, bronchitis, bronchiectasis with infection, secondary infection from chronic respiratory diseases; meningitis and other infectious diseases.

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

Applicable Not applicable

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

Applicable Not applicable

# Discussion and Analysis of Operations

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

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

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

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

In 2016, the Group received a total of RMB82,058,000 project subsidies. The following table lists the subsidies given to major projects:

Name of enterprise	Item name	Supporting type	Amount of subsidy (RMB'000)	Information on utilization
The Company	Weighted deduction of enterprise R&D expenses in Guangzhou	Weighted deduction of R&D expenses	3,417.50	Deducted as required.
Guangzhou Baidi	Development and application of new anti-tumor vaccine	Project under the 2016 Guangzhou emerging industry development fund (among the first batch of supporting national and provincial support projects, project subsidized upon completion)	5,000.00	Utilized according to progress
Guangzhou Han Fang	R&D and industrialization of high-end medicinal lipid raw materials and excipients	Trial items of accumulated development of strategic emerging industries of Guangdong Province	5,000.00	Utilized according to progress
Guangzhou Han Fang	Guangzhou Baiyunshan Han Fang Extraction and Separation Technology Research Institute	Enterprise R & D institutions construction project of Guangzhou Science Technology and Innovation Commission	2,000.00	Subsidized after completion

# Discussion and Analysis of Operations

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

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

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

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

In 2016, the Group received a total of RMB82,058,000 project subsidies. The following table lists the subsidies given to major projects:

Name of enterprise	Item name	Supporting type	Amount of subsidy (RMB'000)	Information on utilization
Guangzhou Han Fang	Construction of modern process technology research center of traditional Chinese medicine extraction and separation process of Guangdong Province	Guangdong Provincial Department of Science and Technology/ collaborative innovation and platform environment construction	1,000.00	Utilized according to progress
Baiyunshan General Factory	Industrialization of major varieties of domestic urgently-needed clinical drugs of Guangyao "BYS"	Guangzhou strategic new industry project (provincial special support)	5,000.00	Funds fully utilized based on the requirements of the project
Baiyunshan General Factory	Technological transformation for "BYS Jin Ge" production capacity expansion and efficiency improvement	Guangzhou City technological transformation and upgrading	1,000.00	Funds fully utilized based on the requirements of the project
Jing Xiu Tang	Upgrading of famous and superior-quality proprietary Chinese medicine preparation technology and equipment	Technological transformation project under the industrial transformation and upgrading fund of the Industry and Information Technology Commission of Guangzhou Municipality	1,000.00	Utilized according to progress

# Discussion and Analysis of Operations

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

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

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

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

Applicable     Not applicable

Main therapeutic areas	Product name	Operating income (RMB'000)	Operating costs (RMB'000)	Gross profit (RMB'000)	Changes of 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	549,942.40	188,247.89	65.77	(3.46)	(12.06)	3.35
	Xiao Chai Hu Granule	230,431.46	129,164.43	43.45	5.78	10.36	(2.82)
	Xia Sang Ju Granule 10g	185,229.39	83,161.57	55.10	8.56	4.40	1.78
	Qing Kai Ling Granule	161,029.00	67,041.43	58.37	(34.50)	(34.92)	(0.40)
	Shu Jin Jian Yao Pill	142,190.10	71,472.21	49.73	91.75	89.72	1.00
	Mi Lian Chuan Bei Pi Pa Confection	119,776.58	71,529.22	40.28	15.54	13.78	2.35
Antimicrobial drugs	Zhuang Yao Jian Shen Pill	104,434.10	54,903.59	47.43	28.11	31.21	(2.55)
	Cefathiamidine for Injection	373,279.75	160,594.16	56.98	(9.08)	(1.42)	(3.35)
	Cefixime	367,966.52	107,294.56	70.84	0.30	(32.02)	13.87
	Amoxicillin	216,166.25	133,196.53	38.38	(6.13)	7.13	(0.58)
	Cefditron Capsule	112,619.13	51,316.07	54.43	90.41	67.95	6.09
	Cephalosporin	101,308.32	60,814.51	39.97	9.21	(2.77)	7.39
Andrology medication	Cefathiamidine	120,097.42	72,564.65	39.58	(0.95)	7.06	(9.35)
	Cefixime	90,938.58	94,742.99	(4.18)	12.42	30.33	(14.31)
Drugs for easing pain, clearing heat, and resisting inflammation, wind-damp and gout	Sildenafil Citrate Tablet	400,492.33	32,222.70	-	71.31	77.22	-
Drugs used in dermatological department	Paracetamol Caffeine Aspirin Powder	154,796.59	75,070.47	51.50	4.92	4.50	0.19
	Essential balm	58,491.12	26,806.74	54.17	(3.01)	(15.07)	6.51
Gynaecological medication,	Zi Shen Yu Tai Pill	112,208.10	73,069.45	34.88	98.75	102.92	(1.34)

# Discussion and Analysis of Operations

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

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

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

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

Explanation:

Applicable Not applicable

During the Reporting Period, the gross profit rate of the principal operation of the Company was 32.72%, among which, the gross profit rate of the Great Southern TCM segment was 43.62%. The huge difference in gross profit rate between Great Southern TCM segment and the companies mentioned above was mainly due to the difference in the products structure and huge difference in the gross profit rate of principal products.

The gross profit rate of the companies in the industry:

Stock code	Abbreviation	Operation revenue (RMB'000)	Gross profit rate of pharmaceutical industry (%)	Overall gross profit rate (%)
600664	Harbin Pharmaceutical Group Co., Ltd.	15,781,370.00	52.00	25.00
600511	China National Medicines Co., Ltd.	12,078,194.10	36.00	7.95
601607	Shanghai Pharmaceuticals Holding Co., Ltd.	105,516,587.30	50.78	12.13
600196	Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	12,516,328.00	53.69	49.97
600085	Tongrentang Chinese Medicine-Since	10,808,761.20	50.51	46.08

Notes:

- (A) Full disclosure in the annual reports of the comparable companies for 2016 is not yet available, the above information came from the annual reports of the comparable companies for year 2015.
- (B) The companies above had not disclosed the gross profit rate of the medicine divided according to the therapeutic areas in their 2015 annual reports, therefore the Company could not analyze the data according to therapeutic areas.

# Discussion and Analysis of Operations

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

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

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

##### 2) Analysis of the main sales model of the Company

Applicable  Not applicable

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

##### 3) Situation of the centralized purchase of drugs through bidding

Applicable  Not applicable

Name of the main medicine (products)	Specifications	Interval of bidding price (RMB)	The total actual purchase quantity of medical institutions
Xiao Ke Pill	52.5g/bottle	24.50-52.50	9,334.57 thousand bottles
San Wei Qing Re Zhi Yang Lotion	250ml/bottle	32.51-52.00	900.00 thousand bottles
Nao Xin Qing Pill	0.41g*36 pill/box	40.12-56.88	8,672.00 thousand boxes
Kun Xian Capsule	0.3g*12 grain/box	103.70-122.00	8,660.00 thousand boxes
Mi Lian Chuan Bei Pi Pa Confection	345g/bottle	22-32	5,635.86 thousand bottles
Qing Kai Ling Capsule	0.4g per pack; 24pcs/carton, 300pcs/piece (non-OTC)	19.5-23.28	2,308.80 thousand boxes
Dan Bie Capsule	0.38g*75 grain/box	54.47-70.51	560.26 thousand boxes
Hua Tuo Zai Zao Pill	8g*12 bag/box	35.71-37.56	2,589.26 thousand boxes
Zi Sheng Yu Tai Pill	60g/bottle	25.73-42.60	3,971.25 thousand bottles
Zhang Yan Ming Piu	0.21g*100s/bottle	8.29-29.48	220.23 thousand bottles
Zhi Ke Chun Bei Pi Pa Oral Solution	240ml	23.18-26.66	1,248.64 thousand bottles
Die Da Zheng Tong Sticker	10cm*7cm 8 stickers/box	12.32-28.60	170.00 thousand boxes
Qing Kai Ling Grain	10g per bag; 10 bags/in the medium-sized bag, 100 medium-sized bags/pieces	13.5	15,695.70 thousand boxes
Qing Re Xiao Yan Ning Capsule	0.32g/grain*24 grain/box	24.77-48.00	2,030.00 thousand boxes
Compound Licorice Oral Solution	500ml	42.44-66.67	0
Cefpiramide for Injection	1gx300	54.69-75.23	0
Cephathiamidine for Injection	0.5g*400 bottle	26.53-29.818	41,219.94 thousand bottles

# Discussion and Analysis of Operations

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

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

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

##### 4) *Analysis of sales expenses*

Constitute of the sales expenses

Applicable Not applicable

Items	Amount occurred for the Report Period (RMB'000)	Percentage of amount occurred for the Report Period in the total sales cost (%)
Employee remuneration	1,722,046	45.04
Sales service fee	806,929	21.10
Transportation expenses	148,158	3.87
Office expenses	18,432	0.48
Freight and miscellaneous charges	497,023	13.00
Rental expenses	19,587	0.51
Conference expenses	42,622	1.11
Advertising and promotion fees	511,152	13.37
Consulting fees	5,466	0.14
Depreciation charges	3,105	0.08
Others	49,069	1.30
Total	3,823,589	100.00

# Discussion and Analysis of Operations

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

### (5) Analysis on the pharmaceutical manufacturing industry operation information (Continued)

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

##### 4) Analysis of sales expenses (Continued)

Situation of the comparison in the same industry

Applicable Not applicable

Comparable companies in the same industry	Selling and distribution expenses (RMB'000)	Selling and distribution accounted for the proportion of revenue (%)
Harbin Pharmaceutical Group Co.,Ltd.	1,131,500.00	7.14
China National Medicines Co.,Ltd.	228,846.00	1.89
Shanghai Pharmaceuticals Holding Co., Ltd.	2,905,175,.40	24.57
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	2,815,140.00	22.33
Tongrentang Chinese Medicine-Since	2,135,203.90	19.75
The average amount of the sales expenses(RMB'000)		1,843,173.26
Total amount of the sales expenses of the Company during the Reporting Period(RMB'000)		3,823,589.49
Sales expenses accounted for the proportion of revenue of the Company during the Reporting Period (%)		19.08

Notes:

- (A) Full disclosure in the annual reports of the comparable companies for year 2016 is not yet available, the above information came from the annual reports of the comparable companies for year 2015.
- (B) The average amount of the sales expenses is the arithmetic average of the five companies in the same industry.

# Discussion and Analysis of Operations

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

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

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

##### 4) *Analysis of sales expenses (Continued)*

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

Applicable Not applicable

During the Reporting Period, the Group's total cost of sales amounted to approximately RMB3.824 billion, representing a decrease of 8.26% compared with the corresponding period last year, mainly due to changes in the settlement method of the Group, thus significantly reduced the expenses on publicity.

During the Reporting Period, the Group's cost of sales accounted for 19.08% of operating income. Expenses of the Group in 2016 were higher than the average level of above enterprises in the industry in 2015, mainly because the Group's business structure and business sales model is different from the sales model of the above enterprises.

# Discussion and Analysis of Operations

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

### (v) Investment situation

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

As at the end of the Reporting Period, the foreign equity investment of the Company amounted to RMB2,290,443,000, with a growth of RMB179,230,000 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.

##### 1) Significant equity investment

Applicable  Not applicable

##### 2) Significant non-equity investment

Applicable  Not applicable

##### 3) Financial assets evaluating at fair value

Applicable  Not applicable

Investments in stocks

Number	Type of Stock	Stock Code	Stock name	The	Number of	Book value	% of stock	Gain/(Loss)
				initial amount of investment (RMB'000)	shares held for the end of the Reporting Period (share)	as at the end of the Reporting Period (RMB'000)	as at the end of the Reporting Period (%)	during the Reporting Period (RMB'000)
1	A Share of SSE	600038	AVIC Helicopter Co., Ltd.	1,806	57,810	2,799	46.45	(235)
2	A Share of SSE	600664	Harbin Pharmaceutical Group Co., Ltd.	3,705	376,103	3,227	53.55	(224)
Other stock investments held as at the end of the Reporting Period				-				
Gain/(Loss) of stock investments sold during the Reporting Period				-				
<b>Total</b>				<b>5,511</b>	<b>433,913</b>	<b>6,026</b>	<b>100.00</b>	<b>(459)</b>

# Discussion and Analysis of Operations

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

### (5) Investment situation (Continued)

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

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

Stock Code	Stock name	Initial investment amount (RMB'000)	% of share holding (%)	Book value as at the end of the Reporting Period (RMB'000)	Gain/(Loss) during the Reporting Period (RMB'000)	Changes in equity during the Reporting Period	Accounting item	Sources of shares
601328	Bank of Communications	525	—	2,277	120	(215)	Available-for-sale Acquired financial assets	Acquisition
601818	Everbright Bank	10,725	Approximately 0.02	23,655	1,150	(1,697)	Available-for-sale Acquired financial assets	Acquisition

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

Name of enterprises	Business nature	Major products or services	Registered capital (RMB'000)	Equity directly held by the Company (%)	Total assets (RMB'000)	Net assets (RMB'000)	Net profit (RMB'000)
<b>Subsidiaries</b>							
WLJ Great Health	Manufacturing	Production and sales of pre-packaging food, dairy products, etc.	100,000	100.00	4,525,358	748,328	432,889

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, Qi Xing, as a result of that enterprises affiliated to the Company, received land requisition compensation and government subsidy amounted RMB672.341 million, which was counted into non-business income of RMB275.726 million, and had a contribution of over 10% of the net profit in the group. Except as mentioned above, there was no other business operation activity having significant influence on the net profit.

# Discussion and Analysis of Operations

## 3. DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT

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

In recent years, the government has implemented a number of reforms in pharmaceutical industry, pharmaceutical distribution, medical insurance payments and terminal medical services, and the release of the Outline of “Healthy China 2030” Plan provides a programmatic guidance for the development of the pharmaceutical industry; elimination of backward production capacity, mergers and acquisitions have become the long-term trends. Since China’s pharmaceutical and health industry standards continue to improve, the past extensive growth mode is difficult to continue and is replaced by the overall speeding and shifting of the industry, as well as differentiation development and structural adjustment of sub-industries. These all indicate the arrival of the era of healthy development, standardized development and differential development, therefore only those enterprises who actively make positive changes that follow industry trends could obtain long-term growth.

Overall, the pharmaceutical industry in 2017 will not only be affected by the macroeconomic downturn, but also more prominently by the national policy. 2017 will be key in terms of implementation of policies like consistency assessment and “two-vote system”; meanwhile, with the increasingly strict medical insurance cost control will further curb the growth of hospital terminals, the pharmaceutical industry reshuffle will step up and mergers and acquisitions between enterprises will be more intense; the direction of drug R& D will be gradually transferred from focus on generic drug priority to innovative medicine; with the government support, the Great Health Industry and traditional Chinese medicine will see growth in market shares and major varieties of proprietary Chinese medicine will have development opportunities; the macro supporting policy for the future online pharmaceutical transactions will continue to be favorable and pharmaceutical e-commerce will be further developed. From the long-term development point of view, the pharmaceutical and health industry development policy environment will be more favorable, the industrial environment will be more standardized and the market environment will be more complex.

# Discussion and Analysis of Operations

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

### (2) Development strategy and annual work plan for year 2017

2017 will be the Group's "year of quality and benefits" when the Group will practice its development concepts of innovation, coordination, environmentally-friendliness, opening-up and sharing, and carry out various work with focus on improving corporate development quality and benefits:

- ① Polish up China's well-known trademarks and time-honored brands and enhance the quality benefits of Great Southern TCM: implement the famous brand strategy and on the basis of high-quality and fashion-oriented, continuously enhancing the brand awareness and impact, while increasing brand investment and promotion efforts; implement the big variety strategy to make good product echelon design, integrate advantageous resources to build strategic big varieties and revitalize inactive varieties with development potential; implement the strategy of corporate strength enhancement using traditional Chinese medicine to make the traditional Chinese medicine industry bigger, stronger and more high-quality; implement the resource integration strategy to give full play to the synergistic effect of the pharmaceutical manufacturing enterprises under the Group and the trade enterprises under the Group and establish the marketing advantage of Great Southern TCM.
- ② In continued accordance with the brand strategy of "fashion, science and technology, culture", promote the Wang Lao Ji brand to be popularized, mass-oriented, modernized and internationalized, continue to strengthen the development of catering and other channels, develop clusters of big products of Great Health Industry and enhance quality benefits of Great Health Industry.
- ③ Optimize service brand and enhance the quality benefits of Great Commerce: With the existing large-scale hospital projects as a benchmark, actively expand logistics extension services of 3A-level hospitals, specialist hospitals and grass-roots hospitals for better logistics extension services; in response to the implementation of the "two-vote system", speed up the downward penetration of the terminal medical service, establish a three-level network connecting urban public hospitals, county hospitals, community and township hospitals and optimize terminal delivery services; expand the chain store business through acceleration of self-opened stores, retail mergers and acquisitions, development of single-store alliance, and optimize retail service through "products + services" complemented by online and offline multi-channel marketing; upgrade the existing product e-commerce platform, strengthen cooperation with external well-known e-commerce platforms, optimize pharmaceutical e-commerce services; speed up the logistics project construction work and optimize logistics services.

# Discussion and Analysis of Operations

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

### (2) Development strategy and annual work plan for year 2017 *(Continued)*

- ④ Scientifically operate and upgrade Guangzhou Baiyunshan Hospital, gradually expand the health maintenance and elderly care industry, pragmatically promote the progress of medical and medical equipment projects, and establish BYS medical brand to enhance the quality benefits of Great Medical.
- ⑤ Speed up the implementation of investment projects, continue to promote investment and acquisition projects, and optimize the quality of investment cooperation and the investment management system to enhance the quality of Great Capital benefits.
- ⑥ Optimize the scientific research and product quality, enhance the quality benefits of science and technology: set “quality” as the core and enhance the overall quality management level; set “integration” as the main line and strengthen the construction of the innovation system; set “cooperation” as the starting point and promote the establishment of a number of major science and technology innovation projects.
- ⑦ Further optimize the capacity layout, focus on the integration of resources to cut overcapacity; speed up the implementation of production base projects, promote optimized allocation of a variety of manufacturing resources and construct innovative the trinity industry base.
- ⑧ Expend great efforts in standardized management, cost management, safety management, integrated management and efficient management, optimize the quality of operation and improve quality benefits of management.
- ⑨ Take the initiative to “go out” and actively “introduce” to enhance the ability to pool resources and enhance quality benefits of internationalization.
- ⑩ Build dual innovation demonstration bases, speed up the implementation of mass innovation projects, explore innovation and business start-up modes like shareholding by operators and internal crowd fund raising, speed up development of institutional mechanisms for internal innovation and startup, and enhance innovation and startup ability.

# Discussion and Analysis of Operations

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

### (3) Potential challenges and risks

The challenges and risks faced by the Group principally include: (a) the global economy is in a downturn, the national economy enters into a new normal state and the capital market is not active; (b) due to the impact of factors like insurance cost control, bidding policy reform and increasingly strict new drug approval, the overall growth of pharmaceutical and health industry will slow down; (c) social overcapacity and serious social stock makes industrial product prices continue to decline; (d) deep integration and cross-border expansion of industrial capitals tend to be prominent and pharmaceutical enterprises and non-pharmaceutical enterprises compete to establish presence in the pharmaceutical and health industry, hence intensified industry competition; (e) consumer purchasing power continues to decline and mass consumer goods slow down its growth rate.

## 4. OTHER MATTERS

### (1) Accounts

The results of the Group for the year ended 31 December 2016 are set out in the consolidated income statement.

The financial conditions of the Group as at 31 December 2016 are set out in the consolidated balance sheet.

The cash flows of the Group for the year ended 31 December 2016 are set out in the consolidated cash flow statement.

The cash flows of the Company for the year ended 31 December 2016 are set out in the cash flow statement.

### (2) Financial Summary

A summary of the results and of the assets and liabilities of the Group are set out on pages 39 to 41 in the Directors' Report contained in this annual report.

### (3) Reserves

Details of the movements in the reserves of the Group during the Year are set out on pages 314 to 320 of the financial report contained in this annual report.

### (4) Distributable Reserves

The distributable reserves of the Group as at 31 December 2016 calculated in accordance with the PRC Accounting Standards was RMB3,555,087,000.

# Discussion and Analysis of Operations

## 4. OTHER MATTERS *(Continued)*

### (5) Fixed Assets

Details of the movements of fixed assets for the year ended 31 December 2016 are set out on pages 290 to 292 of the financial report contained in this annual report.

### (6) Ordinary Connected Transactions

Details of connected transactions were set out on pages 132 to 135 of the Major Events of this annual report.

### (7) Management Contracts

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

### (8) Corporate Governance

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

### (9) Tax Exemption

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

# Discussion and Analysis of Operations

## 4. OTHER MATTERS *(Continued)*

### (10) Retirement Scheme

Details of the retirement scheme and amounts of contributions of the Group are set out on page 307 of the financial report contained in this annual report respectively.

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

### (12) Environmental policy

The environmental policy and its performance of the Group were set out on the Social Responsibility Report in 2016 of the Company (full text of the report has been uploaded to the website of SSE and HKEx).

# Major Events

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

### (1) Formulation of cash distribution policy and its implementation

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

In order to ensure that the non-public offering of A shares of the Company is not affected by the payments of dividend, the Company had neither distributed the annual dividend of 2015 nor capitalized capital reserve as approved at the 2015 annual shareholders' meeting.

After the Company has completed the implementation of the plan for non-public offering of A shares and considering factors such as profit, investment, funding needs, cash flow and shareholders' returns planning, etc. in conjunction with the relevant provisions of the Article of Association relating to profit distribution, the proposal in relation to the distribution of special dividends was submitted to the Board. After the proposal in relation to the distribution of special dividends was approved by the Board unanimously, it was submitted to the second extraordinary general meeting of the Company of 2016 for consideration and was approved. The special dividends had been distributed by the end of December 2016.

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

Distribution year	Distributions of every 10 shares (inclusive of tax) (RMB)	Amount of profit distribution in cash (inclusive of tax) (RMB)	Net profit attributable to the shareholders of the listed Company for the distribution year as shown in the consolidated financial statements (After restatement) (RMB)	Proportion of payout distribution in the net profit as showed in the consolidated financial statements (%)
2016	2.80	455,221,465.72	1,508,032,671.07	30.19
2015 <sup>(note)</sup>	3.00	487,737,284.70	1,300,351,292.59	37.44
2014	2.80	361,575,382.00	1,194,141,273.24	30.28

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

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

### (3) Cash offer to repurchase shares into cash dividends

Applicable Not applicable

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

Applicable Not applicable

# Major Events

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

### (1) Equity incentive implemented by listed companies

Item	Content
Background of undertaking	Undertakings in connection with equity division reform
Party given the undertaking	Controlling shareholder
Details of undertaking	<ol style="list-style-type: none"><li>1. In order to improve the value of the listed company, after completion of 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 supervisory authority, support 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.</li><li>2. 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.</li></ol>
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	In order to improve the incentive mechanism, the Company implemented the Employee Stock Ownership Scheme (2015), completion of which occurred on 17 August 2016.
Whether strictly and timely performed	Fully performed
Compliance or not	Yes

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

### (2) 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"> <li>1. After completion of the Major Assets Reorganization, GPLH, the controlling shareholder of the Company, will comply with the requirements of relevant laws and regulations, regulatory documents and the Articles of Association of the Company, and exercise shareholder's right according to laws and will not affect the independence of the Company by exerting its influence as a controlling shareholder and will maintain the integrity and independence of the Company in respect of assets, employees, finance, organisation and business.</li> <li>2. The undertaking letter will remain effective so long as GPC legally and validly exists and GPLH owns controlling interest in the Company.</li> </ol>
Time and period of the undertaking	The undertaking was given on 29 February 2012 and is valid permanently.
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Compliance or not	Yes

# Major Events

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

### (3) Avoiding competition

Item	Content
Background of undertakings	Undertakings related to the Major Assets Reorganization
Party given the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none"> <li>1. After completion of the Major Assets Reorganization, GPLH 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. GPLH will not and will procure its subsidiaries not to engage in the same or similar business of new GPC to avoid direct or indirect competition with the operation and business of new GPC. In addition, GPLH will voluntarily and vigorously procure its subsidiaries to give up competition with new GPC if GPLH and its subsidiaries will bring unfair impact on new GPC in respect of market shares, business opportunities and allocation of resources.</li> <li>2. GPLH shall bear the economic losses and/or additional costs directly and/or indirectly suffered or incurred by new GPC due to any breach of the above undertakings.</li> <li>3. The undertaking letter shall remain effective so long as GPC legally and validly exists and GPLH owns controlling interest in GPC.</li> </ol>
Time and period of undertaking	The undertaking was given on 29 February 2012 and is valid permanently.
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Compliance or not	Yes

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

### (4) Regulating connected transactions

Item	Content
Background of undertakings	Undertakings related to the Major Assets Reorganization
Party given the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none"> <li>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 the legal procedures. They will also fulfill the information disclosure obligations and pursue the reporting and approval procedures according to the requirements of relevant laws and regulations, the Listing Rules of SSE and the Listing Rules of HKEx and the Articles of Association of Guangzhou Pharmaceutical Company Limited, and warrant that it will not harm the legitimate rights and interests of the subsisting GPC after completion of the Major Assets Reorganization and its other shareholders.</li> <li>2. The undertaking letter will remain effective so long as GPC legally and validly exists and GPLH owns controlling interest in GPC.</li> </ol>
Time and period of the undertaking	The undertaking was given on 29 February 2012 and is valid permanently.
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Compliance or not	Yes

# Major Events

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

### (5) Restricting the sale of shares

Item	Content
Background of the undertakings	Undertakings related to the 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 GYBYS'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. On 25 October 2016, the Company published an announcement on the listing of the non-publicly offered restricted shares. The newly issued shares were listed on 28 October 2016.
Whether timely and strictly performed	Fully performed
Compliance or not	Yes

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

### (6) 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"> <li>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"> <li>(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</li> <li>(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.</li> </ol> </li> <li>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.).</li> </ol>
Time and period of the undertaking	Commitment made on 26 March 2012 and the period of validity is up to the date of completion of the undertakings
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Compliance or not	Yes

# Major Events

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

### (7) 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"> <li>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.</li> <li>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.</li> <li>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.</li> </ol>
Time and period of the undertaking	The undertaking was given on 29 February 2012 and is valid permanently.
Valid period for performance	N/A
Whether timely and strictly performed	Being performed
Compliance or not	Yes

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

### (8) 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"> <li>1. process the transfer of those trademarks to the Company as soon as possible;</li> <li>2. ensure that the Company can use these trademarks without having to pay consideration before the transfer of those assets;</li> <li>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.</li> </ol>

# Major Events

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

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

Item	Content
Undertakings	<p>Upon the original undertakings, GPLH made further undertaking:</p> <ol style="list-style-type: none"><li>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;</li><li>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.).”</li><li>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.</li></ol>

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

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

Item	Content
Undertakings	<p>In order to fulfill the reorganization commitments as soon as possible and maintain the interests of the Company, on 20 September 2016, the Company and GPLH signed the Confirmation Letter on Trademark Compensation for two trademarks, of which the transfer procedure hasn't been completed. The Thai-registered trademarks are Zhongyi brand and logo (trademark number Tm184722), and GPC and logo (trademark number Tm200961), which belong to joint or defensive trademarks. The transfer application has been submitted in March 2014, but, due to the reasons of Thailand's intellectual property authority, so far the transfer procedure hasn't been completed yet. In accordance with the Confirmation Letter on Trademark Compensation, the Parties agree as follows:</p> <ol style="list-style-type: none"> <li>1. GPLH shall compensate the Company in cash in accordance with the valuation of RMB2700 of 2 Thai-registered trademarks. The valuation is subject to the amount provided in the Asset Valuation Report on the Asset Valuation Project of the Proposed Acquisition by Guangzhou Pharmaceutical Company Limited of the Real Estate and Trademarks held by Guangzhou Pharmaceutical Holdings Limited through Private Placement of New Shares (Valuation of Zhongtian Hengping) [2012] No.026 issued by Zhongtian Hengping.</li> <li>2. As long as the conditions for completing the transfer procedure for the 2 Thai-registered trademarks are ripe, the Company will accept the 2 Thai-registered trademarks as the transferee.</li> </ol>
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. The Company had received cash compensation on 27 September 2016
Valid period for performance	N/A
Whether timely and strictly performed	Fully performed
Compliance or not	Yes

# Major Events

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

### (9) Undertakings related to trademarks

Item	Content
Background of the undertakings	Undertakings related to the Major Assets Reorganization
Party given the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none"> <li>1. GPLH undertakes that, within two years from the date of satisfaction of any one of the conditions set out below, it will legally transfer the trademarks in Wang Lao Ji series (25 in total) and 4 other trademarks (comprising trademarks with registration numbers of 125321, 214168, 538308 and 5466324) to the Company according to the requirements of laws and regulations then in force: (i) Upon the expiry on 1 May 2020, or earlier when the license agreement and its supplemental agreement were invalidated/void/terminated as determined by the arbitration institution, or earlier when the agreement was terminated or released as agreed between the parties; or (ii) Hung To (Holdings) Company Limited (鴻道(集團)有限公司) legally ceases to own the right of pre-emption</li> <li>2. On the basis of the original undertaking letter, GPLH has further made the promise as follows: After all of the legal disputes regarding the trademark of Wang Lao Ji have been resolved and within two years commencing from the transferable day, GPLH shall, pursuant to the provisions of the effective laws and regulations then and after the relevant procedures regarding the reporting for approval have been processed, legally transfer to the Company such 29 trademarks of the series of "Wang Lao Ji" together with such other trademarks related to Wang Lao Ji and 4 trademarks obtained and owned in legal manner by GPLH after the Execution Day (inclusive of today) for the "Supplementary Agreement to the Agreement of Trademark Custody". The Company may obtain such by cash or by issuing shares for purchasing assets wherein the transfer price shall be legally confirmed based on such appraisal value as issued by an appraisal institute possessing the professional qualification of engaging in securities and as confirmed in the asset appraisal report verified by the State-owned assets authority.</li> </ol>
Time and period of the undertaking	The original undertaking was given on 29 February 2012. GPLH gave a supplemental undertaking in respect of the relevant contents on 15 June 2012. The undertaking remains valid until it has been fully performed.
Valid period for performance	N/A
Whether timely and strictly performed	In December 2014, the Company received the Letter of Amendment to the Undertakings of Injection of Wang Lao Ji Trademark Series from GPLH, which proposed to amend the performance period of the former undertakings to "two years since the commencing date of the judgment on the law case of red can decoration", due to the disputes of red can decoration. As approved at the 8th meeting of the sixth session of the Board, the resolution on the amendment to the performance period of injection of Wang Lao Ji trademark series was submitted to the first extraordinary general meeting in 2016 held on 13 March 2016 and was approved.
Compliance or not	Yes

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

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

Applicable Not applicable

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

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

Applicable Not applicable

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

Applicable Not applicable

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

Applicable Not applicable

### 5. APPOINTMENT, DISMISSAL OR CHANGE IN APPOINTMENT OF AUDITORS

#### Current auditors

Name of the domestic Certified Public Accountants	BDO China Shu Lun Pan CPAs LLP
Total remuneration of the domestic Certified Public Accountants (RMB'000)	2,093
Including: Expenses on auditing financial report (RMB'000)	1,713
Expenses on reviewing financial report (RMB'000)	380
Term of office of the domestic Certified Public Accountants	4
Name of the overseas Certified Public Accountants	/
Remuneration of the overseas Certified Public Accountants (RMB'000)	/
Term of office of the overseas Certified Public Accountants	/

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

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

# Major Events

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

### Explanatory notes on the appointment of auditors:

- (i) As approved at the second meeting of the Audit Committee in 2016, BDO China Shu Lun Pan CPAs LLP was appointed as the auditor of the Company for year 2016 and the internal control auditor of the Company for year 2016.
- (ii) The 22nd meeting of the sixth session of the Board passed the resolution in relation to the appointment of BDO China Shu Lun Pan CPAs LLP as the auditor of the Company for year 2016 and the internal control auditor of the Company for year 2016.
- (iii) Pursuant to the approval given in the annual general meeting of 2015, BDO China Shu Lun Pan CPAs LLP was appointed as the auditor of the Company for year 2016 and the internal control auditor of the Company for year 2016.

## 6. RISK OF FACING SUSPENSION OF LISTING

Applicable Not applicable

## 7. THE SITUATION AND REASONS FOR FACING SUSPENSION OF LISTING

Applicable Not applicable

## 8. MATTERS RELEVANT TO BANKRUPTCY AND SCHEME OF ARRANGEMENT

Applicable Not applicable

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

**(1) The Group had neither been engaged in any significant litigation or arbitration nor subject to any doubts by media during the Reporting Period.**

**(2) The litigation and arbitration of the Group, and the litigation and arbitration in relation to the Wang Lao Ji trademarks with GPLH (the controlling shareholder of the Company) was involved, during the Reporting Period.**

- (i) GPLH, the controller of the Company, and WLJ Great Health, a wholly-owned subsidiary of the Company, received the second-instance verdict on the case of false propaganda and commercial defamation dispute from the Guangdong Provincial People's High Court ("GPHPC"). In accordance with the verdict, the GPHPC rejected the appeal and upheld the original verdict.

For details, please refer to the announcement dated 7 March 2016 published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and the announcement on the websites of the SSE and the HKEx.

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

### (2) The litigation and arbitration of the Group, and the litigation and arbitration in relation to the Wang Lao Ji trademarks which GPLH (the controlling shareholder of the Company) was involved, during the Reporting Period. (Continued)

- (ii) GPLH, as the controller of the Company, and WLJ Great Health, a wholly-owned subsidiary of the Company, received the Civil Ruling (minshenzi [2015] No.2802) from the Supreme People's Court of the People's Republic of China ("SPC"), which rejected the retrial application for the case of false propaganda dispute from Jiaduobao (China) Drink Co., Ltd. ("JDB China") and Guangdong Jiaduobao Drink and Food Co., Ltd. ("Guangdong JDB").

For details, please refer to the announcement dated 10 May 2016 published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and the announcement on the websites of the SSE and the HKEx.

- (iii) GPLH, the controller of the Company, and WLJ Great Health, a wholly-owned subsidiary of the Company, received the second-instance verdict on the case of false propaganda and commercial defamation dispute from the GPHPC. In accordance with the verdict, the GPHPC rejected the appeal and upheld the original verdict.

For details, please refer to the announcement dated 19 July 2016 published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and the announcement on the websites of the SSE and the HKEx.

- (iv) GPLH, the controller of the Company, and WLJ Great Health, a wholly-owned subsidiary have received the second instance verdict of the Hunan Provincial People's High Court on the false propaganda dispute case.

For more details, please refer to the announcement dated 5 September 2016 published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and on the websites of the SSE and the HKEx.

# Major Events

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

### (2) The litigation and arbitration of the Group, and the litigation and arbitration in relation to the Wang Lao Ji trademarks which GPLH (the controlling shareholder of the Company) was involved, during the Reporting Period. (Continued)

- (v) GPLH, the controller of the Company, WLJ Great Health, a wholly-owned subsidiary of the Company, and Wang Lao Ji, a joint venture, had received the Civil Judgment (suilifazhiminchuzi [2015] No.51) of the People's Court of Liwan District, Guangzhou City, Guangdong Province, on the legal dispute in relation to "Wang Lao Ji" trademark. The verdict is "rejected all claims made by the Plaintiff Tongxing Pharmaceutical".

For more details, please refer to the announcement dated 20 September 2016 published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and on the websites of the SSE and the HKEx.

- (vi) WLJ Great Health, a wholly-owned subsidiary of the Company, had received the Civil Ruling (zuigaofaminshen [2016] No. 673) of the SPC review the relevant contents of the first-instance verdict and the second-instance verdict in the lawsuit raised by WLJ Great Health for false propaganda caused by JDB China. The verdict is rejected the retrial application from JDB China.

For more details, please refer to the announcement dated 11 October 2016 published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and on the websites of the SSE and the HKEx.

- (vii) The Company had received the Civil Judgement (suiyuefaminsichuzi [2014] No.100) of the Supreme People's Court of Yuexiu District, Guangzhou City, Guangdong Province review the relevant contents in the lawsuit raised by the Company and the other 10 natural shareholders of Wang Lao Ji for the harms to the interests of the Company caused by Wang Jianyi.

For more details, please refer to the announcement dated 2 November 2016 published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and on the websites of the SSE and the HKEx.

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

Applicable Not applicable

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

Applicable Not applicable

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

### (1) Equity incentive

Applicable Not applicable

### (2) Employee stock ownership plan

Applicable Not applicable

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

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

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

# Major Events

## 13. CONNECTED TRANSACTIONS

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

Connected parties	Relationship with the company	Type of connected transactions	Contents of connected transactions	Pricing principle of the connected transactions	Amounts of connected transactions (RMB'000)	Percentage of similar transactions (%)	Settlement method of connected transactions
HWBYS	Joint Venture	Purchase of goods	Medicine or pharmaceutical products	Market price	319,397	2.98	Cash
GP Corp.	Joint Venture	Purchase of goods	Medicine or pharmaceutical products	Market price	687,603	6.41	Cash
Wang Lao Ji	Joint Venture	Purchase of goods	Medicine or pharmaceutical products	Market price	772,868	7.20	Cash
<b>Subtotal</b>					<b>1,779,868</b>	<b>16.59</b>	
GPHL	Parent company	Sale of products	Medicine or pharmaceutical products	Market price	4	0.00	Cash
HWBYS	Joint Venture	Sale of products	Medicine or pharmaceutical products	Market price	184,616	0.93	Cash
GP Corp.	Joint Venture	Sale of products	Medicine or pharmaceutical products	Market price	1,217,866	6.16	Cash
Wang Lao Ji	Joint Venture	Sale of products	Medicine or pharmaceutical products	Market price	450,082	2.28	Cash
Nuo Cheng	Joint Venture	Sale of products	Medicine or pharmaceutical products	Market price	235	0.00	Cash
Baxter Qiao Guang	Joint Venture	Sale of products	Medicine or pharmaceutical products	Market price	1,201	0.01	Cash
<b>Subtotal</b>					<b>1,854,004</b>	<b>9.38</b>	
HWBYS	Joint Venture	Provision of labour service	Advertising agency	Market price	30,217	39.62	Cash
GP Corp.	Joint Venture	Provision of labour service	Advertising agency	Market price	424	0.56	Cash
Wang Lao Ji	Joint Venture	Provision of service	Advertising agency	Market price	39,053	51.21	Cash
Baxter Qiao Guang	Joint Venture	Provision of labour service	Advertising agency	Market price	38	0.05	Cash
Wang Lao Ji	Joint Venture	Provision of labour service	Consigned processing	Market price	23,250	100.00	Cash
HWBYS	Joint Venture	Provision of labour service	Research and development	Market price	47	0.55	Cash
Wang Lao Ji	Joint Venture	Provision of labour service	Research and development	Market price	1	0.01	Cash
<b>Subtotal</b>					<b>93,030</b>		
GPHL	Parent company	Acceptance of patents, rights to use trademarks and others	Rights to use trademarks	At price determined by agreement	78,517	83.60	Cash
Wang Lao Ji	Joint Venture	Acceptance of patents, rights to use trademarks and others	Rights to use trademarks	At price determined by agreement	12,021	100.00	Cash
GPHL	Parent company	Others	Leased as tenant	At price determined by agreement	1,449	1.81	Cash
GPHL	Parent company	Others	Leased out	At price determined by agreement	448	0.54	Cash
GP Corp.	Joint Venture	Others	Leased out	At price determined by agreement	3,354	4.02	Cash
Baxter Qiao Guang	Joint Venture	Others	Leased out	At price determined by agreement	2,962	3.55	Cash
Nuo Cheng	Joint Venture	Others	Leased out	At price determined by agreement	2,238	2.69	Cash
HWBYS	Joint Venture	Others	Leased out	At price determined by agreement	53	0.06	Cash
<b>Total</b>					<b>3,827,944</b>		

## 13. CONNECTED TRANSACTIONS *(Continued)*

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

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

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

	<b>2016</b>
	(RMB'000)
<b>Ultimate holding company</b>	
License fee expense of Wang Lao Ji trademark	77,790
License fee expense of Category 32 trademark owned by GPLH	727
Rental expense	1,449
Rental income	448
<b>Ultimate Holding Company and its subsidiaries</b>	
Sales of finished goods and raw materials	4

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

The Board is of the view that the above connected transactions were in accordance with the terms of the agreements or contracts governing such transactions. The Board confirmed that the annual cap for year 2016 under the trademark licence agreement as disclosed in the announcement of the Company dated 26 April 2013 was RMB200,000,000 and the annual cap for the rents in respect of leasing various lands and properties from GPLH as disclosed in the announcement of the Company dated 17 March 2014 was RMB12,000,000.

The above connected transactions had been reviewed by the independent non-executive Directors and they confirmed that these connected transactions were entered into in the ordinary and usual course of business of the Company, were entered into on normal commercial terms or on terms no less favourable to the Company than those available to or from (as the case may be) independent third parties, and the licence fees paid for the Wang Lao Ji trademarks did not exceed the annual cap as disclosed in the announcement of the Company dated 26 April 2013. The rent paid by the Company did not exceed the annual cap as disclosed in the announcement of the Company dated 17 March 2014.

# Major Events

## 13. CONNECTED TRANSACTIONS *(Continued)*

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

The auditors of the Company had been engaged to report on the continuing connected transactions of the Group in accordance with the “Inspection Application beyond the Examination or Review of Historical Financial Data” in Hong Kong Standard on Assurance Engagements 3000 released by Hong Kong Institute of Certified Public Accountants and No.740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules in the Practice Note. The auditor has issued its letter in accordance with Rule of the Listing Rules of HKEx in relation to the licence fees paid for the use of the Wang Lao Ji trademarks and the abovementioned annual rent.

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

- (i) The Company’s non-public offering of A shares (“proposed offers”) and the Stock Ownership Scheme had been approved at the 8th meeting of the sixth session of the Board and the first extraordinary meeting of the shareholders in 2015, the first meeting of holders of domestic shares in 2015 and the first meeting of holders of overseas listed foreign shares in 2015. The 13th, 16th and 18th meetings of the sixth session of the Board which held respectively on 9 July 2015, 28 October 2015 and 26 November 2015, had been approved matters relating to the amendments of the Company’s proposal on non-public offering of A-shares. On 15 January 2016, the 20th meeting of the sixth session of the Board considered and approved the Proposal on Extending the Period of Validity of the Resolution of the Meeting of Shareholders on the Company’s Non-public Offering of A Shares and other related proposals, which were further considered and approved at the first extraordinary meeting of shareholders in 2016, the first meeting of holders of domestic shares in 2016 and the first meeting of holders of overseas listed foreign shares in 2016. On 3 May 2016, the Company received the Approval on the Non-public Offering of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (zhengjianxuke [2016] No. 826) from the CSRC. As at 10 August 2016, all the subscribers had been paid in full placement, and the Company, through the non-public offering raised total proceeds of RMB7,885,807,628.44 and the net proceeds of RMB7,863,446,528.33 after deducting all offering expenses of RMB22,361,100.11, had to the Company’s account.

The Company, through the non-public offering of 334,711,699 ordinary shares (A shares) denominated in RMB at an offering price of RMB23.56 per share. The newly-offered shares had been completed registration and depository at the Depository Corporation on 17 August 2016.

For details of the proposed offers, please refer to the announcements dated 12 January 2015, 17 March 2015, 28 October 2015 and 15 January 2016, as well as the circulars to the shareholders of H shares dated 26 February 2015 and 16 February 2016, and the poll results announcement dated 10 March 2016.

## 13. CONNECTED TRANSACTIONS *(Continued)*

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

- (ii) The planned use of the land of Xin Zhou Cang Property located at No.2439, Xin Gang East Road, Haizhu District, Guangzhou, held by Cai Zhi Lin, a whole subsidiary of the Company, has been changed from land for industrial use to land for commercial and business use. To improve comprehensive incomes from the land, Cai Zhi Lin intended to push forward the reconstructions of three types (old urban site, old factory and old village) for the land. To accelerate the reconstruction issues of the three types (old urban site, old factory and old village) and to reduce costs, Cai Zhi Lin and GPLH signed the *Agreement on the Purchase of Xin Zhou Cang Property located at No.2439, Xin Gang East Road, Haizhu District* (hereinafter called the *Agreement on Property Purchase*), and transferred the land use rights and the relevant buildings to GPLH, who will promote the reconstructions of three types (old urban site, old factory and old village) comprehensively.

For details, please refer to the announcement dated 27 April 2016.

In addition to the above disclosure, please refer to the section headed “(13) DISPOSAL OF ASSETS, ENTERPRISE MERGER” of this annual report for details of the Group’s major acquisition and sales.

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

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

- (i) As approved at the 23rd meeting of the fifth session of the Board, WLJ Great Health, a wholly-owned subsidiary of the Company, proposed to establish Wang Lao Ji production base in Ya’an, Sichuan 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 was completed on 8 July 2015 as planned and had succeeded in production line debugging as planned on 20 April 2016. At present, it has a comprehensive production and the factory currently in good operation.

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), Securities Daily (證券日報) and on the website of the SSE and the announcement dated 16 July 2013 published on the website of HKEx.

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

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

# Major Events

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

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

- (iii) As approved at the 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 the Sino-Israel Fund and contributed RMB500,000 (representing 10%) to the establishment of Elim Biotech. Elim Biotech has been established and the Company has paid the first contribution of RMB50 million for interests in the limited partnership fund in accordance with the agreement.

For more details, please refer to the announcement published by the Company in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities journal (中國證券報), Securities Daily (證券日報) and on the websites of the SSE and HKEx on 29 October 2015.

- (iv) 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 registered capital of Guangzhou Medicine Company Chinese Herbal Pieces Factory will increase to RMB20,000,000. At present, the above transaction has completed.
- (v) 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. The first phase of capital increase of RMB58,464,000 has completed on 23 December 2015.
- (vi) As approved at the 2nd Strategic Development and Investment Committee Meeting of the Company in 2016, the Company contributed addition capital of RMB20.4 million to its controlled subsidiary Guangzhou Guangyao Yigan Biological Products Co., Ltd. ("Yi Gan"). After the capital increase, the registered capital of Yi Gan had been increased to RMB55 million. At present, the capital increase of RMB5.1 million in the first phase has been completed.

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

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

- (vii) As approved at the 3rd Strategic Development and Investment Committee Meeting of the Company in 2016, the Company's subsidiary, Xing Qun, participated in the publicly listed auction for 28 proprietary pharmaceutical production technologies of eight dosage forms from Guangzhou Zhujiang Pharmaceutical Company at a price of no more than RMB38 million. At present, the Company acquired the aforementioned 28 proprietary pharmaceutical manufacturing technologies with RMB34.35 million.
- (viii) As approved at the 5th Strategic Development and Investment Committee Meeting of the Company held in 2016, the Company and GPLH have signed an Office Lease Contract in relation with the lease of the office located on the 5th Floor, No. 45, North Shamian Street, Liwan District, Guangzhou (with an area of 531 square metres) to GPLH. The term for lease of the above property is three years, commenced from 1 July 2016 to 30 June 2019, and the total rent for the lease for three years is RMB1,240,800.
- (ix) As approved at the 5th Strategic Development and Investment Committee Meeting of the Company held in 2016, the Company's subsidiary, Xing Qun, intended to invest RMB3 million to establish a wholly-owned subsidiary Guangzhou Baiyunshan Xing Qun Health Technology Co., Ltd. ("Xing Qun Health Technology Company"), which will mainly focus on operating the Great Health products of Xing Qun. The above project has completed.
- (x) As approved at the 5th Strategic Development and Investment Committee Meeting of the Company held in 2016, the Company's subsidiary, Guangzhou Baidi intended to participate in the establishment of Guangzhou Baiyunshan Southern Antitumor Biological Products Co., Ltd. (the "Project Company") for the development and application of novel anti-tumor vaccines. The Project Company's registered capital is expected to be RMB99.50 million and Guangzhou Baidi proposed to hold 50% equity interest in the Project Company through valuation of intangible assets. The above project is under way.
- (xi) As approve at the 5th Meeting of the Company's Strategic Development and Investment Committee in 2016, the Company intended to contribute additional capital of RMB15 million in cash to its wholly-owned subsidiary, Baiyunshan Medical and Healthcare Industry Company will inject such amount of capital into Tibet Linzhi Baiyunshan Tibetan-style Health Castle Management Company Limited (the "Tibet Company"). Upon completion of the above capital increase, the registered capital of the Tibet Company will be RMB50 million. The above project has completed.

# Major Events

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

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

- (xii) As approved by the 5th Meeting of the Company's Strategic Development and Investment Committee in 2016, Guangzhou Baiyunshan Chemical & Pharmaceutical Technology Co., Ltd. ("Chemical & Pharmaceutical Technology Company") and the Management Committee of Zhuhai Fushan Industrial Park ("Fushan Industrial Park") had signed the Investment Agreement between the Management Committee of Zhuhai Fushan Industrial Park and Guangzhou Baiyunshan Chemical & Pharmaceutical Technology Co., Ltd. In accordance with the Investment Agreement, upon the approval of the project environmental evaluation, the Fushan Industrial Park will transfer a piece of class-III industrial land of 133,340 square meters (200 mu) to Chemical & Pharmaceutical Technology Company for the construction of the relocated chemical and pharmaceutical plant which will involve a preliminary investment of RMB55 million. The above project is under way.
- (xiii) The 6th Strategic Development and Investment Committee of the Company in 2016 reviewed and approved the proposal that the Company would establish a wholly-owned subsidiary "WLJ Investment" with a registered capital of RMB10 million. At present, WLJ Investment has already been established.
- (xiv) The 7th Strategic Development and Investment Committee of the Company in 2016 considered and approved the proposal that the Company would establish Medical Instrument Investment Company with a registered capital of RMB10 million. At present, the incorporation of Medical Instrument Investment Company is in progress.
- (xv) The 7th Strategic Development and Investment Committee of the Company in 2016 considered and approved the proposal that the Company's subsidiary Guangyao Baiyunshan Hong Kong Company would establish a company in Macau with a registered capital of MOP 1 million. At present, the establishment of this company is in progress.
- (xvi) The 7th Strategic Development and Investment Committee of the Company in 2016 considered and approved the proposal that the Company's subsidiary Chen Li Ji would establish a joint venture Guangzhou Chen Li Ji Great Health Company ("Chen Li Ji Great Health") with Guangdong Juxiangzhai Great Health Industry Co., Ltd. and Guangzhou PushengDazheng Pharmaceutical Co., Ltd. Chen Li Ji Great Health mainly produces and operates Great Health Industry-related products like food, health supplements, cosmetics made of traditional Chinese medicine and daily chemical products. Chen Li Ji Great Health has a registered capital of RMB15 million, of which Chen Li Ji contributes RMB6.6 million in cash, holding 44% stake. At present, the establishment of Chen Li Ji Great Health is in progress.

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

### (2) The Group's purchase and disposal of assets or enterprise merger and other transactions after the Reporting Period.

At the first meeting of the Strategic Development and Investment Committee of the Company in 2017, the proposal that the Company would inject capital of RMB12.47million to Chemical Pharmaceutical Technology Company which shall be utilized on the design and environmental assessment on the plant projects was approved.

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

During the Reporting Period, the Group's subsidiary which named Baiyunshan Medical and Health Industry Company acquired 51% of the equity interests in Guangzhou Baiyunshan Hospital at the price of RMB46.5 million. Save as disclosed above, the Group did not engage in any material acquisitions of assets and equity.

## 15. DEBTS OF RELATED PARTIES

Related party	Relationship with the related parties	Funds provided to related parties		Funds provided by related parties to listed company			
		Balance as at the beginning of the Reporting Period (RMB'000)	Amount (RMB'000)	Balance as at the end of the Reporting Period (RMB'000)	Balance as at the beginning of the Reporting Period (RMB'000)	Amount (RMB'000)	Balance as at the end of the Reporting Period (RMB'000)
Bozhou Baiyunshan Pharmaceutical	Subsidiary of joint venture	18,139	(1,900)	16,239	-	-	-
Total		18,139	(1,900)	16,239	-	-	-
Reasons for the funds provided to/ from related parties	The Company's other receivables from HWBYS for the Reporting Period included receivables of RMB16,239,000 from HWBYS' subsidiary, namely Bozhou Baiyunshan. HWBYS was originally a joint venture with 50% equity interest held by Baiyunshan, and Bozhou Baiyunshan was originally 80% and 20% equity interest held by Baiyunshan and HWBYS respectively. On 30 March 2013, Baiyunshan and HWBYS entered into "Equity Transfer Agreement of Bozhou Baiyunshan Pharmaceutical Co., Ltd", according to which Baiyunshan agreed to transfer its equity interest and all the associated rights and obligations in Bozhou Baiyunshan to HWBYS. Since the absorption and merger of Baiyunshan by the Company was completed in May 2013, HWBYS became a joint venture as well as a related party of the Company. The receivables emerged after the share transfer of Bozhou Baiyunshan had completed.						
Impact of the funds provided to/ from related parties on the Company's operating results and financial position	No significant impact						

# Major Events

## 16. MATERIAL CONTRACTS AND THEIR PERFORMANCE

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

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

### (2) Guarantees

Applicable Not applicable

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

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

Applicable Not applicable

Trustee	Category of entrusted wealth management activity	Amount in entrusted wealth management activity (RMB'000)	Date of start of entrusted wealth management activity	Date of end of entrusted wealth management activity	Mode for determining compensation	Amount of principal collected (RMB'000)	Amount of return collected (RMB'000)	Complied with legal procedures or not	Amount withdrawn for impairment	Related transaction or not	Lawsuit involved or not	Relationship of relevance
Guangzhou Jiangnan Avenue Central Sub-Branch of Industrial and Commercial Bank of China Co., Ltd.	182-day RMB wealth management product of ICBC for legal person with stable income	20,000	2016-7-27 Jul. 27, 2016	2017-1-23 Jan. 23, 2017	Floating return with principal guaranteed	20,000	274	Yes	-	None	None	Not applicable
Total	/	20,000	/	/	/	20,000	274	/	-	/	/	/
Total amount of principal and return due but not received (RMB)												-
Descriptions for entrusted wealth management activities												/

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

### (3) Situation on cash management by entrusting others (Continued)

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

Borrower name	Entrusted loan amount (RMB'000)	Term of loan	Lending rates	Purpose	mortgaged property or guarantor	Whether overdue	Whether connected transactions	Relationship with the Company
Cai Zhi lin	467,432	One year	4.35%	Corporate operation	-	No	No	Wholly-owned subsidiary
Pharmaceutical Import & Export	361,402	One year	4.35%	Corporate operation	-	No	No	Wholly-owned subsidiary
Ming Xing	146,000	One year	4.60%	Corporate operation	-	No	No	Wholly-owned subsidiary
Guangzhou Bai Di	67,000	One year	4.35%	Corporate operation	-	No	No	Subsidiary
Xing Qun	67,200	One year	4.35%	Corporate operation	-	No	No	Subsidiary
Tian Xin	30,000	One year	4.60%	Corporate operation	-	No	No	Subsidiary
Baiyunshan Pharmaceutical Marketing	8,080	One year	4.35%	Corporate operation	-	No	No	Wholly owned subsidiary
Guangzhou Han Fang	8,000	One year	4.35%	Corporate operation	-	No	No	Subsidiary
合計	1,155,114							

As at 31 December 2016, the total amount of entrusted loan that the Company provided to its subsidiaries was RMB1,155,114,000.

17. AS AT THE END OF THE REPORTING PERIOD, THE EXPENSES ON CONSTRUCTION AND EQUIPMENT IN RELATION TO WHICH CONTRACTS HAD BEEN ENTERED INTO BY THE GROUP BUT PAYMENTS HAD NOT BEEN MADE YET WAS RMB182,574,000, AND THE RENTAL EXPENSES IN RELATION TO WHICH CONTRACTS HAD BEEN ENTERED INTO BY THE GROUP BUT PAYMENTS HAD NOT BEEN MADE YET WAS RMB356,370,000
18. ACCORDING TO THE REQUIREMENTS OF RULE 23 OF APPENDIX 16 TO THE LISTING RULES OF HKEX, THE COMPANY DID NOT HAVE ANY INVESTMENT PROPERTIES WHOSE ASSETS RATIO, CONSIDERATION RATIO, PROFITS RATIO AND REVENUE RATIO EXCEEDED 5% DURING THE REPORTING PERIOD.
19. DURING THE REPORTING PERIOD, THE COMPANY DID NOT HAVE ANY SPECIAL TRANSACTION WITH ITS CONNECTED PARTIES INCLUDING DIRECT DONATIONS IN CASH OR ASSETS IN KIND, DIRECT EXEMPTION OR REPAYMENT FOR OTHERS.

# Major Events

## 20. EXPLANATORY NOTES ON OTHER MAJOR EVENTS

The Company's non-public offering of A shares and the Stock Ownership Scheme had been approved at the eighth meeting of the sixth session of the Board and the first extraordinary meeting of the shareholders in 2015, the first meeting of holders of domestic shares in 2015 and the first meeting of holders of overseas listed foreign shares in 2015. The thirteenth, sixteenth and eighteenth meetings of the sixth session of the Board held respectively on 9 July 2015, 28 October 2015 and 26 November 2015 approved matters relating to the amendments of the Company's proposal on non-public offering of A-shares. On 15 January 2016, the twentieth meeting of the sixth session of the Board considered and approved the Proposal on Extending the Period of Validity of the Resolution of the Meeting of Shareholders on the Company's Non-public Offering of A Shares and other related proposals, which were further considered and approved at the first extraordinary meeting of shareholders in 2016, the first meeting of holders of domestic shares in 2016 and the first meeting of holders of overseas listed foreign shares in 2016. On 3 May 2016, the Company received the Approval on the Non-public Offering of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (zhengjianxuke [2016] No.826) from the CSRC. On 12 August 2016, BDO China Shu Lun Pan CPAs LLP issued the Capital Verification Report of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. as at 11 August 2016 (Xinhuishibaozi [2016] No.410605). After verification, as at 11 August 2016, the Company, through the non-public offering of 334,711,699 ordinary shares (A shares) denominated in RMB at an offering price of RMB23.56 per share, raised total proceeds of RMB7,885,807,628.44 and the net proceeds of RMB7,863,446,528.33 after deducting all offering expenses of RMB22,361,100.11. The registration and custody procedures for the newly-offered shares had been completed at the Depository Corporation on 17 August 2016.

## 21. PERFORMANCE OF SOCIAL RESPONSIBILITIES

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

Applicable   Not applicable

#### (i) *Plan of targeted approach to aid the needy*

Three subsidiaries of the Company, namely Xing Qun, Guang Hua and Cai Zhi Lin, are responsible for the implementation of the specified poverty alleviation initiatives. The aforementioned subsidiaries planned to achieve the objective of "no worries for two things, guaranteed on three aspects and meeting the average" by the end of 2018 in accordance with the guideline of "targeted approach to aid the needy towards each village and household with the industry driving the whole village forward" towards three targeted villages with a contribution of not less than 2 million for each village. The aforesaid objective is to put the poor village people in a stable condition that they no longer need to worry about food and clothes, basic medical services and residential safety are guaranteed and the index of the main areas of basic public services meets the average level in Guangdong Province.

## 21. PERFORMANCE OF SOCIAL RESPONSIBILITIES (Continued)

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

#### (ii) Outline of targeted approach to aid the needy in 2016

In order to perform their duties in alleviating poverty, Xing Qun, Guang Hua and Cai Zhi Lin proactively initiated various poverty alleviation measures, including to conduct household research, to file cases of household in poverty for the record, to hold debate forum for the industry and to analyze the situation of villages, and formulated a 3-year plan on targeted poverty alleviation based on such works. Currently, the policies formulated are being implemented in an orderly manner.

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

Index	(RMB'0000)
	Number and implementation information of GYBYS
1. General information	143.49
Including: 1. Fund	118.24
2. Materials trade	25.25
3. Number of poor people helped to be removed from administrative record for poverty registering (Person)	98
2. Itemized input	
<b>1. Poverty alleviation through industrial development</b>	
Including: 1.1 Type of industrial poverty alleviation projects	
	<input checked="" type="checkbox"/> Poverty alleviation through agriculture and forestry <input type="checkbox"/> Poverty alleviation through tourism <input type="checkbox"/> Poverty alleviation through E-commerce <input type="checkbox"/> Poverty alleviation through assets income <input type="checkbox"/> Poverty alleviation through science and technology <input type="checkbox"/> Others
1.2 Number of industrial poverty alleviation projects	5
1.3 Amount invested in industrial poverty alleviation projects	4.4
1.4 Number of poor people helped to be removed from administrative record for poverty registering (Persons)	0
<b>2. Poverty alleviation through employment</b>	
Including: 2.1 Amount invested in vocational training	0.65
2.2 Number of people received vocational training (Persons/Time)	124
2.3 Number of poor people in administrative record for poverty registering employed (Persons)	0
<b>3. Poverty alleviation through relocation</b>	
Including: 3.1 Number of relocated people employed (Persons)	0

# Major Events

## 21. PERFORMANCE OF SOCIAL RESPONSIBILITIES (Continued)

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

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

Index	(RMB'0000)
	Number and implementation information of Guangyao Baiyunshan
<b>4. Poverty alleviation through education</b>	
Including: 4.1 Amount invested in subsidizing poor students	0
4.2 Number of students received allowance (Persons)	16
4.3 Amount invested in improvement of education resources in poverty area	0
<b>5. Poverty alleviation through health enhancement</b>	
Including: 5.1 Amount invested in medical and health resources in poverty area	12.81
<b>6. Poverty alleviation through ecological protection</b>	
Including: 6.1 Name of project	<input type="checkbox"/> Launching ecological protection and construction <input type="checkbox"/> Establishing compensation for the ecological protection <input type="checkbox"/> Creating ecological and public welfare positions <input type="checkbox"/> Others
6.2 Amount invested	0
<b>7. Protection for the most impoverished people</b>	
Including: 7.1 Amount invested in helping the three left-behind groups	0
7.2 Number of people of the three left-behind groups helped (Persons)	43
7.3 Amount invested in helping poor people with disabilities	0
7.4 Number of poor people with disabilities helped (Persons)	36
<b>8. Poverty alleviation in the society</b>	
Including: 8.1 Amount invested in poverty alleviation in the east and west parts of the country	0
8.2 Amount invested in fixed-point poverty alleviation work	0
8.3 Poverty alleviation fund	0
<b>9. Other projects</b>	
Including: 9.1 Number of projects (Project)	10
9.2 Amount invested	100.39
9.3 Number of poor people helped to be removed from administrative record for poverty registering (Persons)	5
9.4 Details of other projects	Mainly including the renovation of the dilapidated buildings, showing love and care, donations, village public welfare projects (renovation of culture centers and complex buildings), better living environment projects (street lighting improvement project).

3. Awards (details and levels)

## 21. PERFORMANCE OF SOCIAL RESPONSIBILITIES *(Continued)*

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

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

In 2017, we will make great efforts on industrial “blood creating” alleviation as well as educational and intellectual alleviation. These will be implemented across the whole village and we will take extra care of the underprivileged and improve the residential environment. On top of improving the annual poverty alleviation plan, we provide greater support to the poverty by proactively implementing the policy of “special policy to each household” in order to practically achieve the objective of targeted approach to aid the needy.

### (2) **Work on social responsibilities**

Applicable   Not applicable

The Company prepared the Social Responsibilities Report of 2016 (full version is available on the website of the SSE and the HKEx) in accordance with the requirements of the “Notice on Preparation of the 2016 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 2016 Social Responsibilities Report (environmental quality, professional health and safety, environmental protection and social participation).

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

Applicable   Not applicable

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

# Changes in Share Capital and Shareholders

## 1. CHANGES IN SHARE CAPITAL

### (1) Changes in share capital

(i) Changes are set out in the table below:

	Before Changes		Issue of new shares (share)	Changes				After Changes	
	Quantity (share)	Percentage (%)		Bonus shares (share)	Reserved transferring (share)	Others (share)	Sub-total (share)	Quantity (share)	Percentage (%)
<b>I. Shares subject to selling restrictions</b>									
1. State-owned Shares	-	-	-	-	-	-	-	-	-
2. State-owned legal person shares	34,839,645	2.70	236,315,006	-	-	(34,839,645)	201,475,361	236,315,006	14.54
3. Other domestic shares including: domestic non-state-owned legal person shares Domestic natural person shares	-	-	-	-	-	-	-	-	-
4. Foreign shares including: foreign legal person shares Foreign natural person shares	-	-	-	-	-	-	-	-	-
5. Others	-	-	98,396,693	-	-	-	98,396,693	98,396,693	6.05
<b>II. Shares not subject to selling restrictions</b>									
1. RMB ordinary shares	1,036,339,605	80.27	-	-	-	34,839,645	34,839,645	1,071,179,250	65.88
2. Foreign shares listed domestically	-	-	-	-	-	-	-	-	-
3. Foreign shares listed overseas	219,900,000	17.03	-	-	-	-	-	219,900,000	13.53
4. Other	-	-	-	-	-	-	-	-	-
<b>III. TOTAL</b>	<b>1,291,079,250</b>	<b>100.00</b>	<b>334,711,699</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>334,711,699</b>	<b>1,625,790,949</b>	<b>100.00</b>

# Changes in Share Capital and Shareholders

## 1. CHANGES IN SHARE CAPITAL

### (1) Changes in share capital *(Continued)*

#### (ii) Changes in shares

- 1) The Company, through non-public offering, issued 334,711,699 ordinary shares (A shares) denominated in RMB at an offering price of 23.56 RMB/share. The registration and custody procedures for the newly-offered shares had been completed on 17 August 2016 at the Depository Corporation.
- 2) In accordance with the Agreement on Issue of Shares to Purchase Assets and its supplementary agreement, 34,839,645 A shares held by GPLH were traded on 28 October 2016.

### (2) Change in shares with selling restrictions

Name of holder	Number of shares subject to selling restrictions at the beginning of the Reporting Period (shares)		Number of additional shares subject to selling restrictions during the Reporting Period (shares)		Number of shares with selling restrictions at the end of the Reporting Period (shares)	Reasons for selling restrictions	The date on which share will be released from selling restrictions
		Number of shares released from selling restrictions (shares)					
GPLH	34,839,645	34,839,645	148,338,467	148,338,467	Note	17 August 2019	
GZ SOA Development	0	0	87,976,539	87,976,539	Note	17 August 2019	
GZ Chengfa	0	0	73,313,783	73,313,783	Note	17 August 2019	
Yufeng Investment	0	0	21,222,410	21,222,410	Note	17 August 2019	
Placement Prosperous Age Exclusive Account No.66	0	0	3,860,500	3,860,500	Note	17 August 2019	

Notes:

- (A) According to "Agreement on Purchase of Assets by Issue of Shares" and the relevant supplementary agreements, the 34,839,645 shares held by GPLH were listed and circulated on 28 October 2016.
- (B) The A shares were offered by non-public offering to 5 investors, namely GPLH, Placement Prosperous Age Exclusive Account No.66, GZ SOA Development, GZ Chengfa and Yunfeng Investment. The registration and custody procedures for the newly-issued shares had been completed on 17 August 2016 at the Depository Corporation. The newly-offered shares are limited tradable shares with a lock-up period of 36 months and can be traded on the SSE on the second trading day following the expiration of the lock-up period.

# Changes in Share Capital and Shareholders

## 2. INTERNAL STAFF SHARES

The Company did not have any internal staff shares.

## 3. INFORMATION ON SHAREHOLDERS

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

As at 31 December 2016, there were 67,969 shareholders in total, of which 67,941 were holders of domestically listed Renminbi-denominated ordinary shares (A shares) and 28 were holders of overseas listed shares (H shares).

As at 28 February 2017, there were 65,771 shareholders in total, of which 65,744 were holders of domestically listed Renminbi-denominated ordinary shares (A shares) and 27 were holders of overseas listed shares (H shares).

### (2) As at 31 December 2016, the top ten shareholders of the Company are set out as follows:

Shareholders	Increase/ (Decrease) during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Approximate percentage of the total issued share capital (%)	Number of shares subject to selling restrictions (share)	Number of shares pledged or locked (share)	Class of shares
GPHL	148,338,467	732,305,103	45.04	148,338,467	172,390,000	Domestic shares
HKSCC Nominees Limited	(10)	219,599,469	13.51	Nil	Unknown	H shares
GZ SOA Development	87,976,539	87,976,539	5.41	87,976,539	Unknown	Domestic shares
GZ Chengfa	73,313,783	73,313,783	4.51	73,313,783	Unknown	Domestic shares
China Securities Finance Corporation Limited	2,641,240	36,362,851	2.24	Nil	Unknown	Domestic shares
Yufeng Investment	21,222,410	21,222,410	1.31	21,222,410	Unknown	Domestic shares
Central Huijin Asset Management Co., Ltd.	0	15,260,700	0.94	Nil	Unknown	Domestic shares
The Industrial and Commercial Bank of China Co., Ltd.– Southern Consumption Vitality Flexibly Configured Mixed Initiate Securities Investment Funds	2,056,202	9,945,228	0.61	Nil	Unknown	Domestic shares
New China Life Insurance Co., Ltd.- Dividend – Group Dividend -018L – FH001 Hu	0	6,380,585	0.39	Nil	Unknown	Domestic shares
Agricultural Bank of China Co.,Ltd. – Fu Guo Zhong Zheng State-owned Enterprises Reform Index Hierarchical Securities Investment Fund	(1,752,300)	5,128,521	0.32	Nil	Unknown	Domestic shares

# Changes in Share Capital and Shareholders

## 3. INFORMATION ON SHAREHOLDERS (Continued)

(2) As at 31 December 2016, the top ten shareholders of the Company are set out as follows: (Continued)

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

Shareholders	Number of shares without selling restrictions (share)	Class of shares	The number of shares (share)
GPHL	583,966,636	Domestic shares	583,966,636
HKSCC Nominees Limited	219,599,469	H shares	219,599,469
China Securities Finance Corporation Limited	36,362,851	Domestic shares	36,362,851
Central Huijin Asset Management Co., Ltd.	15,260,700	Domestic shares	15,260,700
The Industrial and Commercial Bank of China Co., Ltd.-Southern Consumption Vitality Flexibly Configured Mixed Initiate Securities Investment Funds	9,945,228	Domestic shares	9,945,228
New China Life Insurance Co., Ltd.- Dividend – Group Dividend -018L – FH001 Hu	6,380,585	Domestic shares	6,380,585
Agricultural Bank of China Co., Ltd. – Fu Guo Zhong Zheng State-owned Enterprises Reform Index Hierarchical Securities Investment Fund	5,128,521	Domestic shares	5,128,521
The National Social Security Fund – One Two Combination	5,000,000	Domestic shares	5,000,000
Bank of China Co., Ltd. – Huaxia new economy flexible configuration of mixed-type securities investment fund	4,940,150	Domestic shares	4,940,150
Agricultural Bank of China Co.,Ltd. -Yi Fangda Rui Hui flexible configuration of hybrid start-up securities investment fund	4,531,993	Domestic shares	4,531,993

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

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

# Changes in Share Capital and Shareholders

## 3. INFORMATION ON SHAREHOLDERS (Continued)

(2) As at 31 December 2016, the top ten shareholders of the Company are set out as follows: (Continued)

### The top ten shareholders of the Company and the selling restrictions

Name of holders whose shares are subject to selling restrictions	Number of shares subject to selling restrictions (share)	Circumstances under which shares subject to selling restrictions can be traded		Selling restrictions undertaken
		Timing at which shares are permitted to trade	Newly increased number of shares that are permitted to trade (share)	
GPHL	34,839,645	5 July 2016	34,839,645	Note
GPHL	148,338,467	17 August 2019	148,338,467	Note
GZ SOA Development	87,976,539	17 August 2019	87,976,539	Note
GZ Chengfa	73,313,783	17 August 2019	73,313,783	Note
Yufeng Investment	21,222,410	17 August 2019	21,222,410	Note
Placement Prosperous Age Exclusive Account No.66	3,860,500	17 August 2019	3,860,500	Note

Notes:

- (A) According to "Agreement on Purchase of Assets by Issue of Shares" and the relevant supplementary agreements, the 34,839,645 shares held by GPHL were listed and circulated on 28 October 2016.
- (B) The A shares were offered by non-public offering to 5 investors, namely GPHL, Placement Prosperous Age Exclusive Account No.66, GZ SOA Development, GZ Chengfa and Yunfeng Investment. The registration and custody procedures for the newly-issued shares had been completed on 17 August, 2016 at the Depository Corporation. The newly-offered shares are limited tradable shares with a lock-up period of 36 months and can be traded on the SSE on the second trading day following the expiration of the lock-up period.

# Changes in Share Capital and Shareholders

## 3. INFORMATION ON SHAREHOLDERS (Continued)

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

As at 31 December 2016, the interests and short positions held by the persons (not being the directors, supervisors and senior management of the Company) in the shares and underlying shares of the Company which were required to be notified to the Company and the HKEx pursuant to Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required maintained by the Company under Section 336 of the SFO were as follows:

Shareholder	Nature of shares	Long Positions		Approximate % of the total issued domestic shares (%)	Approximate % of the total issued H shares (%)
		Number of shares held (share)	Capacity		
GPHL	Domestic shares	732,305,103	Beneficial owner	50.09	-
GZ SOA Development	Domestic shares	87,976,539	Beneficial owner	6.26	-
GZ Chengfa	Domestic shares	73,313,783	Beneficial owner	5.21	-

As far as the Directors are aware, as at 31 December 2016, other than those listed above, there was no other person or corporation having an interest or short position in the shares and underlying shares of the Company which were required to be notified to the Company and the HKEx pursuant to Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to maintained by the Company under Section 336 of the SFO.

# Changes in Share Capital and Shareholders

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

### (1) Controlling shareholder

Name of shareholder	Guangzhou Pharmaceutical Holdings Limited
Legal representative	Li Chuyuan
Date of establishment	7 August 1996
Organization code	23124735-0
Registered capital	RMB1,252.8 million
Business scope	To invest in and manage State-owned assets, to sell and manufacture pharmaceutical intermediates, Chinese and western medicine, Chinese raw medicine, bio-tech products, medical apparatus, pharmaceutical equipment, packing materials for pharmaceutical products, health drinks and food, hygienic materials and pharmaceutical related merchandise; to undertake medicine related import and export affairs and to develop real estate.
Operating results	Sales revenue (unaudited) of the Company in 2016 was RMB20.005 billion and net profit (unaudited) was RMB1.652 billion in 2016.
Financial position	As at 31 December 2016, the total assets (unaudited) was RMB26.869 billion and net assets was RMB14.798 billion.
Cash flow and future development strategy	Upon the completion of the Major Assets Reorganization, all assets from the pharmaceuticals manufacturing of GPLH were incorporated into the Group. Without violating the independence maintained by the Group and avoidance of competitions in the same business, GPLH will fully utilize its advantages in branding, resources and financial condition while at the same time GPLH, 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 GPLH 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	No

# Changes in Share Capital and Shareholders

## 4. INFORMATION ON CHANGES OF THE COMPANY'S CONTROLLING SHAREHOLDER AND ITS BENEFICIAL OWNER *(Continued)*

### (2) Beneficial owner(s)

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

Guangzhou SASAC	
100%	
GPLH	
45.04%	
The Company	

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

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

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

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

## 8. PUBLIC FLOAT

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

## 9. PRE-EMPTIVE RIGHTS

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

## Relevant Information on Preferred Shares

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

# Directors, Supervisors, Senior Management and Staff

## 1. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

#### (1) Executive directors

**Mr. Li Chuyuan**, aged 51, completed postgraduate education and holds an EMBA degree and is a senior economist and is a senior engineer of professor grade. Mr. Li received the "Model Workers Award" and enjoys special allowances from the State Council. He was awarded the "Top 10 Innovative Characters of Guangdong Province" and the "Top 10 Outstanding Business Individuals of Guangdong Province". He is the deputy director of the Committee of Education, Science, Culture, Health and Sports of the Political Consultative Conference of Guangdong Province, a member of the Guangdong Provincial People's Congress, a representative of the Chinese Communist Party in Guangzhou and was awarded the "Outstanding City Management Expert of Guangzhou". Mr. Li received the "Ding Ying Technology Award" in February 2014, which was the top award in the field of science and technology in Guangdong Province. Mr. Li began his career in July 1988 and has been the deputy head of the operations department of Baiyunshan General Factory, the deputy general manager of Baiyunshan, the general manager, vice chairperson and deputy secretary the Party Committee of GPHL and the vice chairperson of the Company. Mr. Li has been the chairperson of the Company since 8 August 2013 and is also currently the chairperson and secretary of the Party Committee of each of GPHL and the Company, vice chairperson and the secretary of the Party Committee of HWBYS and the vice chairperson of GP Corp. Mr. Li has extensive experience in corporate operations and management.

**Mr. Chen Mao**, aged 53, holds a bachelor degree in medicine and is a pharmaceutical engineer. He was awarded the "National Labour Day Award". Mr. Chen began his career in November 1985, and has been the deputy factory manager of Guangzhou Baiyunshan Pharmaceutical Factory\* (廣州白雲山中藥廠), the chairperson of Pharmaceutical Technology, the general manager of Baiyunshan, the factory manager of Baiyunshan General Factory, the chairperson of Guang Hua, the chairperson of WLJ Great Health and deputy general manager of GPHL. Mr. Chen has been the vice chairperson of the Company since January 2014 and is also currently the general manager, vice chairperson and deputy secretary of the Party Committee of GPHL, deputy secretary of the Party Committee of the Company, the chairperson of Baxter Qiao Guang and the secretary of the Party Committee of WLJ Great Health. Mr. Chen has extensive experience in corporate management and marketing.

# Directors, Supervisors, Senior Management and Staff

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

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

#### (1) **Executive directors** *(Continued)*

**Ms. Liu Juyan**, aged 52, completed postgraduate education and holds a doctorate degree in medicine and is a senior engineer of professor grade. Ms. Liu began her career in July 1990 and has been the chairperson and general manager of Guangzhou Han Fang, the head of the technology and quality department of GPL, the chairperson of Yi Gan and the chairperson of the Guangyao General Institute. Since August 2005, Ms. Liu has been the chief engineer of GPL and the chief technical officer of the Company. Since January 2011, she has been the deputy general manager of GPL. Ms. Liu has been a Director since December 2013. She also enjoys special allowances from the State Council and is a member of the Guangzhou Provincial People's Progress. She was also awarded the "March 8th Flag Bearer" of Guangzhou, a Guangzhou "121" reserved talent and an "Outstanding City Management Expert" of Guangzhou. Ms. Liu has extensive experience in scientific research and development, technological research and quality management.

**Ms. Cheng Ning**, aged 51, completed tertiary education and is an accountant. Ms. Chen possesses several professional qualifications, including PRC certified public accountant, PRC certified tax consultant, senior international finance manager and senior accounting (finance management) technician. Ms. Cheng began her career in August 1986 and has been an officer of the finance department of Baiyunshan General Factory, the deputy head of the finance department of Guangzhou Baiyunshan Bao De Pharmaceutical Factory\* (廣州白雲山寶得藥廠), the head of the finance department of Guangzhou Baiyunshan Veterinary Medicine Factory\* (廣州白雲山獸藥廠), the head of the settlements division of the operations department, head of the accounts and payments division of the settlements centre, deputy head of the finance department and a member and secretary of the supervisory committee of Baiyunshan, the acting manager and manager of the financial resources department and the head of the finance department of Guangzhou Baiyunshan Enterprise Group Co., Ltd.\* (廣州白雲山企業集團有限公司) and the deputy head and the head of the finance department of GPL. Ms. Cheng has been a Director since 19 September 2012, and is also currently the deputy general manager and the financial controller of GPL, a director of each of Zhong Yi, Qi Xing, Guangxi Yingkang, WLJ Investment and Guangzhou Wang Lao Ji Restaurant Management Development Co., Ltd.\* (廣州王老吉餐飲管理發展有限公司), the convenor of the board of directors of Guangyao Baiyunshan Hong Kong Company, a supervisor of GP Corp., the chairperson of the supervisory committee of WLJ Great Health and the chairperson of the Guangzhou Pharmaceutical Accounting Association\* (廣州醫藥會計學會). Ms. Cheng has extensive experience in finance management and internal control management.

# Directors, Supervisors, Senior Management and Staff

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

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

#### (1) **Executive directors** *(Continued)*

**Mr. Ni Yidong**, aged 45, completed postgraduate education and holds a doctorate degree in medicine and is a senior engineer. Mr. Ni began his career in July 1994 and has been the head of the marketing department of GPLH and the chairperson and secretary of the Party Committee of Zhong Yi. He has been a Director since January 2014, and is also currently the deputy general manager and chief officer of the Great Health segment of GPLH. Mr. Ni has extensive experience in corporate management, marketing and brand protection and management.

**Mr. Wu Changhai**, aged 51, holds a bachelor degree and an EMBA degree is an economist and a member of the Guangzhou Provincial People's Congress. Mr. Wu began his career in August 1989 and has been the deputy general manager of Guangxi Yingkang, the deputy general manager, general manager, chairperson and secretary of the Party Committee of Zhong Yi, the chairperson of each of Qi Xing, Xing Qun, WLJ Great Health, Wang Lao Ji Great Health (Ya'an) Co., Ltd. and Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd. and the general manager of Guangzhou Pharmaceutical Company Limited. Mr. Wu has been a Director since 28 June 2010 and is also currently a deputy general manager of the Company. He has extensive experience in the operation of listed companies and pharmaceutical, food and beverage businesses, marketing and scientific research and development.

**Mr. Wang Wenchu**, aged 50, holds a bachelor degree and is an assistant engineer and economist. Mr. Wang began his career in July 1988 and has been the deputy factory manager of Baiyunshan General Factory, the general manager of Baiyunshan and the chairperson of Guang Hua. Mr. Wang has been a Director since January 2014, the deputy general manager of the Company and the chairperson of Baiyunshan Pharmaceutical Marketing. Mr. Wang has extensive experience in corporate management and marketing.

# Directors, Supervisors, Senior Management and Staff

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

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

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

**Professor Patrick Wong Lung Tak**, B.B.S., JP, aged 69, 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 is an independent non-executive director of 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, BAIC Motor Corporation Ltd, Winox Holdings Limited and Li Bao Ge Group Limited. He had been an independent non-executive director of Bisu Technology Group International Limited (formerly known as Excel Development (Holdings) Limited and resigned on 10 August 2015) and an independent non-executive director of Musun Capital Group Limited on (formerly known as China Precious Metal Resources Holdings Co., Ltd), and resigned on 3 October 2016. The above companies are all listed on the HKEx.

**Mr. Qiu Hongzhong**, aged 60, is a master degree postgraduate and professor, has served as an independent non-executive Director since 28 June 2010. He graduated in 1981 with a degree in clinical medicine and was a master degree postgraduate in 1988. He was a senior visiting scholar of anthropology of the Sun Yat-sen University and completed courses of strategic management training class in Party School of the Central Committee of the Chinese Communist Party. Mr. Qiu had been the head of the Medical Department of the Eighth Engineering Bureau, ministry of Water Conservancy of Dong Jiang Hospital, deputy director of Department of Social Science of the Guangzhou University of Traditional Chinese medicine, deputy head of Huodao Town, Gaoyao County of Guangdong Province, standing vice president, president and the secretary of the Communist Party Committee of School of Economic and Management of the Guangzhou University of Traditional Chinese Medicine. Mr. Qiu is currently the president, tutor of Ph.D. students, professor and chief physician of School of Economic and Management of the Guangzhou University of Traditional Chinese medicine, and is also a member of the Medicine Teaching and Guidance Committee of Higher Education Institution under the Ministry of Education of China, deputy director of Psychology of TCM in Chinese Medical Association of Guangdong Province, editor of the national core journal-Journal of Medicine and Philosophy, standing director of the Society of Chinese Medicine and Health Economics, deputy officer of the hygiene policy committee, the Society of Hygiene Economics of Guangdong Province, standing vice-chairperson of School of Management of Hospital of Traditional Chinese Medicine of Guangdong Provincial Association of Chinese Medicine. Mr. Qiu has extensive experience in economic management and pharmaceutical industry.

# Directors, Supervisors, Senior Management and Staff

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

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

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

**Mr. Chu Xiaoping**, aged 61, holds a doctorate degree in management and is a professor and a doctoral advisor. Mr. Chu graduated from the Xi'an Jiaotong University. He was a lecturer, associate professor, professor, associate dean and the dean of the Business School of Shantou University in Guangdong and a visiting scholar of the University of Hong Kong. He has been an independent director of Shengyi Technology Co., Ltd. for six years. He is currently a professor and a doctoral advisor at the Lingnan (University) College, Sun Yat-sen University. Mr. Chu has extensive experience in the organisation, leadership, innovation and sustainable development of enterprises.

**Mr. Jiang Wenqi**, aged 59, holds a master's degree in clinical medicine and advanced health management and is a professor, doctoral advisor and a chief physician. Mr. Jiang obtained his medical degree from Shanghai Medical University in 1982 and obtained his master's degree in oncology from the Sun Yat-sen University in 1988. He was a physician, vice president and the head of the medical department of the Sun Yat-sen University Cancer Center (an affiliate hospital of the Sun Yat-sen University) and the dean of the School of Medicine of the Shenzhen University. Mr. Jiang is currently the head of the medical department of the Sun Yat-sen University Cancer Center. Mr. Jiang has extensive experience in the medical industry and health sectors.

# Directors, Supervisors, Senior Management and Staff

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

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

#### (3) Supervisors

**Mr. Xian Jiexiong**, aged 57, holds a bachelor degree and a master's degree in business administration, and is an economist and senior political engineer. Mr. Xian began his career in September 1976 and has been the deputy secretary of the Party Committee of Guangzhou Grandbuy Co., Ltd. and assistant to the general manager and the secretary of the disciplinary committee of Guangzhou Department Store Enterprise Group Co., Ltd. Mr. Xian has been the deputy secretary of the Party Committee, secretary of the disciplinary committee and chairperson of the supervisory committee of the Company since October 2013, and is also currently the deputy secretary of the Party Committee and the secretary of the disciplinary committee of GPLH. Mr. Xian has extensive experience in economic management, operations of the Chinese Communist Party and legal affairs.

**Ms. Li Jinyun**, aged 48, obtained a bachelor's degree from the Central Party School of the Communist Party of China. She is a senior political engineer, an engineer, an economist and is also a representative of the Chinese Communist Party in Guangzhou. Ms. Li began her career in July 1990 and has been the chairperson of the labour union of Guangzhou Baiyunshan Chinese Medicine Factory\* (廣州白雲山中藥廠), the deputy secretary of the Party Committee of Baiyunshan Chemical Factory and the deputy head of the human resources department, the deputy head of the political works department, the head of the organisational and personnel department, a member of the disciplinary committee, the deputy secretary of the retirement office of the Party Committee and the secretary of Party Committee of Baiyunshan. Since March 2014, Ms. Li has been the head of the organisational department and the head of the human resources department of the Company. Since September 2016, Ms. Li has been a member of the supervisory committee of the Company. Ms. Li has been engaged in the political work of the Chinese Communist Party and administration and human resource management for more than 20 years and has extensive experience in the development and innovation aspects of the Chinese Communist Party, talent recruitment and development.

**Ms. Wu Yan**, aged 48, graduated from the Murdoch University in Australia with a master degree in business administration and has been as a supervisor of the Company since 28 January 2014. Ms. Wu is currently the vice president of the Guangdong University of Foreign Studies Audiovisual Press, and the office director, party branch committee member and chairperson of the labour union.

# Directors, Supervisors, Senior Management and Staff

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

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

#### (4) Senior management

**Mr. Zhang Chunbo**, aged 40, holds a bachelor degree and a master degree of EMBA, and is a druggist. Mr. Zhang graduated from the China Pharmaceutical University in July 2000 and began his career in the same year. In December 2010, he received a master degree of EMBA from the Lingnan (University) College of the Sun Yat-Sen University. He has served as the vice manager of the second zone, the assistant manager of sales department, the vice general manager of sales department, the manager of sales department, the vice director of marketing department of HWBYS, the vice manager and the vice general manager of Zhong Yi. Mr. Zhang has been as the vice general manager of the Company since January 2015, and is currently the chairperson and the general manager of Zhong Yi, the chairperson and the general manager of Qi Xing. Mr. Zhang has extensive experience in corporate management and marketing.

**Mr. Chen Jing**, aged 33, served as the secretary to the Board of the Company since 28 January 2014. He graduated from the School of Management of the Huazhong University of Science and Technology in July 2008 with a master degree of accounting. Mr. Chen had served in the Investment Banking Department of Guotai Junan Securities Co., Ltd..

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

**Mr. Wu Quan**, aged 60, is an undergraduate, senior political engineer, and a member of the People's Congress of Liwan District. Mr. Wu began 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 for 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, secretary of the Party Committee of Guang Hua, Minister of the Ministry of Personnel (Organization Department of GPHL), secretary of the Discipline Commission of the Company. Mr. Wu had been a supervisor of the Company since 15 June 2007 and retired in September 2016.

# Directors, Supervisors, Senior Management and Staff

## 2. CHANGES IN INTERESTS AND EMOLUMENTS

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

During the Year, the total amounts of remuneration received by the Directors, supervisors and the senior management from the Group, the shareholder(s) of the Company and other connected entities was RMB9,949,110.

Name	Position	Sex	Age	Commencement date of term of office	Ending date of term of office	Shares held		Change in shareholding during the Reporting Period	Reasons for change	Emoluments	
						as at the beginning of the Reporting Period (shares)	Shares held as at the end of the Reporting Period (shares)			Emoluments received from the Company during the Reporting Period (RMB'000)	Emoluments received from the Company's shareholder during the Reporting Period (RMB'000)
<b>(i) Interest (A shares) and emoluments of the current directors, supervisors and senior management of the Company</b>											
Li Chuyuan	Chairperson	Male	51	2010-06-28	2017-01-28	0	100,000	100,000	Note	/	977.29
Chen Mao	Vice chairperson	Male	53	2015-01-28	2017-01-28	0	50,000	50,000	Note	/	929.34
Liu Juyan	Executive director	Female	52	2015-01-28	2017-01-28	0	13,000	13,000	Note	/	906.04
Cheng Ning	Executive director	Female	51	2012-09-19	2017-01-28	0	21,500	21,500	Note	/	858.76
Ni Yidong	Executive director	Male	45	2015-01-28	2017-01-28	0	0	0	Note	/	837.84
Wu Changhai	Executive director	Male	51	2010-06-28	2017-01-28	0	13,000	13,000	Note	829.71	/
Wang Wenchu	Executive director, deputy general manager	Male	50	2015-01-28	2017-01-28	0	10,000	10,000	Note	858.03	/
Wong Lung Tak Patrick	Independent non-executive director	Male	69	2010-06-28	2017-01-28	0	0	0	/	80.00	/
Qiu Hongzhong	Independent non-executive director	Male	60	2010-06-28	2017-01-28	0	0	0	/	80.00	/
Chu Xiaoping	Independent non-executive director	Male	61	2015-01-28	2017-01-28	0	0	0	/	80.00	/
Jiang Wenqi	Independent non-executive director	Male	59	2016-03-17	2017-01-28	0	0	0	/	80.00	/
Xian Jiaxiong	Chairperson of the Supervisory Committee	Male	57	2015-01-28	2017-01-28	0	11,000	11,000	Note	-	864.80
Li Jinyun	Supervisory	Female	48	2016-09-07	2017-01-28	0	10,000	10,000	Note	264.44	/
Wu Yan	Supervisor	Female	48	2015-01-28	2017-01-28	0	0	0	/	30.00	/
Zhang Chunbo	Deputy general manager	Male	40	2016-01-12	2017-01-28	0	10,000	10,000	Note	987.91	/
Chen Jing	Secretary to the Board	Male	33	2015-01-28	2017-01-28	0	75,000	75,000	Note	722.90	/
<b>(ii) Interest (A shares) and emoluments of the former directors, supervisors and senior management of the Company</b>											
Wu Quan	Supervisor	Male	60	2007-06-15	2016-09-07	0	0	0	Note	562.05	/
<b>Total</b>	<b>/</b>	<b>/</b>	<b>/</b>	<b>/</b>	<b>/</b>	<b>0</b>	<b>313,500</b>	<b>313,500</b>	<b>/</b>	<b>4,575.04</b>	<b>5,374.07</b>

# Directors, Supervisors, Senior Management and Staff

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

### (1) Interests in shares (A shares) and emoluments of current and resigned and retired 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 Jiexiong for the year were the emoluments they received from the Company's shareholder, which included the remuneration for 2016, clearing amounts of annual salaries in previous years, etc..
- ② The emoluments of Mr. Wu Changhai, Mr. Wang Wenchu, Mr. Zhang Chunbo, Mr. Wong Lung Tak Patrick, Mr. Qiu Hongzhong, Mr. Chu Xiaoping, Mr. Jiang Wenqi, Ms. Wu Yan, Ms. Li Jinyun and Mr. Chen Jing for the Year were the emoluments they received from the Company, which included the remuneration for 2016, clearing amounts of annual salaries in previous years and special rewards.
- ③ The emoluments of Mr. Wu Quan for the Year were the emoluments for 2016 for the period between January and August 2016 when he held a position in the Company and in the subsidiaries of the Company, clearing amounts of annual salaries in the previous years, etc.
- ④ Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong, Mr. Wu Changhai, Mr. Wang Wenchu, Mr. Zhang Chunbo, Mr. Xian Jiexiong and Ms. Li Jinyun had participated in the Stock Ownership Scheme.

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

Applicable Not applicable

# Directors, Supervisors, Senior Management and Staff

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

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

- (i) As at 31 December 2016, the directors, supervisors, senior management and their associates who had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which were required, pursuant to the Model Code of the Listing Rules, to be notified to the Company and the HKEx were as follows.

Director	Capacity	Company	Number of shares (long position) (share)	Percentage of issued A shares (%)
Li Chuyuan	Beneficial Owner	Company (A shares)	100,000	0.0071
Chen Mao	Beneficial Owner	Company (A shares)	50,000	0.0036
Liu Juyan	Beneficial Owner	Company (A shares)	13,000	0.0009
Cheng Ning	Beneficial Owner	Company (A shares)	21,500	0.0015
Ni Yidong	Beneficial Owner	Company (A shares)	0	/
Wu Changhai	Beneficial Owner	Company (A shares)	13,000	0.0009
Wang Wenchu	Beneficial Owner	Company (A shares)	10,000	0.0007

Supervisors	Capacity	Company	Number of shares (long position) (share)	Percentage of issued A shares (%)
Xian Jiaxiong	Beneficial Owner	Company (A share)	11,000	0.0008
Li Jinyun	Beneficial Owner	Company (A share)	10,000	0.0007
Wu Quan	Beneficial Owner	Company (A share)	0	/

Senior management	Capacity	Company	Number of shares (long position) (share)	Percentage of issued A shares (%)
Zhang Chunbo	Beneficial Owner	Company (A share)	10,000	0.0007
Chen Jing	Beneficial Owner	Company (A share)	75,000	0.0053

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

# Directors, Supervisors, Senior Management and Staff

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

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

- (ii) Saved as disclosed above, as at 31 December 2016, none of the directors, supervisors, senior management of the Company and their associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which were required, pursuant to the Model Code of the Listing Rules, to be notified to the Company and the HKEx.

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

### (1) Positions held in the Company's shareholder

Name	Company	Position(s) held in the shareholder	Commencement date of term of office	Ending date of term of office
Li Chuyuan	GPHL	Chairperson	July 2013	/
		Secretary of the party committee	June 2013	/
Chen Mao	GPHL	Vice chairperson, general manager, deputy secretary of the party committee	July 2013	/
Liu Juyan	GPHL	Deputy general manager	January 2011	/
		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 Jiaxiong	GPHL	Deputy secretary of the party committee, Discipline inspection commission secretary	October 2012	/

# Directors, Supervisors, Senior Management and Staff

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

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

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

- (1) The Supervisory Committee received the written resignation tendered by Ms. Wu Yan, a supervisor of the Company. Ms. Wu Yan tendered her resignation as a supervisor of the Company in order to comply with the requirements of the organization in which she is employed as a full-time employee.

As the number of members of the Supervisory Committee of the Company will be less than three (being the minimum number prescribed by the Articles of Association) upon the resignation of Ms. Wu Yan, the resignation of Ms. Wu Yan will become effective after the new supervisor has been elected at the general meeting of the Company to be held to fill the vacancy. Ms. Wu Yan shall continue to perform her duties as a supervisor in accordance with the applicable laws, regulations and the Articles of Association until her successor is elected. The Supervisory Committee will complete the election of the new supervisor as soon as practicable in accordance with the relevant requirements.

- (2) The Supervisory Committee received a written letter of resignation from Mr. Wu Quan, supervisor of the Company. Mr. Wu Quan applied for resignation from the position of the Company's supervisor since he reached the statutory retirement age, and the resignation took effect from 7 September 2016.
- (3) The meeting (enlarged) of the trade union committee of the Company held on 1 September 2016 considered and approved the appointment of Ms. Li Jinyun as the employee supervisor of the sixth session of the supervisors committee from the effective date of resignation of the former employee supervisor Wu Quan until the expiration of the Supervisory Committee.

**In accordance with Rule 13.51(B)(1) of the Listing Rules of HKEx, the change in information of directors after the publication of the interim report of the Company for the six months ended 30 June 2016 is as follows:**

<b>Name of director</b>	<b>Details of change</b>
Wong Lung Tak Patrick	Resigned as an independent non-executive director of Musun Capital Group Limited

# Directors, Supervisors, Senior Management and Staff

## 6. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

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

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

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

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

## 7. INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS

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

None of the Directors, the supervisors of the Company or their connected entities had any material interest, directly or indirectly, in the material transactions, arrangements or contracts in relation to the business of the Group entered into by the Company, its subsidiaries, the subsidiaries of the controlling shareholder or the controlling shareholder during the Reporting Period and as at the end of the Year.

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

Applicable Not applicable

## 9. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

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

# Directors, Supervisors, Senior Management and Staff

## 10. EMPLOYEES OF THE GROUP

### (1) Situation of the employees

Numbers of the employees of the parent Company	2,432
Numbers of the employees of the major subsidiaries	19,921

**Total** **22,353**

Retired employees of the Company and major subsidiaries whose expenses were assumed by the Company and major subsidiaries	11,152
Gross payroll of the Group	RMB2.032 billion

### Composition

#### Category constitution

a number of  
constitute staff

Production staff	5,033
Sales personnel	12,821
Technical staff	2,420
Finance staff	369
Administrative staff	1,710

**Total** **22,353**

### Educational Level

Number

Post Graduate	403
Undergraduate	5,316
University college	6,749
Secondary and below	9,885

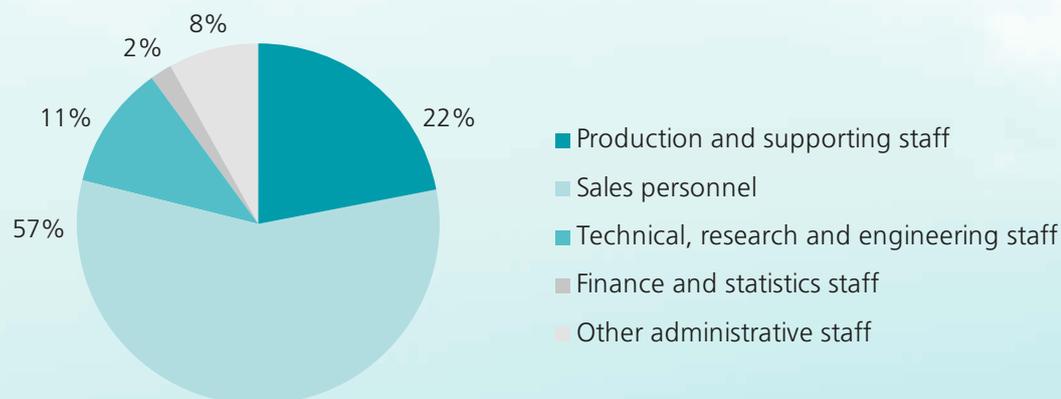
**Total** **22,353**

# Directors, Supervisors, Senior Management and Staff

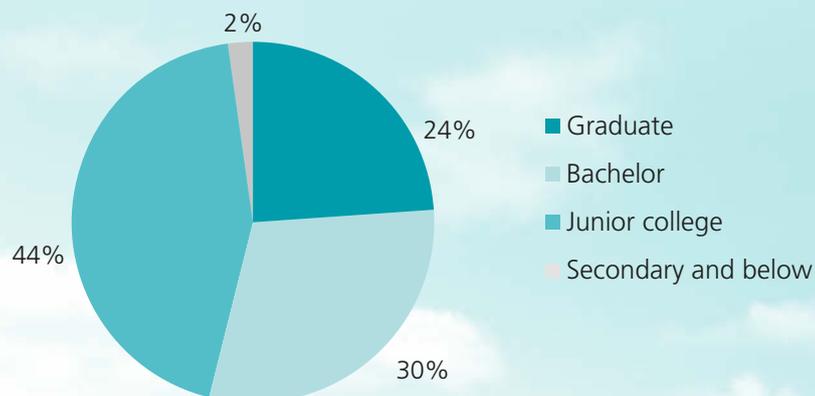
## 10. EMPLOYEES OF THE GROUP (Continued)

### (1) 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)



### (2) Remuneration policy

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

# Directors, Supervisors, Senior Management and Staff

## 10. EMPLOYEES OF THE GROUP *(Continued)*

### (3) Training plan

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

In 2016, the Group on the basis of “talent upgrading” strategy, carried out more training in respect of knowledge, skill and professional ability for the staff to constantly enhance their comprehensive quality and operational ability, so as to provide powerful talent support for the Group to achieve transformation and upgrading and to complete the strategic objective.

### (4) Employee stock ownership scheme

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

The Employee Stock Ownership Scheme was completed on 17 August 2016, a total of 1,209 employees participated in the Employee Stock Ownership Scheme, subscribing a total of 3,860,500 shares at the amount of RMB of 90,953,380.00. On the same day, the Placement Prosperous Age Exclusive Account No. 66 (as the trustee of the Employee Stock Ownership Scheme (2015)) which held 3,860,500 A shares of the Company, completed the registration of the newly-issued shares at Depository Corporation. The newly-offered shares are limited tradable shares with a lock-up period of 36 months and can be traded on the SSE on the second trading day following the expiration of the lock-up period.

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

## 1. CORPORATE GOVERNANCE AND INSIDERS REGISTRATION MANAGEMENT

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

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

During the Reporting Period, the Company complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (“CG Code”) and the code provisions of the CG Code except that (i) Ms. Liu Juyan and Mr. Wang Wenchu, executive Directors, were unable to attend the annual general meeting in 2015 due to business reasons which constituted deviation from code provision A.6.7, and (ii) Mr. Chen Mao and Mr. Wang Wenchu, executive Directors, Mr. Wong Lung Tak Patrick and Mr. Qiu Hongzhong, independent non-executive Directors,, were unable to attend the first extraordinary general meeting in 2016, the first general meeting of shareholders of holding domestic shares in 2016 and the first general meeting of shareholders of holding overseas listed foreign shares in 2016 due to business which constituted a deviation from code provision A.6.7, and (iii) Mr. Chen Mao and Mr. Wang Wenchu, executive Directors, Mr. Wong Lung Tak Patrick, Mr. Qiu Hongzhong and Mr. Chu Xiaoping, independent non-executive Directors, were unable to attend the second extraordinary general meeting in 2016 due to business reasons 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 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 2016 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)*

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

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

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

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

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

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

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

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

(v) *Internal audit function*

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

# Corporate Governance

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

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

- (i) The Company performed review on its internal control and fulfillment of social obligations for year 2016 pursuant to the requirement of the “Notice on Proper Preparation of the 2016 Annual Report by Listed Companies” issue by the SSE. Accordingly, the Company prepared the “Self-assessment Report of the board of director of the Company on Internal Control for 2016” and the “Report on Performance of Social Responsibilities for 2016”, both of which were disclosed after being duly considered and approved at the Board meeting of the Company held on 18 March 2017.
- (ii) To improve the Company’s corporate governance system, the Company revised relevant provisions of the Articles of Association, the Rules of Procedure for Shareholders’ Meetings, the Rules of Procedures for the Board of Directors and the Rules of Procedure for Supervisors’ Meetings. Such revisions took effect after having been considered and approved at the meeting of the board of Directors and the supervisors’ meeting held on 27 April 2016 and the 2015 general meeting of shareholders held on 23 June 2016 respectively, details of which were set out in the circular of the Company dated 9 May 2016.
- (iii) To improve the Company’s corporate governance system, the Company revised relevant provisions of the Procedures for Shareholders to Nominate Director Candidates, the Insider Registration System and the Detailed Working Rules for the Secretary to the Board of Directors. Such revisions took effect after having been considered and approved at the meeting of the Board held on 27 April 2016.
- (iv) In order to reflect the actual number of shares in issue after the issue of A shares pursuant to the non-public offering, the Company revised the relevant provisions of the Articles of Association, which took effect after having been considered and approved the meeting of the Board held on 29 August 2016 and the second extraordinary general meeting of shareholders held on 11 November 2016, details of which were set out in the circular of the Company dated 23 September 2016.

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

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

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

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

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

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

## 2. SHAREHOLDERS AND GENERAL MEETINGS OF SHAREHOLDERS

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

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

- (i) Shareholders can convene the general meeting of shareholders on its own initiative, but shall send out a written notice to the Board, and shall submit the records to the branch of CSRC where the Company is located and the stock exchange.
- (ii) Prior to the announcement of the resolution of the general meeting of shareholders, the shareholdings of the shareholders convening the general meeting shall not be less than 10%. Upon the issue of the notice and the announcement of resolution of the general meeting of shareholders, the shareholders convening the general meeting shall submit the relevant documentary information to the branch of CSRC where the Company is located and the stock exchange.
- (iii) Shareholders to enjoy the rights of access to information, participation and decision on material matters as stipulated by law, administrative regulation and the Articles of Association.
- (iv) Where the Company convenes an annual general meeting of the shareholders, the shareholders with 5% or more of the total voting rights of the Company shall be entitled to put forth a new proposal in writing to the Company. The Company shall dispatch supplemental notice of the general meeting within two days after receiving such proposal to announce the contents of such provisional proposal. Any matters contained in such proposal which are within the terms of reference of the general meeting of the shareholders shall be listed in the agenda of the meeting.

# Corporate Governance

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

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

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

Contact	Mr. Chen Jing, Ms. Huang Xuezhen
E-mail:	sec@gybys.com.cn/chenj@gybys.com.cn/ huangxz@gybys.com.cn
Internet website:	<a href="http://www.gybys.com.cn">http://www.gybys.com.cn</a>

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

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

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

Session and number of meeting	Date of meeting	Resolutions	Resolutions passed or not	Newspapers in which the resolutions were published	Disclosure date
The first extraordinary general meeting in 2016	10 March 2016	Resolution on the extension of the effective period of the shareholders' resolutions for the non-public issue of A share of the Company and resolution on the extension of the effective period of conferring full powers on the Board and persons authorized by the Board to handle matters relating to the non-public issue of the A shares of the Company.	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)	11 March 2016
The first class meeting of holders of domestic shares in 2016	10 March 2016	Resolution on the extension of the effective period of the shareholders' resolutions for the non-public issue of A share of the Company and resolution on the extension of the effective period of conferring full powers on the Board and persons authorized by the Board to handle matters relating to the non-public issue of the A shares of the Company.			11 March 2016
The first class meeting of holders of overseas listed foreign capital shares in 2016	10 March 2016	Resolution on the extension of the effective period of the shareholders' resolutions for the non-public issue of A share of the Company and resolution on the extension of the effective period of conferring full powers on the Board and persons authorized by the Board to handle matters relating to the non-public issue of the A shares of the Company.			11 March 2016

# Corporate Governance

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

Session and number of meeting	Date of meeting	Resolutions	Resolutions passed or not	Newspapers in which the resolutions were published	Disclosure date
2015 annual general meeting	23 June 2016	Report of the Board of the Company for year 2015; Report of the supervisory committee of the Company for year 2015; Financial reports of the Company for year 2015; Auditors' reports of the Company for year 2015; Proposal on profit distribution and dividend payment of the Company for year 2015; Financial budget report of the Company for year 2016; Resolution on the total service emoluments to be paid to the directors of the Company for year 2016; Resolution on the total service emoluments to be paid to the supervisors of the Company for year 2016; Resolution on the amounts of guarantees to be provided by the Company to secure the bank loans for some of its subsidiaries; Resolution on the application by the Company for general banking facilities not exceeding RMB2 billion; Resolution on entrusted loans business between the Company and its subsidiaries; Resolution on the prediction of daily connected transactions of the year 2016; Resolution on the re-appointment of BDO China Shu Lun Pan Certified Public Accountants LLP as the auditors of the Company for year 2016; Resolution on the re-appointment of BDO China Shu Lun Pan Certified Public Accountants LLP as the auditors for the internal control of the Company for year 2016; Resolution on amendments to rules of Procedure of Shareholders' Meeting of the Company; Resolution on amendments to rules of Procedure of the Board of Directors of the Company; Resolution on amendments to rules of Procedure of the Supervisory Committee of the Company and Resolution on amendments to the articles of association of the Company.	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)	24 June 2016
The second extraordinary general meeting in 2016	11 November 2016	Resolution on amendments to the articles of association of the Company and resolution on distribution of special dividend of the Company.	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)	12 November 2016

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

### Relationship between the Controlling Shareholder and the Company:

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

## 3. BOARD OF DIRECTORS

### (1) Composition

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

The present Board is the sixth session since the establishment of the Company, and is comprised of 11 members, including Mr. Li Chuyuan(chairperson), Mr. Chen Mao (vice chairperson), Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong, Mr. 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. Except for Mr. Jiang Wenqi, each director has a term of office commenced from 28 January 2014 up to the date on which the new session of the Board is elected. Mr. Jiang Wenqi has a term of office commenced from 17 March 2015 up to the date on which the new session of the Board is elected.

The Board shall exercise the following powers:

- (A) convention of general meetings of shareholders, and report to the general meetings;
- (B) implementation of the resolutions of the general meeting;
- (C) formulation of the business plan and investment scheme of the Company;
- (D) formulation of the annual financial budget and financial accounting policy of the Company;
- (E) formulation of the profit distribution policy and loss recovery policy of the Company;
- (F) formulation of the policy of increase or reduction of registered capital and the policy of issue of corporate bonds of the Company;

# Corporate Governance

## 3. BOARD OF DIRECTORS *(Continued)*

### (1) Composition *(Continued)*

- (G) drafting of the policies of material corporate acquisition, acquisition of shares of the Company, or the merger, separation, dissolution and liquidation of the Company;
- (H) making decision on the establishment of internal management system in the Company;
- (I) employment or dismissal of the managers of the Company; based on nomination, employ or dismiss the assistant managers, financial controller, other senior management personnel and secretary to the Board of the Company; and decide on their remuneration;
- (J) formulation of the basic management system of the Company;
- (K) formulation of the proposal on amendment of the Articles of Association of the Company;
- (L) making decision on external guarantee which involves an amount of more than 10% (or 10%) of the net assets in the consolidated financial statements of the most recent fiscal year of the Company;
- (M) making decisions on matters such as external investment, acquisition and sale of assets, mortgaged assets, external guarantee, entrusted financial management and connected transaction, within the scope of authorization by the general meeting of shareholders;
- (N) management of disclosure of information of the Company;
- (O) proposing to the general meeting of shareholders on appointment or replacement of accounting firm responsible for auditing for the Company;
- (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.

## 3. BOARD OF DIRECTORS *(Continued)*

### (1) Composition *(Continued)*

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

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

The role of chairperson and general manager of the Company are performed by separate persons with clear division of responsibilities. The Board is presided over by the chairperson, who is in charge of the daily business of the Board and the examination of the implementation of the resolutions passed at Board meetings. The general manager works under the leadership of the Board. The principal responsibilities of the general manager include management of the Company's daily operations and implementation of the resolutions passed at the Board. The chairperson of the Board is Mr. Li Chuyuan and 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 different industry backgrounds, having expertise and extensive experience in areas such as business management, accounting, finance, pharmaceuticals, law and investment planning.

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

# Corporate Governance

## 3. BOARD OF DIRECTORS *(Continued)*

### (1) Composition *(Continued)*

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

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

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

## 3. BOARD OF DIRECTORS (Continued)

### (2) Board Meetings

In 2016, nine Board meetings were held (of which three were physical meetings and six were meetings by way of written resolutions) and discussed the non-public issue of A Shares of the Company and matters related to the employees' share holding plan as well as the investment projects, connected transactions and financial matters of the Group. The Board meeting could make effective discussion and bring out prudent decision.

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

Directors	Whether an independent director	No. of meetings that should attend	Participation of directors at Board meetings				Attendance of Directors at Shareholders' meetings		
			Number of meetings participated in person	Number of meetings participated by way of communication (note)	Number of meetings participated by appointing a representative	Failure to participate two meetings in person consecutively	Number of general meetings that should have participated	Number of general meetings participated	
Li Chuyuan	No	9	9	6	0	0	No	5	5
Chen Mao	No	9	9	6	0	0	No	5	1
Liu Juyan	No	9	9	6	0	0		5	4
Cheng Ning	No	9	9	6	0	0	No	5	5
Ni Yidong	No	9	8	6	1	0	No	5	5
Wu Changhai	No	9	9	6	0	0	No	5	5
Wang Wenchu	No	9	9	6	0	0	No	5	0
Wong Lung Tak Patrick	Yes	9	9	8	0	0	No	5	1
Qiu Hongzhong	Yes	9	9	6	0	0	No	5	1
Chu Xiaoping	Yes	9	8	6	1	0	No	5	4
Jiang Wenqi	Yes	9	7	6	2	0	No	5	5

Note: Participation by way of communication deemed participation in person.

# Corporate Governance

## 3. BOARD OF DIRECTORS *(Continued)*

### (3) Independent non-executive directors

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

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

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

The Board confirmed the receipt from each of the independent non-executive directors a confirmation letter in regards to his independence pursuant to Rule 3.13 of the Listing Rules of the HKEx. The Board considered the existing independent non-executive directors to be independent persons as defined in Rule 3.13 of the Listing Rules of the HKEx.

Pursuant to the "Notice on preparation of the 2016 Annual Report by Listed Companies" issued by SSE on 31 December 2016, 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 2016 annual report and auditing work and relevant information. After completion of the preliminary auditing work by the Company's accountants, the independent non-executive directors communicated with the auditors on issues related to the auditing process.

### (4) Loan or guarantee for loan granted to Directors

During the Reporting Period, the Group had not made any loan or provided any guarantee for any loan, directly or indirectly, to the directors, supervisors and senior management of the Company, the Company's controlling shareholder or their respective connected persons.

## 4. COMMITTEES OF THE BOARD

### (1) Audit Committee

In August 1999, the Company established the Audit Committee. Its principal responsibilities include: to review and monitor the quality and procedure of the Group's financial reporting; to review the completeness and effectiveness of the Company's internal control system; to consider the appointment of independent auditors and to co-ordinate and to review the efficiency and quality of their work.

The Audit Committee of the sixth session of the Board was established on 28 January 2014, comprising 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 approved to be 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 the members of Mr. Wong Lung Tak Patrick, Mr. Qiu Hongzhong and Mr. Chu Xiaoping commenced from 28 January 2015 up to the date on which members of the new session of the Board are elected, the term of office of Mr. Jiang Wenqi was from 17 March 2015 up to the date on which members of the new session of the Board are elected.

Major tasks accomplished by the Audit Committee in 2016 including:

- (A) held three meetings in 2016 to review the 2015 Annual Report and 2016 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.

The work on the annual audit for 2016 and relevant jobs regarding the preparation of the Annual Report are as follows:

# Corporate Governance

## 4. COMMITTEES OF THE BOARD *(Continued)*

### (1) Audit Committee *(Continued)*

In accordance with “the Notice on preparation of the 2016 Annual Report in an orderly manner by Listed Companies” issued by the SSE on 31 December 2016, all members of the Audit Committee reviewed the relevant requirements seriously. The Audit Committee actively coordinate with the Company in respect of the audit for 2016 and the preparation of the annual report for 2016 in pursuance of the Rules on the Annual Report of the Audit Committee, including:

- 1) The Committee negotiated with the auditors of the Company and the Company’s Finance Department regarding the time line for audit and the relevant arrangements and set out the “Action plan for the Preparation of 2016 Annual Report” and reviewed the audit plan submitted by the auditors.
- 2) On 13 March 2017, the Audit Committee reviewed the draft of the financial reports prepared by the Company and issued written recommendations thereon.
- 3) After the auditors’ completion of the preliminary auditing work, the Audit Committee reviewed the financial reports again and issued written recommendations regarding the audit work. The Audit Committee believed that the 2016 financial reports of the Company reflected the state of affairs of the Company truly, accurately and fairly, and agreed to submit the reports to the Board for approval.
- 4) On 15 March 2017, the Audit Committee convened the first meeting in 2017 and considered and passed the 2016 Annual Report and its summary and the Company’s 2016 Financial Report. At the same time, the Audit Committee finalized its evaluation on the audit work of the auditor and believes that the auditor has carried out the audit work for the Company with cautious, independent and objective standards, and managed to abide by their professional work ethics, followed closely the auditing regulations, fulfilled their auditing responsibilities and submitted the auditors’ report in time, as well as having issued fair and unbiased management recommendations to the management of the Company, and completed the audit work with satisfactory performance.

## 4. COMMITTEES OF THE BOARD *(Continued)*

### (2) Strategic Development and Investment Committee

In February 2001, the Company established the investment management committee, which was renamed as strategic development and investment committee as approved at the fourth Board meeting of the fourth session of the Board. Its principal responsibilities are to research and issue recommendations on the long-term strategic development and significant investment decisions of the Company and, with authorization from the Board, to examine and approve investment projects intended to be implemented by the Company.

The strategic development and investment committee of the sixth session of the Board comprised Mr. Li Chuyuan (chairperson of the committee), Mr. Chen Mao, Ms. Liu Juyan, Mr. Qiu Hongzhong and Mr. Chu Xiaoping. The term of office of the aforementioned committee members commenced from the date of their appointments on 28 January 2014 up to the date on which members of the new session of the Board are elected. During the Year, the strategic development and investment committee held seven meetings. All of the committee members attended the meetings.

### (3) Nomination and Remuneration Committee

In February 2002, the Company established the Remuneration & Evaluation Committee, which was renamed as Nomination and Remuneration Committee as approved at the fourth Board meeting of the fourth session of the Board. Its principal responsibilities are to study and examine the remuneration policies and proposals of directors and senior management, to research on the selection standards and procedures of directors, general managers and other senior management and to issue recommendations, and to extensively look for qualified persons to be directors and senior management, to conduct examination on them and to issue recommendations, audit the remuneration of directors and senior management and make recommendation to the Board.

The Nomination and Remuneration Committee of the sixth session of the Board comprised of Mr. Chu Xiaoping (chairperson of the committee), Mr. Ni Yidong, Mr. Wu Changhai, Mr. Wong Lung Tak Patrick and Mr. Fang Shuting. On 13 March 2015, Mr. Jiang Wenqi was approved to be the member of Nomination and Remuneration Committee in place 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 of 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, Mr. Wong Lung Tak Patrick commenced from 28 January 2014 up to the date on which members of the new session of the Board are elected, the term of office of Mr. Jiang Wenqi was from 17 March 2015 up to the date on which members of the new session of the Board are elected.

During the Reporting Period, the Nomination and Remuneration Committee held one meeting to make examinations and approvals to the disclosure of emoluments of the directors, supervisors and senior management in the 2016. All of the committee members attended the meetings.

# Corporate Governance

## 4. COMMITTEES OF THE BOARD *(Continued)*

### (3) Nomination and Remuneration Committee

The Company has adopted the CG Code and the Nomination and Remuneration Committee has been appointed to make recommendations regarding remunerations of executive directors and senior management of the Company to the Board.

The Company has formulated the Diversified Policy for the Board Members, which was approved at the Board meeting dated 26 September 2013 and carried out. As of the end of the Reporting Period, the Nomination and Remuneration Committee has basically complied with the provisions of the Diversified Policy for the Board Members. For the effectiveness of the Diversified Policy for the Board Members of the Company, the Nomination and Remuneration Committee of the Company will constantly supervise and review the Diversified Policies for the Board Members. Pursuant to the Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service. The Board will consider to set measurable objectives to implement the Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

As of the end of the Report Period, there was no trading of shares of the Company by insiders of the Nomination and Remuneration Committee based on any insider information before the disclosure of material price sensitive information.

### (4) Budget Committee

In October 2007, the Company established the Budget Committee as approved at the 4th meeting of the fourth session of the Board. Its principal responsibilities are to provide guidance on the formulation of the budgeting plans and business objectives of the Company for the year and to supervise and inspect their implementations.

The Budget Committee of the sixth session of the Board comprised of Mr. Qiu Hongzhong (the chairperson of the Committee), Ms. Cheng Ning, Mr. Wang Wenchu, Mr. Wong Lung Tak Patrick and Mr. Fang Shuting. On 13 March 2015, Mr. Jiang Wenqi was approved to be the member of the Budget Committee in place of Mr. Fang Shuting at the 9th meeting of the sixth session of the Board. Currently, the Budget Committee of the sixth session of the Board comprised of Mr. Qiu Hongzhong, Ms. Cheng Ning, Mr. Wang Wenchu, Mr. Wong Lung Tak Patrick and Mr. Jiang Wenqi. The term of office of Mr. Qiu Hongzhong, Ms. Cheng Ning, Mr. Wang Wenchu, Mr. Wong Lung Tak Patrick commenced from 28 January 2014 to the date on which members of the new session of the Board are elected, the term of office of Mr. Jiang Wenqi was from 17 March 2015 up to the date on which members of the new session of the Board are elected.

During the Reporting Period, the Budget Committee held one meeting. Annual business objectives and the budget for 2016 and the Work plan of budget in 2016 of the Company were approved at the meeting. All of the committee members attended the meetings.

## 4. COMMITTEES OF THE BOARD *(Continued)*

- (5) **Special committees of the Board did not give important opinions or suggestions when performing their duties during the Reporting Period.**

## 5. SUPERVISORY COMMITTEE

- (1) During the Reporting Period, the Supervisory Committee monitored the procedures for convening Board meetings and shareholders' meetings and the resolutions proposed to be considered thereat, as well as the execution by the Board of the resolutions passed at the shareholders' meetings and has no dissenting view on any reports and proposals submitted by the Board at shareholders' meetings. The Supervisory Committee considered that during the Reporting Period the operations conducted by the Company were in compliance with the Company Law, the Securities Law, the respective Listing Rules governing the securities exchanges in the PRC and in Hong Kong, the Articles of Association and other relevant laws and regulations, and the Company has executed the resolutions of the shareholders' meetings of the Company diligently, continued to enhance the internal management and internal control systems of the Company and established a good internal management system. The Company's directors and senior management have not committed any acts in breach of the rules and regulations, the Articles of Association, nor have they engaged in any acts involving the infringement of the Company's interest or infringement of shareholder's interests.
- (2) During the Reporting Period, the Supervisory Committee held five meetings, all supervisors attended the meetings.
- (3) The Supervisory Committee has carefully reviewed the financial statements and other financial information of the Company during the Reporting Period, and considered that the Company's financial statements were fairly presented, the auditing and financial management were in line with the relevant regulations and had not discovered any issues. The auditor issued their standard and unqualified auditor's reports after auditing the accounts of the Group and the Company for the year ended 31 December 2016, which reflected an objective, true and fair view of the financial status and the operations results of the Company.
- (4) The Supervisory Committee monitored and inspected the connected transactions of the Company, and was of the opinion that: the connected transactions of the Company satisfied the development strategy and actual needs of the Company; the connected transactions were reasonable and necessary; the decision-making procedures in respect of connected transactions complied with the relevant laws and regulations and the provisions of the Articles of Association; and the interests of the Company and its minority shareholders were not prejudiced.
- (5) The Supervisory Committee expressed no dissent to the matters subject to their supervision during the Reporting Period.

# Corporate Governance

## 6. SEPARATION OF BUSINESS, HUMAN RESOURCES, ASSETS, ORGANIZATION AND FINANCIAL ARRANGEMENT FROM THE CONTROLLING SHAREHOLDER

- (1) Separation of business: the Company operates with its own autonomy and integrated business structure and is independent from its controlling shareholder.
- (2) Human resources: the Company maintains independence in the areas of staffing, personnel and payroll management. Senior management of the Company are remunerated by the Company.
- (3) Assets: the Group is equipped with an independent production system, a supplementary production system and related facilities. It also has its own independent purchases and sales systems. The Company itself owned 1003 registered trademarks which are all within validity periods.
- (4) Organization: there was no combustion of operation return the Company and its controller shareholder. The Company has its own independent and comprehensive organizational structure. The Board, the Supervisory Committee and other departments operate independently and autonomously. Further, the Company has independent decision-making mechanisms and integrated production units. No supervisory or reporting relationships existed between the functional departments of the Company and the controlling shareholder of the Company.
- (5) Finance: the Company has established an independent finance department, an independent accounting system and an independent financial management policy. The Company has maintained separate bank accounts and paid tax independently.

## 7. THE ESTABLISHMENT AND IMPLEMENTATION OF ASSESSMENT MECHANISM AND INCENTIVE MECHANISM FOR THE SENIOR MANAGEMENT OFFICERS DURING THE REPORTING PERIOD

The Company has established the performance assessment mechanism in respect of the senior management officers and thus can assess the performance of the senior management officers according to the formulated assessment scheme on an annual basis. At present, the Company is actively exploring relevant proposals regarding the incentive mechanisms, and will facilitate share incentive plans at the appropriate time so as to improve and complete the mechanism and to mobilize the enthusiasm and initiatives of the management officers at the medium and senior levels and business backbones to the greatest extent, and to arouse their creativity for purposes of generating greater return to the Company and its shareholders.

## 8. WHETHER TO DISCLOSE THE SELF-ASSESSMENT ON INTERNAL CONTROL

Applicable Not applicable

The Board performed a self-assessment on internal control for the Year and formulated the Self-assessment Report on Internal Control (full version is available on the website of the SSE) in accordance with the requirements of the "Notice on preparation of the 2016 Annual Report in an orderly manner by Listed Companies" issued by SSE on 31 December 2016.

### Significant shortcoming in the internal control was found during the Reporting Period

Applicable Not applicable

## 9. AUDIT REPORT ON THE INTERNAL CONTROL

- (1) The recommendation from the audit firm: BDO China Shu Lun Pan CPAs LLP considered that as at 31 December 2016, the Group has maintained effective internal control in its financial reporting in all material aspects, pursuant to the "Guidelines for Internal Control Standards" and relevant regulations.
- (2) The Company has appointed BDO China Shu Lun Pan CPAs LLP to review and assess on the Group's internal control for the Year (full version is available on the website of the SSE).

Whether to disclose the audit report on internal control: Yes

## 10. DIRECTORS' RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibilities to prepare the financial statements which give a true and fair view of the state of affairs of the Group and of the loss and cash flows position of the Group for the Year and which are in compliance with statutory requirements and other regulatory requirements. As at 31 December 2016, 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 194 to 199 of this annual report. There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

## 11. OTHERS

### (1) Other stakeholders

The Company respected and safeguarded the interests of the stakeholders and realized the balance of interests among the shareholders, employees and the society. At the same time, the Company also pays attention on environmental protection, public welfare and other issues and economic to mutually promote the sustainable and sound development of the Company in economic activities.

### (2) Information on the disclosure and management of relationship with investors

The Company delegated the secretary to the Board with the responsibility for handling the Company's information disclosure, arranging company visits and answering enquiries from shareholders and investors and responding to correspondence from shareholders in a timely manner. The Company has designated Shanghai Securities News, Securities Times, China Securities Journal and China Securities News in the PRC to publish the Company's information and disclose such at websites designated by the SSE and the HKEx and the Company's website. The Company continues to disclose information in a truthful, accurate, comprehensive and timely manner in strict compliance with the relevant rules and regulations and the Code of Information Disclosure of the Company, and make preserve confidentiality before disclosure. The Company also ensures that all shareholders have fair and equitable access to information relating to the Company.

# Relevant Information of Company Bonds

THE COMPANY DID NOT HAVE ANY BONDS DURING THE REPORTING PERIOD.



**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[2017]No. 10154

**To the Shareholders of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.:**

## **I. AUDIT OPINION**

We have audited the attached financial statements of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (hereinafter referred to as "the Company"), which comprise the balance sheet and consolidated balance sheet as at December 31, 2016, the income statement and consolidated income statement for the year then ended 31 December, 2016, the cash flow statement and consolidated cash flow statement for the year then ended 31 December, 2016, the statement of changes in equity and consolidated statement of changes in equity for the year then ended 31 December, 2016, as well as the notes to the financial statements.

## **II. BASIS OF OPINIONS**

We have conducted our audit in accordance with the Chinese Auditing Standards issued by the Chinese Institute of Certified Public Accountants. Our responsibilities under those standards are further described in the responsibilities of certified public accountants for the audit of the financial statements section of the auditors' report. We are independent of the Company in accordance with the ethical codes of Chinese certified public accountants, and we have fulfilled our other ethical responsibilities in accordance with the codes. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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### III. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the current period. These matters were addressed in the context of our audit of the financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

#### 1. Impairment tests for the intangible assets with uncertain useful life

##### a) *Details*

In accordance with Accounting Standards for Business Enterprises, intangible assets with uncertain useful life are tested for impairment at the end of each year. Trademark is the intangible assets with uncertain useful life of the Company, which balance amounted to RMB0.12606 billion as at 31 December 2016, impairment tests are the key audit matters which have material impact to financial statements. As the evaluation of impairment tests is complicated and require high judgement to do so, the assumption is based on the expected future market and the economic environment.

##### b) *Application for auditing*

When addressing the impairment tests for the intangible assets with uncertain useful life, we implemented the auditing procedures mainly including: We discussed with evaluation experts hired by the management of the Company (hereinafter referred to as "management") for the rationality of evaluate method and the key parameter, which includes forecast for increase of operation revenue and discount rate, we discussed the rationality of comparative data with larger changes between forecast for increase of operation revenue and historic data, and asked for more evidence of them; meanwhile we paid attention to disclosure of the method of impairment tests and key parameter is enough or not. Method of impairment tests for the intangible assets with uncertain useful life refers to the notes to financial statements V(15).



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### III. KEY AUDIT MATTERS *(Continued)*

#### 2. Litigation

##### *a) Details*

Some subsidiaries of the Company are related to litigation, which refer to the notes to financial statements XVI(1). Those litigation are mainly includes be accused for repayment and accuse customers of repayment. As these cases have not yet been judged, management exercise material judgement to the probability of cases and the affected amount in financial statement, therefore, we presented litigation as key audit matter.

##### *b) Application for auditing*

When addressing the litigation, we implemented the auditing procedures mainly including: We discussed it with related person or legal department, obtained legal opinions from a law office, which described the cases and made a professional judgement to the probability and potential risk. We discussed these materials with management and accessed the provision of liabilities and bad debts are appropriate or not.

#### 3. Receiving government compensation for overall relocation

##### *a) Details*

In year 2016 Guangzhou Baiyanshan Qi Xing Pharmaceutical Co., Ltd (hereinafter referred to as "Qi Xing") and, Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd., 2 subsidiaries, of the Company received government compensation for overall relocation amounted to RMB0.67234 billion, which calculated in non-operating income amounted to RMB0.27572 billion accounting for 10% of the annual net profit, this matter is special and with large amount, we presented it as key audit matter.

##### *b) Application for auditing*

When addressing the government compensation for overall relocation, we implemented the auditing procedures mainly including: We checked up related agreements and the original certificates for source of compensation (payment side) to confirm applicable accounting standards; enquired and looked over process of relocation as at 31 December 2016 to confirm the timing of transferring income; as the total amount of compensation has not yet been confirmed, management need to access and judge for the allocation, we discussed with management for the rationality of it, finally we reviewed the sheets provided by the Company to confirm the amount transfer to income is correct or not.



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#### IV. OTHER INFORMATION

The management is responsible for the other information which comprises all the information in the annual report other than the financial statements and this auditors' report.

Our audit opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Combining with our audit to the financial statements, our responsibility is to read the other information. During the process, we considered if there is significant inconsistency or there is likely significant misstatement between the other information and the financial statements or the information we obtained during the audit.

As we have performed the work on the other information obtained before the date of our auditors' report, we shall report if we confirmed there was a significant misstatement among the other information. We have nothing needed to be reported on this case.

#### V. RESPONSIBILITIES OF THE MANAGEMENT AND GOVERNING BODIES FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the Accounting Standards for Business Enterprises, and also designing, implementing and maintaining the internal control system as necessary such that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the Company's ability to continue as a going concern, disclosing the matters related to the going concern basis and using the going concern basis of accounting unless the management either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The governing bodies are responsible for overseeing the financial reporting process of the Company.



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BDO CHINA SHU LUN PAN CERTIFIED PUBLIC ACCOUNTANTS LLP

Our Ref : XKSBZ[2017]No. 10154

## VI. RESPONSIBILITIES OF CERTIFIED PUBLIC ACCOUNTANTS FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are generally considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also performed the following works:

- (1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- (4) Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.



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[2017]No. 10154

## VI. RESPONSIBILITIES OF CERTIFIED PUBLIC ACCOUNTANTS FOR THE AUDIT OF THE FINANCIAL STATEMENTS *(Continued)*

- (5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicated with the governing bodies regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that they identify during the audit.

We also provided the governing bodies with a statement that we had complied with relevant ethical requirements regarding independence, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence.

From the matters we had discussed with the governing bodies, we confirmed which matters were the most important to the audit of the financial statements for the current period and thus constituted the key audit matters. We set out these matters in the auditors' report. Unless the disclosure of these matters are forbidden by the laws and regulations, or, in rare cases, if it is reasonably expected that the negative impacts caused by discussing certain matters in the auditors' report would be larger than the benefits for public interest, We shall not disclose the matters in the auditors' report under such circumstances.

**BDO CHINA SHU LUN PAN**  
Certified Public Accountants LLP

Shanghai, China  
15 March 2017

Chinese Certified Public Accountant  
**Zhang Ning**

Chinese Certified Public Accountant  
**Zhang Xi**

# Consolidated Balance Sheet

As at 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

Item	Note	31 December 2016	31 December 2015
<b>Current assets</b>			
Cash at bank and on hand	5(1)	<b>13,091,007,880.23</b>	4,118,291,426.52
Financial assets based on fair value to confirm profit or loss	5(2)	<b>6,026,123.94</b>	6,499,789.60
Notes receivable	5(3)	<b>1,604,767,885.21</b>	1,450,035,581.39
Accounts receivable	5(5)	<b>1,108,363,607.29</b>	1,051,642,996.39
Advances to suppliers	5(7)	<b>414,073,610.15</b>	316,795,764.49
Interest receivable		–	–
Dividends receivable	5(4)	<b>52,938,523.45</b>	–
Other receivables	5(6)	<b>205,120,876.85</b>	209,264,412.47
Inventories	5(8)	<b>2,781,495,711.45</b>	2,543,866,145.35
Current portion of non-current assets		–	–
Other current assets	5(9)	<b>250,191,094.03</b>	108,317,835.73
<b>Total current assets</b>		<b>19,513,985,312.60</b>	9,804,713,951.94
<b>Non-current assets</b>			
Available-for-sale financial assets	5(10)	<b>327,889,324.24</b>	328,372,231.24
Held-to-maturity investments		–	–
Long-term receivables		–	–
Long-term equity investments	5(11)	<b>2,290,443,462.70</b>	2,111,212,976.44
Investment properties	5(12)	<b>228,575,391.31</b>	234,615,086.24
Fixed assets	5(13)	<b>2,107,109,957.69</b>	1,933,901,738.15
Construction in progress	5(14)	<b>255,276,101.16</b>	555,906,380.17
Construction materials		–	–
Fixed assets pending for disposal		–	–
Intangible assets	5(15)	<b>668,305,151.10</b>	540,174,651.69
Development costs	5(16)	<b>3,017,046.84</b>	5,509,098.53
Goodwill	5(17)	<b>11,499,562.74</b>	2,282,952.18
Long-term prepaid expenses	5(18)	<b>37,939,444.42</b>	24,112,146.30
Deferred tax assets	5(19)	<b>417,159,182.77</b>	329,776,054.32
Other non-current assets	5(20)	<b>35,970,282.97</b>	–
<b>Total non-current assets</b>		<b>6,383,184,907.94</b>	6,065,863,315.26
<b>TOTAL ASSETS</b>		<b>25,897,170,220.54</b>	15,870,577,267.20

# Consolidated Balance Sheet

As at 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

Item	Note	31 December 2016	31 December 2015
<b>Current liabilities</b>			
Short-term borrowings	5(22)	<b>25,215,424.88</b>	629,683,464.69
Financial liabilities based on fair value to confirm profit or loss		–	–
Notes payable	5(23)	<b>320,811,521.98</b>	292,607,099.65
Accounts payable	5(24)	<b>2,267,279,067.87</b>	2,636,474,108.05
Advances from customers	5(25)	<b>1,552,885,731.40</b>	974,514,210.30
Employee benefits payable	5(26)	<b>546,523,380.87</b>	413,029,738.15
Taxes payable	5(27)	<b>384,192,155.39</b>	74,514,458.11
Interest payable	5(28)	<b>257,658.10</b>	359,628.56
Dividends payable	5(19)	<b>57,301,541.02</b>	52,066,098.91
Other payables	5(30)	<b>2,267,981,520.69</b>	1,755,251,103.41
Current portion of non-current liabilities		–	–
Other current liabilities		–	–
<b>Total current liabilities</b>		<b>7,422,448,002.20</b>	6,828,499,909.83
<b>Non-current liabilities</b>			
Long-term borrowings	5(31)	<b>33,502,083.03</b>	39,755,174.34
Debentures payable		–	–
Long-term payables	5(32)	<b>20,558,783.65</b>	22,219,899.34
Payables for specific projects	5(33)	<b>16,842,773.80</b>	19,058,160.00
Provisions	5(34)	<b>61,045,873.15</b>	64,162,534.32
Deferred income	5(35)	<b>612,084,162.58</b>	183,587,858.83
Deferred tax liabilities	5(19)	<b>76,581,360.14</b>	29,063,935.23
Long-term Employee benefits payable	5(36)	<b>316,733.72</b>	296,646.40
<b>Total non-current liabilities</b>		<b>820,931,770.07</b>	358,144,208.46
<b>Total liabilities</b>		<b>8,243,379,772.27</b>	7,186,644,118.29

# Consolidated Balance Sheet

As at 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

Item	Note	31 December 2016	31 December 2015
<b>Shareholders' equity</b>			
Share capital	5(37)	<b>1,625,790,949.00</b>	1,291,079,250.00
Capital surplus	5(38)	<b>9,875,172,584.68</b>	2,346,435,108.64
Less: Treasury share		–	–
Other comprehensive Income	5(39)	<b>9,788,066.97</b>	(732,678.19)
Surplus reserves	5(40)	<b>1,052,034,418.97</b>	930,522,262.36
Undistributed profits	5(41)	<b>4,782,293,720.24</b>	3,883,510,490.48
<b>Total equity attributable to shareholders of parent Company</b>		<b>17,345,079,739.86</b>	8,450,814,433.29
<b>Equities of minority shareholders</b>	5(42)	<b>308,710,708.41</b>	233,118,715.62
<b>Total shareholders' equity</b>		<b>17,653,790,448.27</b>	8,683,933,148.91
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		<b>25,897,170,220.54</b>	15,870,577,267.20

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 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

Item	Note	The year ended 31 December 2016	The year ended 31 December 2015
<b>1. Revenue</b>	5(43)	<b>20,035,681,499.37</b>	19,124,658,298.90
Less: Cost of sales	5(43)	<b>13,412,062,896.03</b>	12,200,500,049.92
Taxes and surcharges	5(44)	<b>189,309,156.99</b>	169,627,790.27
Selling and distribution expenses	5(45)	<b>3,823,589,490.19</b>	4,167,680,901.54
General and administrative expenses	5(46)	<b>1,439,734,312.47</b>	1,374,805,685.81
Financial expenses	5(47)	<b>(96,520,258.97)</b>	(21,937,825.02)
Asset impairment losses	5(48)	<b>6,728,893.84</b>	36,312,870.62
Add: Profit arising from the changes in fair value	5(49)	<b>(473,665.66)</b>	1,813,766.60
Investment income	5(50)	<b>206,321,948.46</b>	210,852,957.10
Including: Share of profit of associates and jointly controlled entities		<b>194,459,911.23</b>	206,845,139.58
<b>2. Operating profit</b>		<b>1,466,625,291.62</b>	1,410,335,549.46
Add: Non-operating income	5(51)	<b>554,792,542.30</b>	331,198,578.33
Including: Gains on disposal of non-current assets		<b>17,866,008.79</b>	698,961.19
Less: Non-operating expenses	5(52)	<b>76,364,435.58</b>	113,412,054.19
Including: Losses on disposal of non-current assets		<b>2,622,479.73</b>	1,992,658.12
<b>3. Total profit</b>		<b>1,945,053,398.34</b>	1,628,122,073.60
Less: Income tax expenses	5(53)	<b>386,379,403.17</b>	282,835,101.41
<b>4. Net profit</b>		<b>1,558,673,995.17</b>	1,345,286,972.19
- Attributable to owners of the parent company		<b>1,508,032,671.07</b>	1,300,351,292.59
- Minority interests		<b>50,641,324.10</b>	44,935,679.60

# Consolidated Income Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

Item	Note	The year ended 31 December 2016	The year ended 31 December 2015
<b>5. Other comprehensive net income after tax</b>	5(39)	<b>10,516,712.10</b>	(12,635,534.89)
Other comprehensive net income after tax attributable to shareholders' equity of the parent company		<b>10,520,745.16</b>	(12,633,367.87)
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		<b>10,520,745.16</b>	(12,633,367.87)
(1). Portion of items will be classified into profit or loss when under equity method		<b>(218,435.84)</b>	91,910.16
(2). Profit or loss arising from changes in fair value of available for sale financial assets		<b>6,796,748.61</b>	(12,722,126.94)
(3). Differences arising from translation of foreign currency financial statements		<b>3,942,432.39</b>	(3,151.09)
Other comprehensive net income after tax attributable to minority shareholders' equity		<b>(4,033.06)</b>	(2,167.02)
<b>6. Total comprehensive income</b>		<b>1,569,190,707.27</b>	1,332,651,437.30
(1) Total comprehensive income attributable to shareholders' equity of parent company		<b>1,518,553,416.23</b>	1,287,717,924.72
(2) Total comprehensive income attributable to minority shareholders' equity		<b>50,637,291.04</b>	44,933,512.58
<b>7. Earnings per share</b>			
(1) Basic earnings per share	5(54)(a)	<b>1.075</b>	1.007
(2) Diluted earnings per share	5(54)(b)	<b>1.075</b>	1.007

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 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

Item	Note	The year ended 31 December 2016	The year ended 31 December 2015
<b>1. Cash flows from operating activities</b>			
Cash received from sales of goods or rendering of services		<b>17,268,366,583.98</b>	17,867,969,027.29
Refund of taxes and surcharges		<b>8,491,189.51</b>	45,695,445.23
Cash received relating to other operating activities	5(55)(a)	<b>1,231,074,991.51</b>	610,840,441.51
<b>Sub-total of cash inflows</b>		<b>18,507,932,765.00</b>	18,524,504,914.03
Cash paid for goods and services		<b>8,705,625,607.36</b>	8,852,549,283.79
Cash paid to and on behalf of employees		<b>3,049,506,228.39</b>	3,083,551,490.26
Payments of taxes and surcharges		<b>1,659,063,123.63</b>	1,929,875,453.25
Cash paid relating to other operating activities	5(55)(b)	<b>2,649,066,177.55</b>	2,716,572,189.48
<b>Sub-total of cash outflows</b>		<b>16,063,261,136.93</b>	16,582,548,416.78
<b>Net cash flows from operating activities</b>	5(56)(a)	<b>2,444,671,628.07</b>	1,941,956,497.25
<b>2. Cash flows from investing activities</b>			
Cash received from disposal of investments		<b>2,409,818.38</b>	–
Net cash received from disposal of subsidiaries		–	–
Cash received from returns on investments		<b>22,474,950.73</b>	74,222,879.19
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		<b>18,059,677.86</b>	538,679.15
Cash received relating to other investing activities	5(55)(c)	<b>7,915,085.64</b>	8,524,709.63
<b>Sub-total of cash inflows</b>		<b>50,859,532.61</b>	83,286,267.97
Cash paid to acquire fixed assets, intangible assets and other long-term assets		<b>228,026,926.70</b>	515,341,790.72
Cash paid to acquire investments		<b>70,000,000.00</b>	367,400,037.56
Net cash paid to acquire subsidiaries		–	–
Cash paid relating to other investing activities	5(55)(d)	<b>1,990,385.70</b>	6,548,528.33
<b>Sub-total of cash outflows</b>		<b>300,017,312.40</b>	889,290,356.61
<b>Net cash flows from investing activities</b>		<b>(249,157,779.79)</b>	(806,004,088.64)

# Consolidated Cash Flow Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

Item	Note	The year ended 31 December 2016	The year ended 31 December 2015
<b>3. Cash flows from financing activities</b>			
Cash received from capital contributions		<b>7,869,146,528.33</b>	11,760,000.00
Including: Cash received from capital contributions by minority shareholders to subsidiaries			
		<b>5,700,000.00</b>	11,760,000.00
Cash received from borrowings		<b>288,033,608.85</b>	717,773,720.87
Cash received relating to other financing activities		-	-
<b>Sub-total of cash inflows</b>		<b>8,157,180,137.18</b>	729,533,720.87
Cash repayments of borrowings		<b>908,920,164.85</b>	656,998,146.62
Cash payments for interest expenses and distribution of dividends or profits		<b>523,231,009.84</b>	410,777,425.81
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries			
		<b>10,763,819.03</b>	9,530,391.96
Cash payments relating to other financing activities	5(55)(e)	<b>307,223.86</b>	9,206,827.55
<b>Sub-total of cash outflows from financing activities</b>		<b>1,432,458,398.55</b>	1,076,982,399.98
<b>Net cash flows from financing activities</b>		<b>6,724,721,738.63</b>	(347,448,679.11)
<b>4. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>(1,369,354.38)</b>	(428,925.99)
<b>5. Net increase/(decrease) in cash and cash equivalents</b>	5(56)(a)	<b>8,918,866,232.53</b>	788,074,803.51
Add: Cash and cash equivalents at beginning of year	5(56)(b)	<b>3,837,603,553.98</b>	3,049,528,750.47
<b>6. Cash and cash equivalents at end of year</b>	5(56)(b)	<b>12,756,469,786.51</b>	3,837,603,553.98

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 2016

(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
	Share capital	Other equity instruments			Capital surplus	Less: Treasury share	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profits		
Preferred shares		Sustainable debts	Others										
1. Balance at 31 December 2015	1,291,079,250.00	-	-	-	2,346,435,108.64	-	(732,678.19)	-	930,522,262.36	-	3,883,510,490.48	233,118,715.62	8,683,933,148.91
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Business combination involving enterprises under common control	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2016	1,291,079,250.00	-	-	-	2,346,435,108.64	-	(732,678.19)	-	930,522,262.36	-	3,883,510,490.48	233,118,715.62	8,683,933,148.91
3. Movements For the year ended													
31 December 2016(less: "-")	334,711,699.00	-	-	-	7,528,737,476.04	-	10,520,745.16	-	121,512,156.61	-	898,783,229.76	75,591,992.79	8,969,857,299.36
(1) Total comprehensive income	-	-	-	-	-	-	10,520,745.16	-	-	-	1,508,032,671.07	50,637,291.04	1,569,190,707.27
(2) Capital contribution and withdrawal by shareholders	334,711,699.00	-	-	-	7,528,734,829.33	-	-	-	-	-	-	5,700,000.00	7,869,146,528.33
1. Common stock by shareholders	334,711,699.00	-	-	-	7,528,734,829.33	-	-	-	-	-	-	5,700,000.00	7,869,146,528.33
2. Capital contribution by owner of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment charged to equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	-	-	121,512,156.61	-	(609,249,441.31)	(15,931,187.14)	(503,668,471.84)
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	121,512,156.61	-	(121,512,156.61)	-	-
2. Appropriation to general risk provision	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	(487,737,284.70)	(15,931,187.14)	(503,668,471.84)
(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	-	-	-	-	2,646.71	-	-	-	-	-	-	35,185,888.89	35,185,888.89
4. Balance at 31 December 2016	1,625,790,949.00	-	-	-	9,875,172,584.68	-	9,788,066.97	-	1,052,034,418.97	-	4,782,293,720.24	308,710,708.41	17,653,790,448.27

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

Item	Prior period													
	Attributable to shareholders of the Company												Minority Shareholders equity	Total shareholders' equity
	Share capital	Other equity instruments			Capital surplus	Less: Treasury share	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profits			
	Preferred shares	Sustainable debts	Others											
<b>1. Balance at 31 December 2014</b>	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	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>2. Balance at 1 January 2015</b>	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	
<b>3. Movements For the year ended 31 December 2015(less: "-")</b>	(261,400.00)	-	-	-	(180,203,721.47)	-	(12,633,367.87)	-	115,025,055.98	-	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	1,332,651,497.30	
(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	-	-	-	-	-	-	-	-	115,025,055.98	-	(476,610,437.98)	(14,637,695.51)	(376,213,077.51)	
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	115,025,055.98	-	(115,025,055.98)	-	-	
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)	
<b>4. Balance at 31 December 2015</b>	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	

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 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

Item	Note	31 December 2016	31 December 2015
<b>Current assets</b>			
Cash at bank and on hand		<b>8,358,861,097.11</b>	992,260,432.73
Financial liabilities based on fair value to confirm profit or loss		<b>6,026,123.94</b>	6,499,789.60
Notes receivable		<b>586,068,682.00</b>	432,494,330.23
Accounts receivable	18(1)	<b>334,495,199.70</b>	367,642,513.31
Advances to suppliers		<b>6,765,642.36</b>	10,283,339.24
Interest receivable		–	–
Dividends receivable		<b>227,303,087.42</b>	200,930,968.29
Other receivables	18(2)	<b>1,497,826,949.82</b>	1,099,573,150.44
Inventories		<b>350,901,854.94</b>	373,333,246.04
Current portion of non-current assets		–	–
Other current assets		<b>311,191.58</b>	349,406.68
<b>Total current assets</b>		<b>11,368,559,828.87</b>	3,483,367,176.56
<b>Non-current assets</b>			
Available-for-sale financial assets		<b>324,384,253.51</b>	276,380,753.51
Held-to-maturity investments		–	–
Long-term receivables		–	–
Long-term equity investments	18(3)	<b>4,150,739,999.55</b>	3,884,977,707.45
Investment properties		<b>216,673,097.32</b>	225,037,945.52
Fixed assets		<b>492,475,829.83</b>	475,499,950.79
Construction in progress		<b>10,418,008.58</b>	138,529,406.52
Construction materials		–	–
Fixed assets pending for disposal		–	–
Intangible assets		<b>376,892,173.85</b>	272,001,250.47
Development costs		<b>2,217,046.84</b>	3,997,046.84
Goodwill		–	–
Long-term prepaid expenses		<b>2,303,114.09</b>	578,686.87
Deferred tax assets		<b>58,199,543.56</b>	34,033,633.94
Other non-current assets		–	–
<b>Total non-current assets</b>		<b>5,634,303,067.13</b>	5,311,036,381.91
<b>TOTAL ASSETS</b>		<b>17,002,862,896.00</b>	8,794,403,558.47

# Balance Sheet

AS at 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

Item	Note	31 December 2016	31 December 2015
<b>Current liabilities</b>			
Short-term borrowings		<b>184,431,644.92</b>	80,000,000.00
Financial liabilities based on fair value to confirm profit or loss		–	–
Notes payable		–	–
Accounts payable		<b>189,679,883.62</b>	164,807,485.98
Advances from customers		<b>14,149,991.14</b>	113,379,962.09
Employee benefits payable		<b>55,444,007.49</b>	77,538,021.54
Taxes payable		<b>84,161,748.85</b>	48,847,537.91
Interest payable		–	73,458.32
Dividends payable		<b>224,299.47</b>	156,225.47
Other payables		<b>597,717,008.34</b>	1,085,613,978.86
Current portion of non-current liabilities		–	–
Other current liabilities		–	–
<b>Total current liabilities</b>		<b>1,125,808,583.83</b>	1,570,416,670.17
<b>Non-current liabilities</b>			
Long-term borrowings		–	–
Debentures payable		–	–
Long-term payables		<b>7,802,224.39</b>	7,876,324.33
Payables for specific projects		–	–
Provisions		<b>98,550,055.19</b>	46,244,031.19
Deferred income		<b>74,971,856.94</b>	62,576,138.23
Deferred tax liabilities		<b>4,063,555.02</b>	4,541,769.48
Long-term Employee benefits payable		–	–
<b>Total non-current liabilities</b>		<b>185,387,691.54</b>	121,238,263.23
<b>Total liabilities</b>		<b>1,311,196,275.37</b>	1,691,654,933.40

# Balance Sheet

AS at 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

Item	Note	31 December 2016	31 December 2015
<b>Shareholders' equity</b>			
Share capital		<b>1,625,790,949.00</b>	1,291,079,250.00
Capital surplus		<b>9,820,175,495.89</b>	2,291,438,019.85
Less: Treasury share		–	–
Other comprehensive income		<b>11,187,421.73</b>	13,102,882.57
Surplus reserve		<b>679,425,984.37</b>	557,913,827.76
Undistributed profits		<b>3,555,086,769.64</b>	2,949,214,644.89
<b>Total shareholders' equity</b>		<b>15,691,666,620.63</b>	7,102,748,625.07
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		<b>17,002,862,896.00</b>	8,794,403,558.47

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**

# Income Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

Item	Note	The year ended 31 December 2016	The year ended 31 December 2015
<b>1. Revenue</b>	18(4)	<b>2,846,022,356.72</b>	2,931,488,496.21
Less: Cost of sales	18(4)	<b>1,338,788,213.32</b>	1,517,898,656.79
Taxes and surcharges		<b>50,265,333.41</b>	38,594,526.63
Selling and distribution expenses		<b>521,991,155.17</b>	469,789,606.28
General and administrative expenses		<b>402,496,963.37</b>	384,361,697.57
Financial expenses		<b>(25,270,202.62)</b>	21,798,046.23
Asset impairment losses		<b>(2,309,712.84)</b>	8,137,243.96
Add: Profit arising from changes in fair value		<b>(473,665.66)</b>	1,813,766.60
Investment income	18(5)	<b>708,126,833.47</b>	715,714,607.64
Including: Share of profit of associates and jointly controlled entities	18(5)	<b>184,378,081.23</b>	198,837,752.58
<b>2. Operating profit</b>		<b>1,267,713,774.72</b>	1,208,437,092.99
Add: Non-operating income		<b>38,551,260.89</b>	25,304,355.55
Including: Gain on disposal of non-current assets		<b>37,689.21</b>	283,820.04
Less: Non-operating expenses		<b>3,170,511.06</b>	2,774,524.74
Including: Losses on disposal of non-current assets		<b>574,238.17</b>	743,056.90
<b>3. Total profit</b>		<b>1,303,094,524.55</b>	1,230,966,923.80
Less: Income tax expenses		<b>87,972,958.49</b>	80,616,363.96
<b>4. Net Profit</b>		<b>1,215,121,566.06</b>	1,150,350,559.84

# Income Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

Item	Note	The year ended 31 December 2016	The year ended 31 December 2015
<b>5. Other comprehensive income</b>		<b>(1,915,460.84)</b>	(3,199,289.84)
- Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period		-	-
- Items will be classified into profit or loss when satisfied with certain conditions at following accounting period		<b>(1,915,460.84)</b>	(3,199,289.84)
(1). Portion of items will be classified into profit or loss when under equity method		<b>(218,435.84)</b>	91,910.16
(2). Profit or loss arising from changes in fair value of available for sale financial assets		<b>(1,697,025.00)</b>	(3,291,200.00)
<b>6. Total comprehensive income</b>		<b>1,213,206,105.22</b>	1,147,151,270.00
<b>7. Earnings per share</b>			
(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 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

Item	Note	The year ended 31 December 2016	The year ended 31 December 2015
<b>1. Cash flows from operating activities</b>			
Cash received from sales of goods or rendering of services		<b>1,687,701,056.54</b>	1,816,247,339.08
Refund of taxes and surcharges		–	–
Cash received relating to other operating activities		<b>254,652,676.58</b>	560,413,604.32
<b>Sub-total of cash inflows</b>		<b>1,942,353,733.12</b>	2,376,660,943.40
Cash paid for goods and services		<b>302,818,917.00</b>	394,650,420.05
Cash paid to and on behalf of employees		<b>557,626,961.31</b>	653,642,964.64
Payments of taxes and surcharges		<b>383,094,970.83</b>	346,436,733.98
Cash paid relating to other operating activities		<b>227,215,689.54</b>	307,931,550.16
<b>Sub-total of cash outflows</b>		<b>1,470,756,538.68</b>	1,702,661,668.83
<b>Net cash flows from operating activities</b>	18(6)	<b>471,597,194.44</b>	673,999,274.57
<b>2. Cash flows from investing activities</b>			
Cash received from disposal of investments		–	–
Net cash received from selling of subsidiaries		–	–
Cash received from returns on investments		<b>481,452,678.90</b>	373,149,632.80
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		<b>59,800.00</b>	192.00
Cash received relating to other investing activities		<b>852,058,999.56</b>	999,785,486.92
<b>Sub-total of cash inflows</b>		<b>1,333,571,478.46</b>	1,372,935,311.72
Cash paid to acquire fixed assets, intangible assets and other long-term assets		<b>22,417,581.95</b>	129,974,245.40
Cash paid to acquire investments		<b>151,600,000.00</b>	583,811,900.00
Net cash paid to acquire subsidiaries		–	–
Cash paid relating to other investing activities		<b>1,159,485,916.05</b>	717,217,799.19
<b>Sub-total of cash outflows</b>		<b>1,333,503,498.00</b>	1,431,003,944.59
<b>Net cash flows from investing activities</b>		<b>67,980.46</b>	(58,068,632.87)

# Cash Flow Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

Item	Note	The year ended 31 December 2016	The year ended 31 December 2015
<b>3. Cash flows from financing activities</b>			
Cash received from capital contributions		<b>7,863,446,528.33</b>	–
Including: Cash received from capital contributions by minority shareholders to subsidiaries		–	–
Cash received from borrowings		<b>214,431,644.92</b>	80,000,000.00
Cash received relating to other financing activities		–	295,000,000.00
<b>Sub-total of cash inflows</b>		<b>8,077,878,173.25</b>	375,000,000.00
Cash repayments of borrowings		<b>110,000,000.00</b>	130,000,000.00
Cash payments for interest expenses and distribution of dividends or profits		<b>486,179,553.96</b>	369,519,254.88
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		–	–
Cash payments relating to other financing activities		<b>587,338,049.41</b>	240,431,885.87
<b>Sub-total of cash outflows</b>		<b>1,183,517,603.37</b>	739,951,140.75
<b>Net cash flows from financing activities</b>		<b>6,894,360,569.88</b>	(364,951,140.75)
<b>4. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>8,209.29</b>	41,567.83
<b>5. Net increase/(decrease) in cash and cash equivalents</b>		<b>7,366,033,954.07</b>	251,021,068.78
Add: Balance of cash and cash equivalents at beginning of year	18(6)	<b>960,889,437.00</b>	709,868,368.22
<b>6. Cash and cash equivalents at end of year</b>		<b>8,326,923,391.07</b>	960,889,437.00

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 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

Item	Current 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 debt	Others							
<b>1. Balance at 31 December 2015</b>	1,291,079,250.00	-	-	-	2,291,438,019.85	-	13,102,882.57	-	557,913,827.76	2,949,214,644.89	7,102,748,625.07
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
<b>2. Balance at 1 January 2016</b>	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
<b>3. Movements for the year ended 31 December 2016</b>	334,711,699.00	-	-	-	7,528,737,476.04	-	(1,915,460.84)	-	121,512,156.61	605,872,124.75	8,588,917,995.56
(1) Total comprehensive income	-	-	-	-	-	-	(1,915,460.84)	-	-	1,215,121,566.06	1,213,206,105.22
(2) Capital contribution and withdrawal by shareholders	334,711,699.00	-	-	-	7,528,734,829.33	-	-	-	-	-	7,863,446,528.33
1. Common stock by shareholders	334,711,699.00	-	-	-	7,528,734,829.33	-	-	-	-	-	7,863,446,528.33
2. Capital contribution by owner of other equity instruments	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment charged to equity	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	-	-	121,512,156.61	(605,249,441.31)	(487,737,284.70)
Appropriation to surplus reserves	-	-	-	-	-	-	-	-	121,512,156.61	(121,512,156.61)	-
Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	(487,737,284.70)	(487,737,284.70)
Others	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer within shareholders' equity	-	-	-	-	-	-	-	-	-	-	-
Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-	-	-
Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-
Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-
Current appropriation	-	-	-	-	-	-	-	-	-	-	-
Current apply	-	-	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	2,646.71	-	-	-	-	-	2,646.71
<b>4. Balance at 31 December 2016</b>	1,625,790,949.00	-	-	-	9,820,175,495.89	-	11,187,421.73	-	679,425,984.37	3,555,086,769.64	15,691,666,620.63

# Statement of Changes in Equity

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

Item	Prior period										
	Other equity instruments				Capital surplus	Less: Treasury share	Other comprehensive income	Special reserves	Surplus reserve	Undistributed profits	Total shareholders' equity
	Share capital	Preferred shares	Sustainable debts	Others							
<b>1. Balance at 31 December 2014</b>	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	-	-	-	-	-	-	-	-	-	-	-
<b>2. Balance at 1 January 2015</b>	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
<b>3. Movements For the year ended 31 December 2015</b>											
(less: "-")	(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)
Common stock by shareholders	(261,400.00)	-	-	-	261,399.00	-	-	-	-	-	(1.00)
Capital contribution by owner of other equity instruments	-	-	-	-	-	-	-	-	-	-	-
Share-based payment charged to equity	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	-	-	115,035,055.98	(476,610,437.98)	(361,575,382.00)
Appropriation to surplus reserves	-	-	-	-	-	-	-	-	115,035,055.98	(115,035,055.98)	-
Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	(361,575,382.00)	(361,575,382.00)
Others	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer within shareholders' equity	-	-	-	-	-	-	-	-	-	-	-
Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-	-	-
Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-
Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-
Current appropriation	-	-	-	-	-	-	-	-	-	-	-
Current apply	-	-	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	(160,087,302.66)	-	-	-	-	-	(160,087,302.66)
<b>4. Balance at 31 December 2015</b>	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

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

For the year ended 31 December 2016

(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 Company has offered non-public A share amounted to 334,711,699 in year 2016, capital stock was increased 334,711,699 shares, and the total capital stock of the Company is 1,625,790,949 shares.

The parent company is GPHL, and the ultimate holding company is Guangzhou State-owned Assets Supervision and Administration Commission.

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 cefthiamidine, amoxicillin and ceftriaxone. The major pre-packaged food of the Group are Wang Lao Ji Herbal Tea (“王老吉涼茶”), etc.

The Group’s current structure mainly include 11 CPM manufacturing companies, 2 western medicine manufacturing companies, 1 chemical raw materials manufacturing company, 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 15 March 2017.

### (2) Scope of consolidated financial statements

As at 31 December 2016, subsidiaries in the scope of consolidated financial statements are as below:

Name of subsidiary	Control
Guangzhou Baiyunshan Xing Qun Pharmaceutical Holdings Co., Ltd. (Xing Qun)	Direct subsidiary
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. (Zhong Yi)	Direct subsidiary
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd. (Chen Li Ji)	Direct subsidiary
Guangzhou Baiyunshan Han Fang Contemporary Pharmaceutical Co., Ltd. (Guangzhou Han Fang)	Direct subsidiary

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 1 GENERAL INFORMATION *(Continued)*

### (2) Scope of consolidated financial statements *(Continued)*

<b>Name of subsidiary</b>	<b>Control</b>
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	Direct subsidiary
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. (Jing Xiu Tang)	Direct subsidiary
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (Pan Gao Shou)	Direct subsidiary
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (Cai Zhi Lin)	Direct subsidiary
Guangzhou Pharmaceutical Import & Export Co., Ltd. (Pharmaceutical Import & Export)	Direct subsidiary
Guangzhou Baiyunshan Bai Di Bio-Technology Co., Ltd. (Guangzhou Bai Di)	Direct subsidiary
Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. (WLJ Great Health)	Direct subsidiary
Guangxi Ying Kang Pharmaceutical Co., Ltd. (Guangxi Ying Kang)	Direct subsidiary
Guangzhou Guang Yao Yi Gan Biological Product Co., Ltd.	Direct subsidiary
Guangzhou Baiyunshan Xing Zhu Pharmaceutical Co., Ltd.(Xing Zhu) (note 1)	Direct subsidiary
Guangzhou Baiyunshan Medical and Healthcare Industry Investment Co., Ltd. (Baiyunshan Medical and Healthcare Industry Company)	Direct subsidiary
Guangzhou Baiyunshan Chemical Medicine Technology Co., Ltd.	Direct subsidiary
Guangzhou Haima Pharmaceutical Advertising Co., Ltd. (Guangyao Haima)	Direct subsidiary
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd.	Direct subsidiary
Guangzhou WLJ Investment Co., Ltd.	Direct subsidiary
Qi Xing	Indirect subsidiary
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd.	Indirect subsidiary
Guangzhou Pan Gao Shou Natural Healthcare Products Co., Ltd	Indirect subsidiary
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	Indirect subsidiary

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 1 GENERAL INFORMATION *(Continued)*

### (2) Scope of consolidated financial statements *(Continued)*

<u>Name of subsidiary</u>	<u>Control</u>
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Indirect subsidiary
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.	Indirect subsidiary
Guangzhou Ao Ma Medical Apparatus Co., Ltd.	Indirect subsidiary
Tibet Lin Zhi Guangyao Development Co., Ltd.	Indirect subsidiary
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary
Jingyu Guangyao Dong E Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary
Heilongjiang Sen Gong Guangyao Raw Medicine Development Co., Ltd.	Indirect subsidiary
Wang Lao Ji Great Health Industry (Ya'an) Co., Ltd.	Indirect subsidiary
Guangzhou Baiyunshan Guang Hua Health Products Co., Ltd. (Guang Hua Health)	Indirect subsidiary
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary
Zhejiang Guang Kang Pharmaceutical Co., Ltd.	Indirect subsidiary
Tibet Linzhi Baiyunshan Tibetan Health Castle Management Co., Ltd.	Indirect subsidiary
Guangzhou Wang Lao Ji Great Health Enterprise Development Co., Ltd.	Indirect subsidiary
Guangzhou Wang Lao Ji Industry Company	Indirect subsidiary
Wang Lao Ji Great Health Industry (Beijing) Sales Co., Ltd.	Indirect subsidiary
Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd.	Indirect subsidiary
Guangzhou Xing Qun Health Technology Co., Ltd.	Indirect subsidiary

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 1 GENERAL INFORMATION *(Continued)*

### (2) Scope of consolidated financial statements *(Continued)*

<b>Name of subsidiary</b>	<b>Control</b>
Guangzhou Baiyunshan Hospital Co., Ltd. (Guangzhou Baiyunshan Hospital)	Indirect subsidiary
Guangzhou Baiyunshan Jinge Male Health Consulting Co., Ltd.	Indirect subsidiary
Guangzhou Wang Lao Ji Food & Beverage Management Development Co., Ltd.	Indirect subsidiary
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. (Tian Xin)	Direct subsidiary
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd. (Guang Hua)	Direct subsidiary
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. (Ming Xing)	Direct subsidiary
Baiyunshan Wei Ling Pharmaceutical Co., Ltd. (Wei Ling)	Direct subsidiary
Guangzhou Baiyunshan Pharmaceutical Technological Development Co., Ltd. (Pharmaceutical Technological)	Direct subsidiary
Guangzhou Guangyao Baiyunshan Great Health Hotel Co., Ltd. (Baiyunshan Great Health Hotel)	Direct subsidiary
Guangyao Baiyunshan Hong Kong Company	Direct subsidiary
Guangzhou Pharmaceutical Research Institute ("Guangyao General Institute")	Direct subsidiary

Changes on the scope of consolidated financial statements at current period refer to note 6 and note 7.

Note 1: Guangzhou Baiyunshan Xing Zhu Pharmaceutical Co., Ltd. is formerly named Guangzhou Baiyunshan Xing Zhou Pharmaceutical Co., Ltd.

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 2016 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position as at 31 December 2016 and the operating results, cash flows and other information for the year ended 31 December 2016 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 2016 to 31 December 2016.

### (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

For the year ended 31 December 2016

(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

For the year ended 31 December 2016

(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

For the year ended 31 December 2016

(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 takes place, 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

For the year ended 31 December 2016

(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

For the year ended 31 December 2016

(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

For the year ended 31 December 2016

(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

For the year ended 31 December 2016

(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

For the year ended 31 December 2016

(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 2016, 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

For the year ended 31 December 2016

(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

For the year ended 31 December 2016

(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

For the year ended 31 December 2016

(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

For the year ended 31 December 2016

(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

For the year ended 31 December 2016

(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

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (10) Financial Instruments (Continued)

#### (b) Financial liabilities (Continued)

Other financial liabilities with maturities no more than one year (including one year) are classified as current liabilities. Other financial liabilities with maturities over one year (including one year) but are due within one year at balance sheet date are classified as the current portion of non-current liabilities. Others are classified as non-current liabilities.

A financial liability shall be derecognized or partly derecognized when the present obligation is discharged or partly discharged. The difference between the carrying amount of the derecognized portion of the financial liability and the consideration paid shall be recognized in profit or loss.

#### (c) Determination of the fair value of the financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument for which the market is not active is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, and discounted cash flow analysis. When a valuation technique is used to establish the fair value of a financial instrument, it makes the maximum use of observable market inputs and relies as little as possible on specific inputs related to the Group.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

### (11) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recorded at fair value of the contractual payments from the buyer or service recipients.

#### (a) Receivables that are individually significant and subject to separate provision:

The criteria for individually significant receivables	The amount of accounts receivable are individually more than RMB1,000,000 (including RMB1,000,000) and other receivables are individually more than RMB100,000 (including RMB100,000).
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Method of provision for bad debts of individually significant receivables.	Individually significant receivables are subject to separate impairment assessment, and the amount of the present value of the future cash flows expected to be derived from the receivables below the carrying amount shall be accounted for as provision for bad debts and recognized in profit or loss. Accounts receivable and other receivables which are not impaired according to the separate impairment assessment, shall be combined into certain groups with similar credit risk characteristics and subject to impairment assessment by groups.
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#### (b) Receivables that are combined into certain groups and subject to provision by groups

Basis for determination of groups is as follow:

Group name	Criteria
Group 1	Except for the accounts receivable and other receivables that are subject to separate provision, the Group determines the ratios of provision for bad debts based on historical loss experience for the groups of receivables with similar credit risk characteristics by aging and taking into consideration of the current circumstances.
Group 2	Receivables with extremely low credit risk based on measurement of historical evidence
Group 3	Other receivables due from related parties
Group 4	Deposits and staff advances

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

### (11) Receivables (Continued)

- (b) Receivables that are combined into certain groups and subject to provision by groups (Continued)

Method for provision by groups are summarized as followed:

Group name	Method for provision
Group 1	Aging analysis method
Group 2	Percentage for bad-debt provision is 0%
Group 3	Percentage for bad-debt provision is 0%
Group 4	Percentage for bad-debt provision is 0%

Ratios of provision for bad debts used in the aging analysis method for groups are as follows:

Ageing	Ratios for provision for bad debts
Within 1 year	1%
1 to 2 years	10%
2 to 3 years	30%
3 to 4 years	50%
4 to 5 years	80%
Over 5 years	100%

- (c) Receivables which are individually insignificant but subject to separate provision

For individually insignificant receivables with specific credit risk characteristics, if there is objective evidence that the receivables are impaired and the provision for bad debts using aging analysis method cannot reflect the actual circumstances, such receivables shall be subject to separate impairment assessment. The impairment loss and the provision for bad debts are determined based on the amount of the present value of the future cash flows expected to be derived from the asset below the carrying amount.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (12) Inventories

#### (a) Classification of inventories

Inventories include goods in transit, raw materials, work in progress, semi-finished goods, finished goods, low-value consumables, packaging materials, goods in processing contract, goods on consignment and commodity stocks.

#### (b) Cost of inventories

Inventories are measured at actual cost at the time of acquisition.

Cost is determined using the weighted average method. The cost of finished goods, commodity stocks and work in progress comprises raw material, direct labor and an allocation of all production overhead expenditures incurred that are systematically determined based on normal operating capacity.

#### (c) Basis for the determination of net realizable value and the method of provision for impairment of inventories.

Provisions for declines in the value of inventories are determined at the excess amount of the carrying value of the inventories over their net 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.

#### (d) Inventory system

The Group adopts the perpetual inventory system.

#### (e) Amortization of low-value consumables and packaging materials

Low-value consumables and packaging materials are expensed upon issuance.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (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.

Significant impact is the right to participate the decisions of finance and operating policies of investee but is not able to control or jointly control those policies. Investee is the company's joint venture when the latter could exert significant impact on the former.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (14) Long-term equity investments *(Continued)*

#### (b) Initial recognition

##### (i) *Long-term equity investment arising from business combination.*

Business combination involving enterprises under common control: Consideration arising from paying cash, transfer of non-cash assets or assumption of liabilities, and issuance of non-equity investments is recognized as the initial cost for long-term equity investment in accordance with the portion of carrying amount presented in consolidated financial statements of ultimate control of owner's equity for absorbing party at combination date. As an increment of investment and other reasons, implement of control to a business combination involving investees under common control is recognized as the initial cost for long-term equity investment in accordance with the portion of carrying amount presented in consolidated financial statements of ultimate control of net assets for absorbing party at combination date.

Differences between initial cost for long-term equity investment and the sum of carrying amount of long-term equity investment before combination plus carrying amount of further acquired consideration of new shares shall be adjusted to capital premium, if the balance of capital premium is not sufficient, any excess shall be written-down to retained earnings.

Business combination involving enterprises not under common control: The cost at combination date is recognized as the initial cost for long-term equity investments. As an increment of investment and other reasons, implement of control to a business combination involving investees not under common control is recognized as the initial cost for long-term equity investments in accordance with cost method by using carrying amount of equity investments plus cost of increased investments.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (14) Long-term equity investments *(Continued)*

#### (b) Initial recognition *(Continued)*

##### (ii) *Long-term equity investments acquired through other method*

For a long-term equity investment acquired by paying cash, initial cost shall be recognized by actual purchase price.

For a long-term equity investment acquired by the issuance of equity securities, initial cost shall be recognized by the fair value of equity securities issued.

The exchange of non-monetary assets with commercial nature and the fair value of the assets received or surrendered can be reliably measured, under the circumstance, for a long-term equity investment acquired through an exchange of non-monetary assets according to the fair value of the assets surrendered and shall pay the relevant taxes to determine its initial cost, unless there is convincing evidence that the fair value of the assets received is more reliable. If exchange of non-monetary assets does not meet the above premise, the carrying amount of surrendered assets and taxes payable would be recognized as initial cost for long-term equity investments.

For a long-term equity investment acquired through a debt restructuring, initial cost shall be recognized by the basis of fair value.

#### (c) Subsequent measurement and recognition for profit or loss

##### (i) *Long-term equity investments measured at cost method*

Long-term equity investments to the subsidiaries shall be measured at cost method. In addition to the price for actually paid, or the cash dividends or profits that are included in the consideration which has been declared but not yet paid, the Company recognized current investment income in accordance with the cash dividends or profits that have been declared to issue.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (14) Long-term equity investments *(Continued)*

#### (c) Subsequent measurement and recognition for profit or loss *(Continued)*

##### (ii) *Long-term equity investments measured at equity method*

Long-term equity investments for associates and joint venture shall be measured at equity method. Where initial cost exceeds the balance of 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

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (14) Long-term equity investments *(Continued)*

#### (c) Subsequent measurement and recognition for profit or loss *(Continued)*

##### (ii) *Long-term equity investments measured at equity method (Continued)*

Loss arising from the sharing with investees is dealt with the following orders: Firstly, to write down the carrying amount of long-term equity investments. Secondly, when the carrying amount of long-term equity investments is not enough to offset, loss on investments is continually recognized through the other carrying amount of long-term equity investments for investees' net investment, to write down the carrying amount of long-term receivables etc. Finally, through the above treatment, according to the investment contract or contracted obligations and additional ones in agreement, which shall be recognized into current loss on investments.

##### (iii) *Disposal for long-term equity investments*

When disposing of a long-term equity investment, differences between carrying amount and actual obtained price shall be recognized in profit or loss 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.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (14) Long-term equity investments *(Continued)*

#### (c) Subsequent measurement and recognition for profit or loss *(Continued)*

##### (ii) *Long-term equity investments measured at equity method (Continued)*

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.

### (15) Investment properties

Investment properties, which are properties held to earn rental or capital appreciation or both, including land use rights that have already been leased out, land use rights that are held for the purpose of sale after capital appreciation, buildings that have been already been leased out and buildings that are in construction or developed for the purpose of being leased out in the future, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property is included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and its cost can be reliably measured; otherwise, the expenditures are recognized in profit or loss in the period in which they are incurred.

The Group adopts the cost model for subsequent measurement of the investment properties. Buildings which are held for rental and measured at cost model are depreciated on a basis consistent with the depreciation policy which the Group adopts for fixed assets. Land use right which are held for rental and measured at cost model are amortized on a basis consistent with the amortization policy which the Group adopts for intangible assets.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (15) Investment properties *(Continued)*

When an investment property is transferred to an owner-occupied property, it is reclassified as a fixed asset or an intangible asset at the date of the transfer. When an owner-occupied property is transferred for earning rentals or for capital appreciation, the fixed asset or intangible asset is reclassified as an investment property at its carrying amount at the date of the transfer.

The estimated useful life, net residual value of the investment property and the depreciation (amortization) method applied are reviewed and adjusted as appropriate at each year-end.

An investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property net of its carrying amount and related taxes and expenses is recognized in profit or loss at current period

### (16) Fixed assets

#### (a) Recognition, initial measurement and depreciation method of fixed assets

Fixed assets are tangible assets that are held for producing goods, rendering of services, leasing out to other parties or administrative purposes, with useful life more than one year.

Fixed asset is recognized when it is probable that the economic benefits associated with the fixed asset will flow to the Group and its cost can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the economic benefits associated with the fixed asset will flow to the Group and its cost can be reliably measured. The carrying amount of those parts that are replaced is derecognized and all the other subsequent expenditures are recognized in profit or loss when they are incurred.

Fixed assets are depreciated by categories using the straight-line method, and the annual depreciation rates are determined by categories based upon their estimated useful lives and their estimated residual values. For the fixed assets being provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives. Depreciation charge on decoration expenditure of fixed assets which meets the criteria for capitalisation is calculated using the straight-line method based on the shorter of the period between two decorations and the remaining useful lives of the fixed assets.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

### (16) Fixed assets (Continued)

#### (b) Depreciation method of different categories of fixed assets

Fixed assets are classified as buildings, machinery and equipment, motor vehicles, computer and electronic equipment, office equipment and fixed asset renovation. The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates are as follows:

Category	Estimated useful lives	Estimated residual value	Annual depreciation rate
Buildings	10-70 years	0%~10%	1.29%~10%
Machinery and equipment	4-18 years	0%~10%	5%~25%
Motor vehicles	5-10 years	0%~10%	9%~20%
Electronic equipment	5-10 years	0%~10%	9%~20%
Office equipment	4-8 years	0%~10%	11.25%~25%
Decoration and fixtures	5 years	0%	20%

#### (c) Basis for identification of fixed assets held under a finance lease and its measurement

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. The leased asset shall be recorded at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments shall be accounted for as unrecognized finance charge.

Fixed assets held under a finance lease are depreciated on a basis consistent with the depreciation policy which the Group adopts for self-owned fixed assets. If it can be reasonably determined that at the end of the lease term the ownership of the leased asset will be transferred, the leased asset is depreciated over the estimated useful lives; if not, the leased asset is depreciated over the shorter period of the lease term and the estimated useful lives.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

### (16) Fixed assets (Continued)

#### (d) Other specification

##### *Disposal of fixed assets*

A fixed asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognized in profit or loss.

### (17) Construction in progress

Constructions in progress are accounted for by individual projects.

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use.

Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. When construction in progress is ready for its intended use but has not completed the final accounts, it is transferred to fixed assets using an estimated cost on the day when it is ready for intended use and depreciation is made accordingly pursuant to the Group's depreciation policy. The estimated cost can be based on project budget, project price or actual construction cost. The estimated cost is adjusted by the actual cost after the completion of the final accounts.

### (18) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time of acquisition and construction for its intended use commence to be capitalized and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use, the borrowing costs incurred thereafter are recognized in profit or loss for the current year. Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (18) Borrowing costs *(Continued)*

For the specific borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowing during the capitalisation period.

For the general borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average effective interest rate of general borrowings used, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which estimated future cash flows during the period of expected duration or shorter period applied discounted to the initial amount of the borrowings.

### (19) Intangible assets

#### (a) Recognition and measurement of intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Group, including land use rights, industrial property and patent technology, and non-patent technology etc. An intangible asset is recognized only if both of the following conditions are satisfied: (i) it is probable that future economic benefits attributable to the asset will flow to the enterprise; (ii) the amount of the intangible assets can be measured reliably.

The acquisition cost of intangible assets includes acquisition price, related taxes and other costs which are directly attributable to bringing the intangible assets ready for their intended use. The cost of the internally developed intangible assets includes: the costs of the material consumed for developing the intangible assets, labor costs, registration fees, amortization of other patents and licenses and capitalized interest expenses in the development phase, and other costs which are directly attributable to bringing the intangible assets ready for their intended use.

# Notes to the Financial Statement

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(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (19) Intangible assets *(Continued)*

#### (b) Periodical review of useful life and amortization method

For an intangible asset with a finite useful life, review and adjustment on its useful life and amortization method are performed at each year-end.

#### (c) Intangible asset with an indefinite useful life

An intangible asset is regarded by the Group as having an indefinite useful life when based on an analysis of all of relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

The Company owns trademarks including Baiyunshan, 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.

The specific criteria for the classification of expenditure on the research phase and expenditure on the development phase is as follows:

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

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

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (19) Intangible assets (Continued)

#### (d) Research and development (Continued)

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

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

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

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (20) Impairment of long-term assets

Long-term equity investment, long-term assets such as investment properties measured at cost, fixed assets, construction in progress and intangible assets with finite useful lives are tested for impairment at the balance sheet date. When the recoverable amount of an asset is less than its carrying amount, impairment loss shall be recognized accordingly. The recoverable amount of an asset is the higher of the asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is difficult to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs to is determined. A group of assets is the smallest group that is able to generate independent cash inflows.

Goodwill and intangible assets with uncertain useful lives shall be tested for impairment at the end of each accounting period.

The Company tests goodwill for impairment, the carrying amount of goodwill which arising from business combination shall be legitimately apportioned to relevant group of assets, where it is difficult to, it shall be apportioned to the relevant group of assets. When doing those apportionments, the carrying amount is apportioned in a ratio of fair value for each group of assets and a set of group of assets of the total of fair value. For the fair value that are difficult to reliably calculated, it is apportioned in a ratio of carrying amount for each group of assets and a set of group of assets of the total of carrying amount.

When testing relevant group of assets or a set of group of assets which including goodwill for impairment, if there are any indications that the group of assets or a set of group of assets related to goodwill are impaired, the group of assets or a set of group of assets which excluding goodwill are tested for impairment firstly, then calculate its recoverable amount, loss of impairment shall be recognized by comparing with relevant carrying amount, furthermore, tests group of assets or a set of group of assets which including goodwill for impairment and compares the carrying amount of group of assets or a set of group of assets with its recoverable amount, loss of impairment on goodwill shall be recognized if its recoverable amount is lower than its carrying amount.

The loss of impairment is no longer carried forward at subsequent accounting period once recognized.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (21) Long-term prepaid expenses

Long-term prepaid expenses include the expenditure for improvements to fixed assets under operating leases, and other expenditures that have been made but shall be recognized as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortized on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortization.

### (22) Employee benefits

#### (a) Method for short-term benefits

The actual occurred short-term benefits arising from the accounting period when personnel who have entered into an employment contract shall be recognized as liabilities and charged in profit or loss 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

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (22) Employee benefits *(Continued)*

#### (b) Method for post-employee benefits *(Continued)*

##### (i) *Defined contribution plans (Continued)*

The Group provides contributions of mandatory provident fund for qualified employees of Guangyao Baiyunshan Hong Kong Company in accordance with Mandatory Provident Fund Schemes. The cost of schemes shall be deducted in statement of profit and loss in relevant period. Assets of schemes are held by the fund that is independent managed and separately managed from the Company's assets. Meanwhile, the Group shall also provide contributions for qualified employees when they obtained long service payment at termination date in accordance with Hong Kong <The Employment Ordinance>. Provision for long service payment is made by Guangyao Baiyunshan Hong Kong Company, which is optimum estimated by the service payment of employees as at settlement date

##### (ii) *Define benefits plans*

Benefit obligation arising from defined benefits plans is attributable to the period when personnel who have entered into an employment contract is charged into current profit or loss or relevant cost of assets in accordance with formula of estimated accumulated method.

Deficit or surplus arising from the differences of current value of defined benefits plans obligation minus fair value of defined benefits plans assets is recognized as net liabilities or net assets. When a defined benefits plan has surplus, the Company shall measure the net defined benefits plans assets at the lower of the surplus in the defined benefits plans and the ceiling of assets.

All defined benefits plans obligation, including obligation that are expected to be paid before 12 months after the end of the annual Reporting Period in period when personnel who have entered into an employment contract shall be discounted by reference to market yields at the balance sheet date on government bonds or on high quality corporate bonds in an active market, of which the term and currency are consistent with the term and currency of the defined benefit obligation.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (22) Employee benefits *(Continued)*

#### (b) Method for post-employee benefits *(Continued)*

##### (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 2016, 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

For the year ended 31 December 2016

(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

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (24) Revenue *(Continued)*

#### (c) Rendering of services

The revenue from rendering of services is recognized using the percentage of completion method.

#### (d) Transfer of asset use rights

Income from transfer of asset use rights include:

- Interest income is recognized on a time-portion basis using the effective interest method;
- License fee income is recognized when the right to receive payment is established;
- Income from an operating lease is recognized on a straight-line basis over the period of the lease.

#### (e) Dividend income

Dividend income from long-term equity investment accounted for using cost method, financial assets based on fair value to confirm profit or loss and available-for-sale financial assets is recognized when the right to receive dividend is established.

### (25) Government grants

#### (a) Classification

Government grants are the obtained monetary assets—and non-monetary assets from the government freely, which are divided into assets-related government grants and income-related government grants.

The assets-related government grants refer to the obtained long-term assets with purchase, construction or otherwise formed, which include financial appropriation of the purchase on fixed assets or intangible assets and the financial discounts of special borrowings on fixed assets, etc. The profit-related government grants refer to the government grants other than the assets-related grants.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 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

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 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

For the year ended 31 December 2016

(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.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

### (28) Changes in significant accounting policies and accounting estimates

#### (a) Changes in accounting policies

##### (i) Implement <Provisions on the accounting treatment of value-added tax>

The Chinese Ministry of Finance issued <Provisions on the accounting treatment of value-added tax> (No.CH [2016]22) on December 3, 2016, which applies to related transactions since May 1, 2016. The main impact of the company's implementation of the provisions is as follows:

Content and changes of accounting policies	Vetting process	Affected item and amount
(1) The "Business taxes and surcharges" item in the income statement was adjusted to "Taxes and surcharges" item.	Approved by board of directors	Taxes and surcharges
(2) Real-estate tax, Land use tax, Vehicle use tax and Stamp tax on business activities since May 1, 2016 were reclassified from the "General and administrative expenses" item to "Taxes and surcharges" item and taxes and fees before May 1, 2016 were not be adjusted. Comparative data was not adjusted.	Approved by board of directors	Increased taxes and surcharges amounted to RMB48,437,089.20, reduced general and administrative expenses amounted to RMB48,437,089.20.
(3) Debit balances of detail accounts such as "VAT payable", "Unpaid VAT", "Deductible input VAT", "Certifiable input VAT", "VAT retained", etc. under the subject of "Taxes payable" were reclassified to "Other current liabilities" (or "Other non-current liabilities") item. Comparative data was not adjusted.	Approved by board of directors	Increased ending balance of other current assets amounted to RMB89,543,811.41, increased ending balance of non-current assets amounted to RMB0.00, increased ending balance of taxes payable amounted to RMB89,543,811.41.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (28) Changes in significant accounting policies and accounting estimates *(Continued)*

#### (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.

### (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.

# Notes to the Financial Statement

For the year ended 31 December 2016

(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

#### (a) Current and deferred income tax

The Group is subject to income taxes in the mainland of People's Republic of China and Hong Kong. Critical judgements required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized as management considers it is probable that the future taxable profit will be available against which the temporary differences or tax losses can be utilized. Where the expectation is different from the original estimate, such differences will impact recognition of deferred tax assets in the period in which such estimate is changed.

## 4 TAXATION

### (1) Major turnover tax and tax rate

Taxable item	Type	Tax rate
Sales of goods	VAT	13%, 17%
Income from sales of materials	VAT	17%
Income from rendering of services	VAT	6%
Rental income	VAT	5%, 11%
Income from transferring technology	VAT	3%, 6%
Taxable business income (note 1)	Business tax	5%
Balance of owner-occupied real estates	Real-estate tax	1.2%
Rental income	Real-estate tax	12%
Income from occupancy expenses of capital	VAT	6%
Sales of wine products	Consumption Tax	10%
Turnover tax	City maintenance & construction tax	7%
Turnover tax	Education surcharge	3%
Turnover tax	Local education surcharge	2%

Note 1: As replacing business tax with VAT on May 1 2016, VAT should be paid.

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 (No. GR201444000631), Jing Xiu Tang (No. GR201444001464), Qi Xing (No. GR201444001047), Chen Li Ji (No. GR201444001125), Tian Xin (No. GR201444000895), Guang Hua (No. GR201544000485), Ming Xing (No. GR201444001349), Guang Xi Ying Kang (No. GR201545000083), Wang Lao Ji Great Health (No. GR201644006480).

In accordance with < The Chinese Ministry of Finance Customs Head Office the Notice on Taxation Policy Issues concerning the In-depth Implementation of the Western Development Strategy >, Wang Lao Ji Great Health Industry (Ya'an) Co., Ltd. has 15% of tax preference.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### (1) Cash at bank and on hand

	31 December 2016			31 December 2015		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
<b>Cash on hand –</b>						
RMB			<b>1,137,275.82</b>			637,187.57
			<b>1,137,275.82</b>			637,187.57
<b>Bank deposits</b>						
RMB			<b>12,948,716,010.18</b>			4,007,902,029.65
US Dollars (“USD”)	<b>1,839,846.62</b>	<b>6.9370</b>	<b>12,763,016.00</b>	1,022,672.15	6.4936	6,640,823.87
HKD	<b>4,567,844.69</b>	<b>0.8945</b>	<b>4,085,982.75</b>	22,228,023.59	0.8378	18,622,193.60
Yen(JPY)	–	–	–	13,530,938.28	0.0539	728,979.30
			<b>12,965,565,008.93</b>			4,033,894,026.42
<b>Other deposits –</b>						
RMB			<b>124,268,293.98</b>			83,722,911.03
HKD	<b>41,700.49</b>	<b>0.8945</b>	<b>37,301.50</b>	44,524.22	0.8378	37,301.50
			<b>124,305,595.48</b>			83,760,212.53
			<b>13,091,007,880.23</b>			4,118,291,426.52
Including: overseas account			<b>9,476,334.55</b>			15,325,889.65

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 2016	31 December 2015
Cash deposit of notes payable	117,152,696.58	77,309,482.70
Blocked account	115,964,284.07	202,225,169.88
Cash deposit of construction	–	270,288.06
Housing fund	585,303.08	582,931.90
Deposit for letter of guarantee	835,809.99	300,000.00
Structured deposit	100,000,000.00	–
	<b>334,538,093.72</b>	<b>280,687,872.54</b>

The blocked account refers to Note 16 (1)(a)(i), Note 16(1)(c)(vi).

### (2) Financial assets based on fair value to confirm profit or loss

	31 December 2016	31 December 2015
Financial assets held for trading	6,026,123.94	6,499,789.60
Including: Investments in equity instruments	6,026,123.94	6,499,789.60

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 2016	31 December 2015
Bank acceptance notes	1,584,422,063.73	1,429,189,250.16
Commercial acceptance notes	20,345,821.48	20,846,331.23
	<b>1,604,767,885.21</b>	<b>1,450,035,581.39</b>

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (3) Notes receivable (Continued)

- (b) As at 31 December 2016 and 31 December 2015, there are no notes receivable that are being pledged of the Group.
- (c) As at 31 December 2016, 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	2,608,336,291.55	–
Commercial acceptance notes	–	–
	<b>2,608,336,291.55</b>	<b>–</b>
Notes receivable that are not matured at balance sheet date but have been discounted		
Bank acceptance notes	50,442,848.44	–
Commercial acceptance notes	–	–
	<b>50,442,848.44</b>	<b>–</b>

- (i) As at 31 December 2016, the bank acceptance notes receivable that are not matured but have been endorsed amounted to RMB2,608,336 thousand (As at 31 December 2015: RMB1,421,512 thousand), the top five of which are summarized as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2016-07-07	2017-01-07	42,638,240.00
Entity 2	2016-12-23	2017-07-23	22,003,200.00
Entity 3	2016-10-28	2017-04-28	21,032,916.26
Entity 4	2016-12-26	2017-06-26	20,000,000.00
Entity 5	2016-12-26	2017-06-26	20,000,000.00

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### (3) Notes receivable *(Continued)*

(c) As at 31 December 2016, 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 2016, there are no commercial acceptance notes that are not matured but have been endorsed of the Group (As at 31 December 2015: RMB15,737 thousand).

(iii) As at 31 December 2016, the bank acceptance notes that are not matured but have been discounted amounted to RMB50,443 thousand (As at 31 December 2015: RMB153,152 thousand), and the top five of which are summarized as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2016-10-31	2017-01-28	5,000,000.00
Entity 2	2016-10-25	2017-04-25	5,000,000.00
Entity 3	2016-10-25	2017-04-25	5,000,000.00
Entity 4	2016-10-26	2017-04-26	4,709,649.50
Entity 5	2016-07-01	2017-02-01	4,000,000.00

(iv) As at 31 December 2016 and 31 December 2015, there are no commercial acceptance notes that are not matured but have been discounted.

(d) As at 31 December 2016, there are no notes receivable that are reclassified to accounts receivable due to inability of the companies of issuance. (As at 31 December 2015: RMB500 thousand)

(e) As at 31 December 2016, balance of notes receivable will expire before 31 December 2017

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (4) Dividends receivable

Item	31 December			31 December 2016
	2015	Current increase	Current decrease	
<b>Dividends receivable within 1 year aging</b>	–	72,938,523.45	20,000,000.00	<b>52,938,523.45</b>
Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited (HWBYS)	–	20,000,000.00	20,000,000.00	–
Guangzhou Promise Biological Products Co. Ltd. (Nuo Cheng)	–	52,938,523.45	–	<b>52,938,523.45</b>

### (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 2016	31 December 2015
Within 1 year	<b>982,667,101.58</b>	895,601,374.31
1 to 2 years	<b>36,338,691.74</b>	188,310,732.65
2 to 3 years	<b>138,822,487.95</b>	16,312,026.02
3 to 4 years	<b>9,523,619.45</b>	4,481,955.06
4 to 5 years	<b>2,646,065.97</b>	3,734,629.21
Over 5 years	<b>12,868,153.61</b>	12,829,505.70
	<b>1,182,866,120.30</b>	1,121,270,222.95
Less: provision for bad debts	<b>74,502,513.01</b>	69,627,226.56
	<b>1,108,363,607.29</b>	1,051,642,996.39

# Notes to the Financial Statement

For the year ended 31 December 2016

(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)

(b) Accounts receivable by categories are analyzed as follows:

	31 December 2016				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	159,014,881.32	13.44%	46,156,185.58	29.03%	112,858,695.74
Subject to provision by groups:					
Group 1	1,016,239,740.06	85.92%	21,041,676.15	2.07%	995,198,063.91
Individually insignificant but subject to separate provision	7,611,498.92	0.64%	7,304,651.28	95.97%	306,847.64
	<b>1,182,866,120.30</b>	<b>100.00%</b>	<b>74,502,513.01</b>	<b>6.30%</b>	<b>1,108,363,607.29</b>

	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
	<b>1,121,270,222.95</b>	<b>100.00%</b>	<b>69,627,226.56</b>	<b>6.21%</b>	<b>1,051,642,996.39</b>

Classification of accounts receivable: refer to Note 3(11).

# Notes to the Financial Statement

For the year ended 31 December 2016

(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)

- (c) As at 31 December 2016, 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	56,087,565.40	5,608,756.54	10.00%	Involving litigation, detail refers to Note16(1)(a)(i).
Customer 2	37,710,221.64	3,771,022.16	10.00%	Involving litigation, detail refers to Note16(1)(a)(i).
Customer 3	17,721,581.31	4,735,702.41	26.72%	No legal action, there is a possibility that the amount could not be fully recovered.
Customer 4	11,547,785.00	5,773,892.50	50.00%	No legal action, there is a possibility that the amount could not be fully recovered.
Customer 5	10,541,832.00	5,270,916.00	50.00%	Involving litigation, detail refers to Note16(1)(a)(i).
Customer 6	5,581,994.72	5,581,994.72	100.00%	Involving litigation, detail refers to Note16(1)(b)(i).
Customer 7	5,191,200.00	5,191,200.00	100.00%	Involving litigation, detail refers to Note16(1)(b)(ii).
Customer 8	5,028,313.75	5,028,313.75	100.00%	Involving litigation, detail refers to Note16(1)(b)(iii).
Customer 9	4,900,000.00	490,000.00	10.00%	Involving litigation, detail refers to Note16(1)(a)(i).
Customer 10	3,204,387.50	3,204,387.50	100.00%	That company is difficult to repay, there is a possibility that the amount could be fully recovered.
Customer 11	1,500,000.00	1,500,000.00	100.00%	Won the lawsuit, there is low possibility that the amount could be recovered.
	<u>159,014,881.32</u>	<u>46,156,185.58</u>	29.03%	

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (5) Accounts receivable (Continued)

- (d) The groups of accounts receivable in which provisions are made using aging analysis method are analyzed as follows:

	31 December 2016			31 December 2015		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
Within 1 year	969,656,864.13	95.41%	9,692,320.57	895,423,733.30	83.63%	8,954,237.37
1 to 2 years	33,176,752.76	3.26%	3,317,675.32	154,423,227.54	14.42%	15,442,322.74
2 to 3 years	5,235,052.48	0.52%	1,570,515.76	9,203,274.51	0.86%	2,760,982.36
3 to 4 years	2,744,890.37	0.27%	1,372,445.21	4,384,824.49	0.41%	2,192,412.27
4 to 5 years	1,687,305.18	0.17%	1,349,844.15	1,511,272.52	0.14%	1,209,018.00
Over 5 years	3,738,875.14	0.37%	3,738,875.14	5,793,606.71	0.54%	5,793,606.71
	<b>1,016,239,740.06</b>	<b>100.00%</b>	<b>21,041,676.15</b>	<b>1,070,739,939.07</b>	<b>100.00%</b>	<b>36,352,579.45</b>

- (e) As at 31 December 2016, accounts receivable that are individually insignificant but subject to separate provision are analyzed as follows:

	Carrying amount	Provision for bad debts	Ratio	Reason
Customer 1	896,921.60	896,921.60	100.00%	It is expected that the amount could not be recovered.
Customer 2	613,695.28	306,847.64	50.00%	Litigation is being conducted, there is low possibility that the amount could not be recovered.
Customer 3	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 4	470,000.00	470,000.00	100.00%	It is expected that the amount could not be recovered.
Customer 5	467,462.40	467,462.40	100.00%	It is expected that the amount could not be recovered.
Customer 6	457,178.70	457,178.70	100.00%	Accessed judicial procedures, there is low possibility that the amount could not be recovered
Others	4,197,351.94	4,197,351.94	100.00%	It is expected that the amount could not be recovered.
	<b>7,611,498.92</b>	<b>7,304,651.28</b>	<b>95.97%</b>	

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (5) Accounts receivable (Continued)

- (f) As at 31 December 2016 and 31 December 2015, there is no material accounts receivable which have past due but not impaired.
- (g) Accounts receivable that are subject to full provision or in large portionate but have been reversed or collected in the current period are as below:

Receivable	Reason of transfer or recover	Basis of determination of original provision for bad debts	Amount of provision for bad debts that are transferred or recovered	Recovered amount	Amount of provision for bad debts that are transferred
Customer 1	Won the lawsuit, the bank paid for it	It is expected that the amount could not be recovered	1,000,000.00	1,000,000.00	1,000,000.00
Customer 2	Strengthened the work of accounts receivable, recovered debts	It is expected that the amount could not be recovered	529,826.40	1,059,652.80	529,826.40
Customer 3	Strengthened the work of accounts receivable, recovered debts	It is expected that the amount could not be recovered	368,430.00	1,228,100.00	368,430.00
Customer 4	Strengthened the work of accounts receivable, recovered debts	It is expected that the amount could not be recovered	238,804.00	477,608.00	238,804.00
Customer 5	Strengthened the work of accounts receivable, recovered debts	It is expected that the amount could not be recovered	135,311.04	169,138.80	135,311.04
Customer 6	Strengthened the work of accounts receivable, recovered debts	It is expected that the amount could not be recovered	125,280.46	125,280.46	125,280.46
Customer 7	Strengthened the work of accounts receivable, recovered debts	It is expected that the amount could not be recovered	122,909.99	122,909.99	122,909.99
Customer 8	Strengthened the work of accounts receivable, recovered debts	It is expected that the amount could not be recovered	101,305.48	101,305.48	101,305.48
Others	Strengthened the work of accounts receivable, recovered debts	It is expected that the amount could not be recovered	473,913.87	620,153.46	473,913.87
			3,095,781.24	4,904,148.99	3,095,781.24

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (5) Accounts receivable (Continued)

- (h) There are no accounts receivable that have been collected by restructuring or other manners at current period.
- (i) There are no accounts receivable that are written off at current period.
- (j) As at 31 December 2016, 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	75,005,878.88	Within 1 year, 1-2 years	6.35%	1,422,404.00
Customer 2 (Note 1)	Third party	56,087,565.40	2-3 years	4.74%	5,608,756.54
Customer 3	Related party	49,722,527.70	Within 1 year, 4-5 years	4.20%	885,244.84
Customer 4	Related party	38,256,826.54	Within 1 year, 1-2 years	3.23%	426,574.54
Customer 5 (Note 1)	Third party	37,710,221.64	2-3 years	3.19%	3,771,022.16
		256,783,020.16		21.71%	12,114,002.08

Note 1: 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 2016, there are no securitizations that targeted at accounts receivable.

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 2016	31 December 2015
Petty cash	<b>7,951,413.85</b>	5,166,130.97
Deposits	<b>48,183,579.03</b>	43,190,038.37
Staff advances	<b>27,690,804.76</b>	25,786,857.13
Receivables due from external parties	<b>112,537,515.04</b>	116,654,867.41
Receivables due from related parties (Note 12)	<b>19,946,308.42</b>	29,415,980.22
Tax refund for exports	<b>2,342,851.84</b>	1,673,405.77
Others	<b>12,852,371.60</b>	17,041,539.78
	<b>231,504,844.54</b>	238,928,819.65
Less: provision for bad debts	<b>26,383,967.69</b>	29,664,407.18
	<b>205,120,876.85</b>	209,264,412.47

(a) Other receivables by aging are analyzed as follows:

	31 December 2016			31 December 2015		
	Carrying amount	% of total balance	Provision for bad debts	Carrying amount	% of total balance	Provision for bad debts
Within 1 year	154,486,665.41	66.74%	6,245,579.28	133,303,562.56	55.80%	11,457,087.66
1 to 2 years	22,393,557.45	9.67%	1,164,789.92	58,931,497.32	24.66%	52,979.81
2 to 3 years	9,268,549.79	4.00%	457,582.17	6,366,775.65	2.66%	415,404.15
3 to 4 years	4,380,060.05	1.89%	580,556.91	2,437,740.61	1.02%	439,183.38
4 to 5 years	2,963,559.72	1.28%	614,506.62	865,762.74	0.36%	362,659.75
Over 5 years	38,012,452.12	16.42%	17,320,952.79	37,023,480.77	15.50%	16,937,092.43
	<b>231,504,844.54</b>	100.00%	<b>26,383,967.69</b>	238,928,819.65	100.00%	29,664,407.18

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 2016					
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	24,752,570.61	10.69%	19,014,142.71	76.82%	5,738,427.90
Subject to provision by groups:					
Group 1	14,941,500.64	6.45%	2,694,165.79	18.03%	12,247,334.85
Group 2	83,363,008.04	36.01%	–	–	83,363,008.04
Group 3	19,946,308.42	8.62%	–	–	19,946,308.42
Group 4	83,825,797.64	36.21%	–	–	83,825,797.64
Individually insignificant but subject to separate provision	4,675,659.19	2.02%	4,675,659.19	100.00%	–
	<b>231,504,844.54</b>	<b>100.00%</b>	<b>26,383,967.69</b>	<b>11.40%</b>	<b>205,120,876.85</b>

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
	<b>238,928,819.65</b>	<b>100.00%</b>	<b>29,664,407.18</b>	<b>12.42%</b>	<b>209,264,412.47</b>

# Notes to the Financial Statement

For the year ended 31 December 2016

(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	10,315,700.00	5,157,850.00	50.00%	Involving litigation, detail refers to Note 16(1)(a)(i)
Other receivables 2	2,868,759.75	2,868,759.75	100.00%	As this company was ceased, it is expected that the amount could not be recovered.
Other receivables 3	2,000,000.00	2,000,000.00	100.00%	The aging is too long and the item did not meet expected progress.
Other receivables 4	1,800,957.60	1,800,957.60	100.00%	As this company was ceased, it is expected that the amount could not be recovered.
Other receivables 5	1,520,000.00	1,520,000.00	100.00%	As this company was ceased, it is expected that the amount could not be recovered.
Others	6,247,153.26	5,666,575.36	90.71%	It is expected that the amount could not be recovered.
	<u>24,752,570.61</u>	<u>19,014,142.71</u>	76.82%	

- (d) The groups of other receivables in which provisions are made using aging analysis method are analyzed as follows:

	31 December 2016			31 December 2015		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	9,833,640.18	65.82%	98,336.42	13,285,331.54	84.26%	132,853.34
1 to 2 years	1,602,102.94	10.72%	160,210.30	476,983.11	3.02%	47,698.31
2 to 3 years	634,826.81	4.25%	190,448.04	218,013.82	1.38%	65,404.15
3 to 4 years	1,161,613.82	7.77%	580,806.91	200,536.87	1.27%	100,268.43
4 to 5 years	224,763.87	1.50%	179,811.10	89,023.39	0.56%	71,218.71
Over 5 years	1,484,553.02	9.94%	1,484,553.02	1,499,978.35	9.51%	1,499,978.35
	<u>14,941,500.64</u>	100.00%	<u>2,694,165.79</u>	<u>15,769,867.08</u>	100.00%	<u>1,917,421.29</u>

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 receivable 1	85,500.00	85,500.00	100.00%	It is expected that the amount could not be recovered
Other receivable 2	78,580.00	78,580.00	100.00%	It is expected that the amount could not be recovered
Other receivable 3	71,739.00	71,739.00	100.00%	It is expected that the amount could not be recovered
Other receivable 4	65,846.20	65,846.20	100.00%	It is expected that the amount could not be recovered
Other receivable 5	60,080.00	60,080.00	100.00%	It is expected that the amount could not be recovered
Others	4,313,913.99	4,313,913.99	100.00%	It is expected that the amount could not be recovered
	4,675,659.19	4,675,659.19	100.00%	

- (f) Other receivables that are subject to full provision or in large portionate but have been reversed or collected at current period is as follows:

Other receivable	Reason of transfer or recover	Basis of determination of original provision for bad debts	Amount of provision for bad debts that are transferred or recovered	Recovered amount	Amount of provision for bad debts that are transferred
Other receivable 1	Fully recovered	It is expected that the amount could not be recovered	12,155.35	12,155.35	12,155.35
Other receivable 2	Fully recovered	It is expected that the amount could not be recovered	2,104.91	2,104.91	2,104.91

- (g) There are no other receivables that have been collected by restructuring or other manners at current period.

# Notes to the Financial Statement

For the year ended 31 December 2016

(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)

- (h) There are no other receivables that are written off at current period.
- (i) As at 31 December 2016, 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	16,313,594.56	Within 1 year, over 5 years	7.05%	-
Other receivables 2	Third party	16,220,554.00	Within 1 year, 1-2 years	7.01%	-
Other receivables 3	Third party	10,315,700.00	Within 1 year	4.46%	5,157,850.00
Other receivables 4	Third party	9,828,202.00	Within 1 year	4.25%	-
Other receivables 5	Third party	6,590,970.17	Within 1 year, 1-2 years	2.85%	-
		<u>59,269,020.73</u>		<u>25.62%</u>	<u>5,157,850.00</u>

- (j) There are no other receivables derecognized due to transfer of financial assets at current period.
- (k) As at 31 December 2016, there are no securitizations that targeted at other receivables.

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 2016		31 December 2015	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	404,729,338.67	97.74%	301,622,535.55	95.21%
1 to 2 years	4,322,832.06	1.04%	5,094,871.50	1.61%
2 to 3 years	1,969,316.74	0.48%	5,474,848.44	1.73%
Over 3 years	3,052,122.68	0.74%	4,603,509.00	1.45%
	<b>414,073,610.15</b>	<b>100.00%</b>	<b>316,795,764.49</b>	<b>100.00%</b>

(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	141,149,155.97	Within 1 year	Normal purchases
Supplier 2	Third party	52,350,028.86	Within 1 year	Normal purchases
Supplier 3	Related party	22,479,785.87	Within 1 year	Normal purchases
Supplier 4	Third party	12,866,811.83	Within 1 year	Normal purchases
Supplier 5	Third party	10,739,500.00	Within 1 year	Normal purchases
		<b>239,585,282.53</b>		

(c) As at 31 December 2016 and 31 December 2015, there is no significant advance to suppliers with aging over one year.

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 2016			31 December 2015		
	Ending balance	Provision for declines in value of inventories	Carrying amount	Ending balance	Provision for declines in value of inventories	Carrying amount
Raw materials	617,473,227.23	1,867,600.58	615,605,626.65	560,423,152.22	1,940,697.77	558,482,454.45
Work in progress	145,353,372.23	-	145,353,372.23	124,505,894.48	-	124,505,894.48
Semi-finished goods	123,806,242.81	891,968.80	122,914,274.01	183,220,488.41	981,315.46	182,239,172.95
Finished goods	1,094,080,138.38	15,169,840.97	1,078,910,297.41	906,858,279.95	10,016,784.23	896,841,495.72
Low-value consumables	8,070,757.95	-	8,070,757.95	6,971,615.68	-	6,971,615.68
Packaging materials	112,326,438.56	-	112,326,438.56	117,253,532.69	-	117,253,532.69
Goods In processing contract	15,875,163.96	-	15,875,163.96	15,026,175.34	-	15,026,175.34
Commodity Stocks	691,576,886.45	10,256,228.81	681,320,657.64	652,737,947.88	11,247,713.60	641,490,234.28
Others	1,119,123.04	-	1,119,123.04	1,055,569.76	-	1,055,569.76
	<b>2,809,681,350.61</b>	<b>28,185,639.16</b>	<b>2,781,495,711.45</b>	<b>2,568,052,656.41</b>	<b>24,186,511.06</b>	<b>2,543,866,145.35</b>

#### (b) Provision for declines in the value of inventories

Item	31 December 2015	Current additions	Current reductions			31 December 2016
			Reversal	Write-off	Other reductions	
Raw materials	1,940,697.77	1,304,358.68	1,161,703.70	215,752.17	-	1,867,600.58
Work in progress	981,315.46	-	89,346.66	-	-	891,968.80
Finished goods	10,016,784.23	9,036,596.19	2,743,785.85	1,139,753.60	-	15,169,840.97
Packaging materials	-	-	-	-	-	-
Commodity stocks	11,247,713.60	3,169,387.86	66,907.61	4,093,965.04	-	10,256,228.81
	<b>24,186,511.06</b>	<b>13,510,342.73</b>	<b>4,061,743.82</b>	<b>5,449,470.81</b>	<b>-</b>	<b>28,185,639.16</b>

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (8) Inventories (Continued)

(c) Provision for declines in the value of inventories are analyzed as follows:

Item	Basis for provision	Reason for reversal	% of amount of reversal to the relevant inventory balance
Raw materials	Carrying amount over net realizable value	Net realizable increased	0.19%
Finished goods	Carrying amount over net realizable value	Increase in market price	0.25%
Semi-finished products	Carrying amount over net realizable value	Net realizable increased	0.07%
Commodity inventory	Carrying amount over net realizable value	Increase in market price	0.01%

### (9) Other current assets

	31 December 2016	31 December 2015
Deductible Input VAT	9,499,111.01	106,097,971.62
Provisional Income Tax paid	104,647,042.86	2,219,864.11
Unverified input tax	3,397,599.64	—
Unpaid VAT	76,637,211.58	—
Bank financing products	20,000,000.00	—
Undisposed assets for whole relocation	35,719,734.27	—
Others	290,394.67	—
	<b>250,191,094.03</b>	<b>108,317,835.73</b>

In accordance with the notice of Haifuzhengfang[2015]No.2, Haizhengbankexiezi[2015No.01] and Haizhengbankexiezi[2016]No.1, Guangzhou Qi Xing Pharmaceutical Factory and Qing Xing, 2 subsidiaries of the Company, have stopped production and moved out of the building for whole relocation before September 2015. As the values of the lands and houses, machines and equipment and inventory for compensation shall be evaluated and issued report by evaluation company, as at 31 December 2016, evaluated amount is not yet confirmed, report is not yet issued.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (10) Available-for-sale financial assets

(a) Details are as follows:

Item	31 December 2016			31 December 2015		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Available-for-sale equity instruments						
Including: Measured at fair value	25,932,151.59	-	25,932,151.59	76,415,058.59	-	76,415,058.59
Measured at cost	306,510,723.88	4,553,551.23	301,957,172.65	256,510,723.88	4,553,551.23	251,957,172.65
Total	332,442,875.47	4,553,551.23	327,889,324.24	332,925,782.47	4,553,551.23	328,372,231.24

(b) Available-for-sale financial assets measured at fair value at the end of period.

Item	Available-for-sale equity instruments
Cost of equity instruments/amortized cost of liabilities	11,249,958.40
Fair value	25,932,151.59
Accumulated movement of fair value charged as other comprehensive income (written down related deferred income tax liabilities)	12,414,271.46
Accumulated movement of differences arising from foreign translation charged as other comprehensive incomes	-
Accumulated movement of fair value charged as deferred tax liabilities	2,267,921.73
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

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (10) Available-for-sale financial assets (Continued)

#### (c) Available-for-sale financial assets measured at cost at the end of period.

Investee	Book balance			Provision for impairment			% of Equity interest held	Current cash dividends		
	Opening amount	Current increase	Current decrease	Ending amount	Opening amount	Current increase			Current decrease	Ending amount
Shanghai Jiuhetang Chinese Medicine Co., Ltd.	547,193.71	-	-	547,193.71	-	-	-	9.53%	-	
Beijing Imperial Court Cultural Development Company Ltd.	200,000.00	-	-	200,000.00	-	-	-	10.00%	-	
Qi Xing Ma Zhong Pharmaceutical Co., Ltd. (Note 1)	362,826.38	-	-	362,826.38	-	-	-	40.00%	-	
Indonesia San You Development Co., Ltd. (Note 1)	1,078,551.23	-	-	1,078,551.23	1,078,551.23	-	-	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%	-	
Shenzhou 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%	
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	-	-	-	-	-	
Chongqing Pharmaceutical (Group) Holdings Co., Ltd.	150,000,000.00	-	-	150,000,000.00	-	-	-	-	2.22%	
Yi Lin Biological	200,000.00	-	-	200,000.00	-	-	-	-	10.00%	
Zhong Yi Fund (Note 2)	-	50,000,000.00	-	50,000,000.00	-	-	-	-	24.75%	
<b>Total</b>	<b>256,510,723.88</b>	<b>50,000,000.00</b>	<b>-</b>	<b>306,510,723.88</b>	<b>4,553,551.23</b>	<b>-</b>	<b>-</b>	<b>4,553,551.23</b>	<b>-</b>	<b>9,799,231.66</b>

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (10) Available-for-sale financial assets (Continued)

#### (c) Available-for-sale financial assets measured at cost at the end of period. (Continued)

Note 1: The Group has not participated in the operation of Qi Xing Ma Zhong and Indonesia San You Development Co., Ltd. and Sales Store of Peking Road of Guangzhou Medicine Co., Ltd. Not exercised significant influence on them, in which the investments were measured using the cost method.

Note 2: The Company participated in establishing Zhong Yi Funds, which is total amounted to RMB0.60606 billion, the contribution of the Company amounted to RMB150 million, accounting for 24.75%. Yi Lin Biological is general partner, the Company is limited partner. Decision-making body is an investment decision committee, which is consist of 7 members, in accordance with the partnership agreement, there are no person in the committee from the Company. As at 31 December 2016, the Company has contributed down payment amounted to RMB50 million in accordance with partnership agreement.

#### (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

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (11) Long-term equity investments

#### (a) Details of long-term equity investments:

Entity	Investment cost	31 December 2015	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 2016	Provision for impairment	Current provision for impairment
1. Jointly controlled entities											
Guangzhou Pharmaceuticals Corporation ("GP Corp.")	396,589,139.78	1,159,509,073.90	-	110,345,123.02	(123,024.34)	2,646.71	-	-	1,269,733,819.29	-	-
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. ("Wang Lao Ji") (note 1)	102,035,124.44	388,718,272.78	-	(10,263,172.02)	-	-	-	-	378,455,100.76	-	-
Nuo Cheng	42,000,000.00	128,016,390.34	-	6,877,946.28	-	-	(52,938,523.45)	-	81,955,813.17	-	-
HWBYS	100,000,000.00	364,653,219.55	-	71,813,848.85	-	-	(20,000,000.00)	-	416,467,068.40	-	-
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. (Baxter Qiaoguang)	37,000,000.00	32,230,969.05	-	4,093,887.01	-	-	-	-	36,324,856.06	-	-
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	36,106,562.73	-	7,875,381.31	(95,411.50)	-	-	-	43,886,532.54	-	-
Wei Yi Co., Ltd.	2,020,000.00	1,978,488.09	-	17,709.38	-	-	-	-	1,996,197.47	-	-
Chuangmei Holdings Co., Ltd. ("Chuangmei") (note 2)	60,823,012.51	-	60,823,012.51	801,062.50	-	-	-	-	61,624,075.01	-	-
Subtotal	791,672,276.73	2,111,212,976.44	60,823,012.51	191,561,786.33	(218,435.84)	2,646.71	(72,938,523.45)	-	2,290,443,462.70	-	-

Note 1 Wang Lao Ji's period of joint venture is for 10 years and expired on 25 January 2015. The Company applied for arbitration to Committee of South China International Economic and Trade Arbitration (Shenzhen International Court of Arbitration) ("Arbitration Committee"), required Tongxing Pharmaceutical Co., Ltd. to transfer 48.0465% equity interest in Wang Lao Ji to the Company. Arbitration Committee has accepted it (case No. SHENT2014811). 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.

Note 2 Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, holding 7.32% shares of Chuangmei, which listed in Stock Exchange of Hong Kong Limited, which original measured at available-for-sale financial assets. In accordance with resolution of Chuangmei 1st Shareholders Meeting of 2016, General manager of Guangyao Baiyunshan Hong Kong Company is appointed as non-executive director, Guangyao Baiyunshan Hong Kong Company implement material impact to Chuangmei, From December 2016, Chuangmei become a joint venture of Guangyao Baiyunshan Hong Kong Company.

(b) There are no limitation on transfer of funds between the Group and its investee.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (12) Investment properties

#### (a) Investment properties measured at cost method:

	Buildings	Land use right	Total
1. Cost			
(1) Opening balance	371,360,320.11	18,344,900.69	389,705,220.80
(2) Current increase	12,689,664.98	-	12,689,664.98
(i) Outsourcing	-	-	-
(ii) Private properties or inventories transfer to investment properties	12,232,273.20	-	12,232,273.20
(iii) Changes in exchange	457,391.78	-	457,391.78
(3) Current decrease	2,829,502.10	-	2,829,502.10
(i) Disposal	-	-	-
(ii) Investment properties transfer to private properties	2,829,502.10	-	2,829,502.10
(4) Ending balance	381,220,482.99	18,344,900.69	399,565,383.68
2. Accumulated depreciation and amortization			
(1) Opening balance	146,728,816.91	8,361,317.65	155,090,134.56
(2) Current increase	16,636,210.88	375,178.01	17,011,388.89
(i) Provision or amortization	10,514,223.30	375,178.01	10,889,401.31
(ii) Private properties or inventories transfer to investment properties	5,949,492.10	-	5,949,492.10
(iii) Changes in exchange	172,495.48	-	172,495.48
(3) Current decrease	1,111,531.08	-	1,111,531.08
(i) Disposal	-	-	-
(ii) Investment properties transfer to private properties	1,111,531.08	-	1,111,531.08
(4) Ending balance	162,253,496.71	8,736,495.66	170,989,992.37
3. Provision for impairment			
(1) Opening balance	-	-	-
(2) Current increase	-	-	-
(3) Current decrease	-	-	-
(4) Ending balance	-	-	-
4. Book value			
(1) Ending book value	218,966,986.28	9,608,405.03	228,575,391.31
(2) Opening book value	224,631,503.20	9,983,583.04	234,615,086.24

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 2016 amounted to RMB10,514 thousand. (For the year ended 31 December 2015: RMB9,763 thousand); Amortization charges for the year ended 31 December 2016 amounted to RMB375 thousand (For the year ended 31 December 2015: RMB375 thousand).
- (ii) As the year ended 31 December 2016, the decrease of original cost and accumulated depreciation of the investment properties arising from the fluctuations in exchange rate is RMB457 thousand and RMB172 thousand respectively (as for the year ended 31 December 2015: RMB394 thousand and RMB142 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

For the year ended 31 December 2016

(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	1,948,810,181.62	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) Current increase	168,412,380.23	209,828,654.24	5,794,988.94	13,909,636.34	11,124,520.51	8,452,219.40	417,522,399.66
(i) Purchase	674,323.02	24,683,560.32	2,340,475.67	7,850,686.13	5,817,554.69	73,516.99	41,440,116.82
(ii) Reclassified from constructions in progress	159,314,727.72	164,212,534.92	2,607,596.22	4,664,984.37	4,456,134.30	8,378,702.41	343,634,679.94
(iii) Changes in exchange rate	504,493.94	-	-	-	45,494.52	-	549,988.46
(iv) Addition of business combination	4,166,874.85	3,951,281.92	846,917.05	1,393,965.84	805,337.00	-	11,164,376.66
(v) Others	3,751,960.70	16,981,277.08	-	-	-	-	20,733,237.78
(3) Current decrease	65,105,293.68	71,947,054.34	10,601,066.66	2,953,892.35	11,609,798.53	35,432,789.50	197,649,895.06
(i) Disposal or scrap	7,128,457.36	47,903,832.78	6,634,635.83	2,953,892.35	11,311,726.59	-	75,932,544.91
(ii) Others	57,976,836.32	24,043,221.56	3,966,430.83	-	298,071.94	35,432,789.50	121,717,350.15
(4) Ending balance	2,052,117,268.17	1,874,196,861.30	87,110,928.57	148,301,346.00	115,775,946.99	42,937,172.64	4,320,439,523.67
2. Accumulated depreciation							
(1) Opening 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
(2) Current increase	62,036,468.69	119,898,035.12	4,969,933.19	10,915,162.35	10,275,124.52	4,830,683.99	212,925,407.86
(i) Provision	60,034,495.14	117,742,286.88	4,496,678.15	10,373,772.95	9,830,423.54	4,830,683.99	207,308,340.65
(ii) Changes in exchange rate	135,247.63	-	-	-	35,537.00	-	170,784.63
(iii) Addition of business combination	755,194.84	2,155,748.24	473,255.04	541,389.40	409,163.98	-	4,334,751.50
(iv) Others	1,111,531.08	-	-	-	-	-	1,111,531.08
(3) Current decrease	44,085,909.46	63,090,028.87	10,172,221.70	2,814,350.20	10,928,535.78	34,611,178.35	165,702,224.36
(i) Disposal or scrap	6,753,729.01	43,630,752.02	6,506,495.96	2,814,350.20	10,855,242.49	-	70,560,569.68
(ii) Others	37,332,180.45	19,459,276.85	3,665,725.74	-	73,293.29	34,611,178.35	95,141,654.68
(4) Ending balance	815,072,952.13	1,115,870,840.62	59,983,474.95	96,595,516.78	77,769,522.29	25,810,411.64	2,191,102,718.41
3. Provision for impairment							
(1) Opening balance	8,821,420.06	12,167,832.36	158,224.47	1,635,422.74	2,846.38	-	22,785,746.01
(2) Current increase	-	-	-	-	-	-	-
(3) Current decrease	-	558,898.44	-	-	-	-	558,898.44
(i) Disposal or scrap	-	558,898.44	-	-	-	-	558,898.44
(4) Ending balance	8,821,420.06	11,608,933.92	158,224.47	1,635,422.74	2,846.38	-	22,226,847.57
4. Book value							
(1) Ending book value	1,228,222,895.98	746,717,086.76	26,969,229.15	50,070,406.48	38,003,578.32	17,126,761.00	2,107,109,957.69
(2) Opening 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

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 2016, the fixed assets transferred from construction in progress amounted to RMB343,635 thousand (For the year ended 31 December 2015: RMB259,080 thousand).
- (ii) As for the year ended 31 December 2016, the decrease of original cost and accumulated depreciation of fixed assets is due to fluctuations in exchange rate amounted to RMB550 thousand and RMB171 thousand respectively (For the year ended 31 December 2015: RMB478 thousand and RMB65 thousand respectively).
- (iii) Depreciation expenses for the year ended 31 December 2016 amounted to RMB207,308 thousand in total (For the year ended 31 December 2015: RMB193,464 thousand), of which RMB135,626 thousand, RMB3,105 thousand and RMB68,577 thousand were charged to cost of sales, selling and distribution expenses and general and administrative expenses, respectively (For the year ended 31 December 2015: RMB126,891 thousand, RMB3,059 thousand and RMB63,514 thousand respectively).

- (b) As at 31 December 2016, fixed assets are temporarily idle, which are analysed as follows:

	Cost	Accumulated depreciation	Provision for impairment	Carrying amount
Buildings	6,478,874.98	1,641,412.64	4,618,987.46	218,474.88
Machinery	14,791,270.24	7,166,379.75	7,313,304.83	311,585.66
Electrical equipment	147,897.48	69,184.00	78,713.48	—

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## (13) Fixed assets and accumulated depreciation (Continued)

- (c) As at 31 December 2016, fixed assets which were lack of ownership certificate are summarised as follows:

	Carrying amount	Reason	Estimated date of obtaining the ownership certificate
Buildings	33,726,028.67	Procedures are not completed, certificates are not handled	Uncertain
Motor vehicles	61,687.50	Procedures are not completed, ownership cannot be transferred	Uncertain
	<u>33,787,716.17</u>		

- (d) Fixed assets held under operating leases are summarised as follows:

	31 December 2016 Carrying amount	31 December 2015 Carrying amount
Buildings	<u>11,292,912.78</u>	<u>9,213,155.00</u>

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

## (14) Construction in progress

	31 December 2016			31 December 2015		
	Book balance	Provision for impairment	Carrying amount	Provision for impairment	Carrying amount	Book balance
Construction in progress	<u>256,397,154.04</u>	<u>1,121,052.88</u>	<u>255,276,101.16</u>	<u>557,027,433.05</u>	<u>1,121,052.88</u>	<u>555,906,380.17</u>

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 2015	Current increase	Current decrease		31 December 2016	Source of funds	% contribution in budget
				Transferred to fixed assets	Other decrease			
Pill line	5,000,000.00	1,225,000.00	-	-	1,225,000.00	-	Self-funded	59.50%
Pill line of water-honeyed pill and piller	3,500,000.00	-	1,084,000.00	-	-	1,084,000.00	Self-funded	40.97%
HMPL-004special production line	3,000,000.00	218,363.76	-	-	-	218,363.76	Self-funded	7.28%
Project of rebuilding raw-food materials with characteristic function and product workshop	5,905,000.00	-	125,833.39	-	-	125,833.39	Self-funded	2.13%
New project of warehouse	17,056,000.00	-	164,150.94	-	-	164,150.94	Self-funded	0.96%
Office building	10,000,000.00	-	313,237.78	-	-	313,237.78	Self-funded	3.13%
Decoction center	2,800,000.00	-	2,187,199.19	-	-	2,187,199.19	Self-funded	78.11%
Land parcel of Bio-island	111,940,400.00	111,940,400.00	-	-	111,940,400.00	-	Self-funded	100.00%
Si Ai Pu	4,731,245.97	-	4,731,245.97	-	-	4,731,245.97	Self-funded	100.00%
Research of Bio Vaccine & Industrialization Platform	29,300,000.00	17,685,023.83	230,465.66	1,968,101.92	9,549.00	15,937,838.57	Self-funded	91.97%
Waolaoji anti-channel conflict equipment	3,330,000.00	1,940,769.20	815,384.63	2,756,153.83	-	-	Self-funded	82.77%
Wanglaoji Ya'an manufacturing project	298,000,000.00	51,430,944.67	8,963,858.62	59,334,965.28	111,174.12	948,663.89	Self-funded	70.47%
Program of decoration for Yuexiu Financial Building	6,000,000.00	210,555.81	172,079.81	38,476.00	344,159.62	-	Self-funded	60.06%
Properties in Nansha district	10,000,000.00	-	7,476,840.11	-	-	7,476,840.11	Self-funded	74.77%
Base of Wang Lao Ji Great Health Industrial (Meizhou) Co., Ltd.	318,620,000.00	-	17,498,200.32	-	-	17,498,200.32	Self-funded	5.49%
Removal of reconstruction(power supply room/boiler room/sewage station/cool warehouse of Zhongcun/No.4 addition building)	5,530,000.00	4,689,948.59	397,771.89	-	5,087,720.48	-	Government grants	94.12%
GMP improvement project of 4 workshops	6,920,000.00	25,014.44	-	-	-	25,014.44	Self-funded	73.74%
Tongtai Building	8,000,000.00	-	3,516,481.46	-	-	3,516,481.46	Self-funded	43.96%
Recover Building C	30,000,000.00	-	764,640.85	-	-	764,640.85	Self-funded	2.55%
Program of a building with 6 floors	3,500,000.00	-	3,064,795.73	-	-	3,064,795.73	Self-funded	87.48%
Chinese medicine treatment before extraction of the modernization of products Stage 1 of GMP improvement	97,564,100.00	77,085,120.05	8,203,602.52	77,696,100.84	5,726,401.20	1,866,220.53	Self-funded	87.42%
GMP improvement of solid preparation workshop of No.1 manufacturing depart.	6,440,000.00	1,811,480.73	-	170,000.00	1,641,480.73	-	Self-funded	28.13%
Other installation equipments	5,110,000.00	2,012,820.45	85,196.58	2,098,017.03	-	-	Self-funded	78.40%
Oral cephalosporins workshop GMP improvement	47,800,000.00	-	478,027.80	-	-	478,027.80	Self-funded	12.70%

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 2015	Current increase	Current decrease		31 December 2016	Source of funds	% contribution in budget
				Transferred to fixed assets	Other decrease			
Chemical Factory Oral API GMP Improvement	11,695,100.00	6,403,168.79	384,130.30	6,787,299.09	-	-	Self-funded	58.04%
CFO Item	7,000,000.00	4,876,902.33	1,788,836.03	6,665,738.36	-	-	Self-funded	95.22%
Zhongluotan Wulonggang AB0807098-1 block	169,750,000.00	2,948,549.00	-	-	-	<b>2,948,549.00</b>	Self-funded	15.21%
Eye drops workshop improvement	6,550,000.00	1,729,817.67	586,137.06	2,315,954.73	-	-	Self-funded	35.36%
Tonghe cream workshop improvement	5,450,000.00	1,049,215.87	-	1,049,215.87	-	-	Self-funded	19.25%
Tian Xin Powder Inj. Project	14,000,000.00	1,181,734.30	-	-	1,181,734.30	-	Self-funded	81.20%
Tian Xin Chemical Institute Project	25,500,000.00	1,590,360.93	-	-	1,590,360.93	-	Self-funded	147.86%
Tian Xin Wei D 2 Tartaric Acid Inj.	15,000,000.00	200,000.00	-	-	-	<b>200,000.00</b>	Self-funded	1.33%
Tian Xin Asepsis Water Inj Workshop	20,000,000.00	-	730,881.22	730,881.22	-	-	Self-funded	68.88%
Tian Xin Powder Injector & Screw Arbor Line	19,800,000.00	600,000.00	-	-	-	<b>600,000.00</b>	Self-funded	8.87%
Tian Xin Cephalosporins Workshop Improvement	12,000,000.00	-	10,387.87	-	-	<b>10,387.87</b>	Self-funded	61.00%
Tian Xin Water Inj Workshop	15,900,000.00	3,418,912.02	505,937.88	505,937.88	3,418,912.02	-	Self-funded	146.25%
Penicillin GMP Improvement	12,900,000.00	548,882.15	190,000.00	738,882.15	-	-	Self-funded	92.53%
GMP Improvement of injection and water needle	18,460,000.00	728,639.53	-	728,639.53	-	-	Self-funded, loan	97.00%
Third Manufacturing Department	7,000,000.00	1,147,161.97	1,592,825.68	655,555.57	2,084,432.08	-	Self-funded	33.00%
Ming Xing Equipment Improvement	67,430,000.00	1,526,552.64	5,591,986.96	6,435,118.87	61,602.96	<b>621,817.77</b>	Self-funded	60.21%
Ming Xing Decoration	17,200,000.00	217,912.99	98,200.00	126,501.89	-	<b>189,611.10</b>	Self-funded	82.69%
Ming Xing relocation improvement	340,000,000.00	80,380,242.36	1,136,741.28	-	-	<b>81,516,983.64</b>	Self-funded	23.98%
Wei Ling Pharmaceutical new factory	135,078,830.44	88,640,065.43	42,630,354.59	100,858,412.20	30,412,007.82	-	Self-funded	97.62%
GHL-800 granulation production line, LDB- 350 efficient coating machine	12,024,000.00	7,221,452.00	3,055,471.06	10,276,923.06	-	-	Self-funded	100.00%
2 sets of automatic bottling production line	3,200,000.00	1,920,000.00	815,042.73	2,735,042.73	-	-	Self-funded	100.00%
Air conditioning terminal equipment & water storage system	9,192,279.30	5,414,465.36	2,442,183.58	7,856,648.94	-	-	Self-funded	100.00%
Switch cabinet	3,480,000.00	2,088,000.00	886,359.03	2,974,359.03	-	-	Self-funded	100.00%
Production line of asepsis material	54,000,000.00	34,191,471.68	6,024,717.83	-	-	<b>40,216,189.51</b>	Self-funded	74.47%
Tibetan Health Castle Project	45,000,000.00	16,581,884.37	17,793,480.51	-	-	<b>34,375,364.88</b>	Self-funded	76.39%
Others	127,218,259.68	22,146,600.13	66,131,206.07	48,131,753.92	4,828,556.74	<b>35,317,495.54</b>	Self-funded	
		<u>557,027,433.05</u>	<u>212,667,892.93</u>	<u>343,634,679.94</u>	<u>169,663,492.00</u>	<u>256,397,154.04</u>		

# Notes to the Financial Statement

For the year ended 31 December 2016

(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)

(b) Borrowing costs eligible for capitalization in current period are summarized as follows:

Name of construction	31 December 2015	Current increase	Transferred to fixed assets	Other decrease	31 December 2016	Ratio of capitalization of interests (%)
Wang Lao Ji Ya'an manufacturing project	228,366.96	-	228,366.96	-	-	-
	<u>228,366.96</u>	<u>-</u>	<u>228,366.96</u>	<u>-</u>	<u>-</u>	

(c) Provision for impairment of construction in progress

Name of construction	31 December 2015	Current increase	Current decrease	31 December 2016	Reason
General factory veterinary drugs workshop GMP improvement	869,318.50	-	-	<b>869,318.50</b>	Project stopped
Guanghua sewage expansion project	251,734.38	-	-	<b>251,734.38</b>	Project stopped
Total	<u>1,121,052.88</u>	<u>-</u>	<u>-</u>	<u><b>1,121,052.88</b></u>	

(d) Schedule of significant constructions in progress are as below:

	Progress
Research of Bio Vaccine & Industrialization Platform	In construction stage
Base of Wang Lao Ji Great Health (Meizhou) Co., Ltd.	In construction stage
Tibetan Health Castle Project	In construction stage
Ming Xing relocation improvement	In construction stage
Production line of aseptic production	In debugging stage

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 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	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) Current increase	141,930,550.00	8,269.88	26,418.23	–	5,365,817.98	147,331,056.09
(i) Purchase	141,930,550.00	8,269.88	26,418.23	–	5,365,817.98	147,331,056.09
(3) Current decrease	3,772,845.00	–	–	114,672.00	–	3,887,517.00
(i) Disposal	3,772,845.00	–	–	114,672.00	–	3,887,517.00
(4) Ending balance	620,802,632.45	15,801,190.39	28,648,857.20	159,241,280.74	20,010,769.21	844,504,729.99
2. Accumulated amortization						
(1) Opening 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
(2) Current increase	11,475,074.33	524,974.21	2,391,914.00	–	2,936,582.64	17,328,545.18
(i) Provision	11,475,074.33	524,974.21	2,391,914.00	–	2,936,582.64	17,328,545.18
(3) Current decrease	1,428,403.14	–	–	106,402.12	–	1,534,805.26
(i) Disposal	1,428,403.14	–	–	106,402.12	–	1,534,805.26
(4) Ending balance	105,117,438.14	8,722,423.87	15,116,448.94	32,595,688.44	13,610,663.46	175,162,662.85
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	480,700.24	–	–	–	–	480,700.24
(i) Disposal	480,700.24	–	–	–	–	480,700.24
(4) Ending balance	–	453,343.04	–	583,573.00	–	1,036,916.04
4. Book value						
(1) Ending book value	515,685,194.31	6,625,423.48	13,532,408.26	126,062,019.30	6,400,105.75	668,305,151.10
(2) Opening 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

At current period, the amortization of intangible assets amounted to RMB17,329 thousand (For the year ended 31 December 2015: RMB14,303 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

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (15) Intangible assets (Continued)

#### (a) Details of intangible assets: (Continued)

The recoverable amount of trademarks without useful life is calculated at income method, which is to evaluate the present value of perspective incomes for target trademark assets by appropriate conversion rate. Perspective income is calculated with the following formula: Perspective income  $R_i = (\text{Charging base of trademark use} \times \text{trademark use rate}) - \text{taxes and surcharges} - \text{business income taxes}$ . The key parameter including: (1) Discount rate here is 14%; (2) Rate of increase for sales income is generally 2%, and 10%-15% for a few enterprises; (3) Supernormal profit rate multiplied by trademark contribution rate is trademark use rate, supernormal profit rate is the average of historical data for recent 4 years, trademark contribution rate is calculated by analytic hierarchy process (AHP), and trademark use rate is between 0.62%-1.37% accordingly.

After tests, there are no impairment in the trademarks of Baiyunshan, Dashen product, Xing Qun series, Zhong Yi series, Pan Gao Shou series, Chen Li Ji series, Jing Xiu Tang series, Qi Xing series.

### (16) Development costs

	31 December 2015	Current increase		Current transferred-out		31 December 2016
		Internal research expenses	Others	Recognized in current profit or loss	Recognized as intangible assets	
Capitalized expenditures	5,509,098.53	-	-	2,492,051.69	-	3,017,046.84
Expensed expenditures	-	282,600,682.23	47,767,152.17	330,367,834.40	-	-
	5,509,098.53	282,600,682.23	47,767,152.17	332,859,886.09	-	3,017,046.84

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (17) Goodwill

#### (a) Original book value of goodwill

Investee or events of goodwill	Opening balance	Current increase		Current decrease		Ending balance
		Amount of business combination	Others	Disposal	Others	
Guangyao Haima	2,282,952.18	-	-	-	-	2,282,952.18
Guangxi Ying Kang	475,756.92	-	-	-	-	475,756.92
Guangzhou Baiyunshan Hospital	-	9,216,610.56	-	-	-	9,216,610.56
<b>Total</b>	<b>2,758,709.10</b>	<b>9,216,610.56</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,975,319.66</b>

The Company purchased 51% equity interest of Guangzhou Baiyunshan Hospital by merging cost amounted to RMB46,500 thousand in April, 2016, which exceeded the difference amounted to RMB9,216,610.56 between identifiable assets of Guangzhou Baiyunshan Hospital and its fair value of liabilities, was recognized as goodwill of Guangzhou Baiyunshan Hospital.

#### (b) Provision for impairment of goodwill

Investee or events of goodwill	Opening balance	Current increase		Current decrease		Ending balance
		Business combination	Others	Disposal	Others	
Guangxi Ying Kang	475,756.92	-	-	-	-	475,756.92
<b>Total</b>	<b>475,756.92</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>475,756.92</b>

The Company calculated Guangyao Haima, a subsidiary of the Company, as a group of assets, on the basis of the free net cash flow in certain years calculated by industry qualification, target market, historical financial data, earnings forecast in next 5 years of Guangyao Haima, management of the Company obtained total value of shareholders' equity using the following method: A sum of the value of business assets which calculated at appropriate conversion rate, value of surplus assets and value of non-business assets minus interest-bearing debts and non-business liabilities equals total value of shareholders' equity. The conversion rate here is 14.37%. After tests, there are no impairments of the goodwill arising from purchasing stock right of Guangyao Haima.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (17) Goodwill (Continued)

#### (b) Provision for impairment of goodwill (Continued)

The Company calculated Guangzhou Baiyunshan Hospital, a subsidiary of the Company, as a group of assets, on the basis of the free net cash flow in certain years calculated by industry qualification, target market, historical financial data, earnings forecast in next 5 years of Guangzhou Baiyunshan Hospital, management of the Company obtained total value of shareholders' equity using the following method: A sum of the value of business assets which calculated at appropriate conversion rate, value of surplus assets and value of non-business assets minus interest-bearing debts and non-business liabilities equals total value of shareholders' equity. The conversion rate here is 12.84%.

After tests, there are no impairments of the goodwill arising from purchasing stock right of Guangzhou Baiyunshan Hospital.

### (18) Long-term prepaid expenses

	31 December 2015	Current increase	Current amortization	31 December 2016
Building decoration and fixtures	20,048,501.20	5,143,965.10	4,702,974.46	<b>20,489,491.84</b>
GMP improvement fee	1,464,700.67	2,232,581.29	738,770.37	<b>2,958,511.59</b>
Rain sewage diversion improvement	53,963.97	–	53,963.97	–
Zhong Xin warehouse iron canopy improvement	87,643.23	–	87,643.23	–
Maintaining and decoration for outer wall of warehouse	438,666.71	–	111,999.96	<b>326,666.75</b>
Installation for electric wire of warehouse	237,961.88	–	126,906.36	<b>111,055.52</b>
Authentication of AAALAC	237,260.99	–	45,192.60	<b>192,068.39</b>
Verify project of building ABC (rectify and reform for houses)	–	5,726,401.24	238,600.05	<b>5,487,801.19</b>
Decoration of Tongtai building	–	3,596,114.60	285,116.32	<b>3,310,998.28</b>
Expense for computer system	–	122,641.51	3,406.71	<b>119,234.80</b>
Others	1,543,447.65	4,424,072.40	1,023,903.99	<b>4,943,616.06</b>
	<u>24,112,146.30</u>	<u>21,245,776.14</u>	<u>7,418,478.02</u>	<u><b>37,939,444.42</b></u>

# Notes to the Financial Statement

For the year ended 31 December 2016

(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

#### (a) Deferred income tax assets that are not offset

	31 December 2016	31 December 2015
Provision for impairment of construction in progress	168,157.94	168,157.94
Provision for declines in values of inventories	4,567,617.66	4,084,757.42
Provision for bad debts	23,202,539.89	24,690,656.82
Long-term prepaid expenses	32,819.69	–
Provision for impairment of fixed assets	2,871,576.11	2,935,296.33
Difference arising from accounting and tax depreciations of fixed assets	1,968,924.35	2,051,776.82
Provision for impairment of Available-for-sale financial assets	587,551.22	587,551.22
Employee benefits payable	10,082,002.00	6,543,317.10
Provisions	15,031,508.28	6,936,604.68
Other payables	278,416,886.29	218,348,709.96
Deferred income	17,957,060.69	16,267,190.50
Deductible tax losses	29,471,228.92	17,095,753.13
Provision for impairment of intangible assets	–	120,175.06
Difference arising from accounting and tax amortizations of intangible assets	267,985.07	308,505.30
Elimination of unrealized profits arising from the inter-company transaction	31,725,375.71	29,255,676.72
Others	807,948.95	381,925.32
	<b>417,159,182.77</b>	<b>329,776,054.32</b>

# Notes to the Financial Statement

For the year ended 31 December 2016

(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

	<b>31 December 2016</b>	31 December 2015
Other receivables-rental	<b>496,781.73</b>	555,469.93
Changes in fair value of financial assets held for trading	<b>77,212.30</b>	148,262.15
Changes in fair value of available-for-sale financial assets	<b>2,267,921.73</b>	2,616,810.28
Depreciation balance of fixed assets revaluation	<b>295,074.00</b>	309,216.60
Difference arising from accounting and tax depreciations of fixed assets	<b>127,590.07</b>	122,046.72
Compensation from relocation	<b>47,457,299.79</b>	12,484,841.75
Amortization balance of intangible assets revaluation	<b>1,254,912.00</b>	1,289,770.80
Other receivables-distribution of income	<b>24,512,466.00</b>	11,435,960.00
Others	<b>92,102.53</b>	101,557.00
	<b>76,581,360.15</b>	29,063,935.23

#### (c) Deductible temporary differences and deductible losses that are not recognized as deferred income tax assets are analyzed as follows:

	<b>31 December 2016</b>	31 December 2015
Deductible temporary differences	<b>45,652,907.61</b>	30,658,367.86
Deductible tax losses	<b>128,623,767.45</b>	102,947,898.90
	<b>174,276,675.06</b>	133,606,266.76

# Notes to the Financial Statement

For the year ended 31 December 2016

(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)

- (d) Tax losses that are not recognized as deferred tax assets will expire in the following years:

	31 December 2016	31 December 2015
2016	–	10,551,329.14
2017	<b>11,583,901.80</b>	12,693,135.09
2018	<b>24,726,169.44</b>	25,504,576.82
2019	<b>25,792,065.32</b>	26,150,385.15
2020	<b>31,102,837.77</b>	28,048,472.70
2021	<b>35,418,793.12</b>	–
	<b>128,623,767.45</b>	102,947,898.90

- (e) Temporary differences correspond to assets or liabilities items of deferred income tax assets that are not offset

	31 December 2016	31 December 2015
Provision of impairment of construction in progress	<b>1,121,052.88</b>	1,121,052.88
Provision for declines in values of inventories	<b>23,689,651.32</b>	19,727,372.60
Provision for bad debts	<b>100,499,470.33</b>	107,353,410.43
Long-term prepaid expenses	<b>218,797.93</b>	–
Provision of impairment of fixed assets	<b>18,871,677.90</b>	19,296,479.43
Difference arising from accounting and tax depreciations of fixed assets	<b>11,514,000.38</b>	12,074,081.64
Provision for impairment of Available-for-sale financial assets	<b>3,610,204.88</b>	3,610,204.88
Employee benefits payable	<b>58,682,808.73</b>	41,048,365.75
Other payables	<b>1,370,684,511.76</b>	933,846,501.53
Deferred income	<b>116,994,141.52</b>	106,368,460.66
Deductible tax losses	<b>190,054,170.81</b>	111,690,410.58
Elimination of unrealized profits arising from the inter-company transaction	<b>128,608,754.50</b>	117,022,706.89
Provision for impairment of intangible assets	–	480,700.24
Difference arising from accounting and tax amortizations of intangible assets	<b>1,589,876.35</b>	1,838,157.26
Provisions	<b>100,210,055.19</b>	46,244,031.19
Others	<b>5,386,326.35</b>	2,546,168.88
	<b>2,131,735,500.83</b>	1,524,268,104.84

# Notes to the Financial Statement

For the year ended 31 December 2016

(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)

- (f) Temporary differences correspond to assets or liabilities items of deferred income tax liabilities that are not offset

	<b>31 December 2016</b>	31 December 2015
Other receivables-rental	<b>3,311,878.17</b>	3,703,132.87
Changes in fair value of financial assets held for trading	<b>514,748.64</b>	988,414.30
Changes in fair value of available-for-sale financial assets	<b>14,350,072.78</b>	16,943,053.08
Depreciation balance of fixed assets revaluation	<b>1,967,160.00</b>	2,061,444.00
Difference arising from accounting and tax depreciations of fixed assets	<b>850,600.48</b>	813,644.80
Compensation from relocation	<b>277,481,141.16</b>	61,772,380.90
Amortization balance of intangible assets revaluation	<b>8,366,080.00</b>	8,598,472.00
Other receivables-distribution of income	<b>98,049,864.00</b>	45,743,840.00
Others	<b>614,016.87</b>	677,046.68
	<b>405,505,562.10</b>	141,301,428.63

### (20) Other non-current assets

	<b>31 December 2016</b>	31 December 2015
Specialized Technologies for medical manufacture (certificate name is not yet changed)	<b>35,970,282.97</b>	-

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (21) Provision for impairment of assets

	31 December 2015	Current increase (note)	Other decrease			31 December 2016
			Reversal	Written-off	Other decrease	
Provision for bad debts	99,291,633.74	4,704,888.46	3,110,041.50	-	-	<b>100,886,480.70</b>
Provision for declines in value of inventories	24,186,511.06	13,510,342.73	4,061,743.82	5,449,470.81	-	<b>28,185,639.16</b>
Provision for impairment of available for sale financial assets	4,553,551.23	-	-	-	-	<b>4,553,551.23</b>
Provision for impairment of fixed assets	22,785,746.01	-	-	558,898.44	-	<b>22,226,847.57</b>
Provision for impairment of construction in in progress	1,121,052.88	-	-	-	-	<b>1,121,052.88</b>
Provision for impairment of intangible assets	1,517,616.28	-	-	480,700.24	-	<b>1,036,916.04</b>
Provision for impairment of goodwill	475,756.92	-	-	-	-	<b>475,756.92</b>
	<u>153,931,868.12</u>	<u>18,215,231.19</u>	<u>7,171,785.32</u>	<u>6,489,069.49</u>	<u>-</u>	<b><u>158,486,244.50</u></b>

Note: Provision for bad debts at current period includes Guangzhou Baiyunshan Hospital Co., Ltd., which is business combination involving enterprises not under common control, and its balance of provision for bad debts at combination date was RMB4,314,552.03.

### (22) Short-term borrowings

	31 December 2016	31 December 2015
Credit borrowings	<b>50,000.00</b>	456,536,134.74
Pledge borrowings	-	94,999,883.79
Discount of commercial acceptance notes	<b>15,000,000.00</b>	78,147,446.16
Inward documentary bills	<b>10,165,424.88</b>	-
	<b><u>25,215,424.88</u></b>	<u>629,683,464.69</u>

- (a) As at 31 December 2016 and 31 December 2015, there are no overdue borrowings.
- (b) As at 31 December 2016, there are no pledged bank borrowings. (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).
- (c) As at 31 December 2016, the weighted average interest rate of short-term borrowings is 3.5620% per annum (As at 31 December 2015: 4.6192% per annum).

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (23) Notes payable

	<b>31 December 2016</b>	31 December 2015
Bank acceptance notes	<b>277,890,397.46</b>	197,727,364.71
Commercial acceptance notes	<b>42,921,124.52</b>	94,879,734.94
	<b>320,811,521.98</b>	292,607,099.65

As at 31 December 2016, notes payable amounted to RMB320,812 thousand were expected to be due within 1 year (as at 31 December 2015: RMB292,607 thousand).

### (24) Accounts payable

(a) Details of accounts payable:

	<b>31 December 2016</b>		31 December 2015	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	<b>2,073,358,531.89</b>	<b>91.45%</b>	2,452,193,485.28	93.01%
Over 1 year	<b>193,920,535.98</b>	<b>8.55%</b>	184,280,622.77	6.99%
	<b>2,267,279,067.87</b>	<b>100.00%</b>	2,636,474,108.05	100.00%

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (24) Accounts payable (Continued)

- (b) As at 31 December 2016, accounts payable that are individually significant aging over 1 year are as below (as at 31 December 2015: RMB125,013 thousand):

Item	Ending balance	Reason of outstanding or transfer
Supplier 1	47,405,089.60	Involving litigation, detail refers to Note 16(1)(a)(i)
Supplier 2	22,576,000.00	Involving litigation, detail refers to Note 16(1)(a)(i)
Supplier 3	18,440,000.00	Involving litigation, detail refers to Note 16(1)(a)(i)
Supplier 4	14,318,990.84	Supplier lack of funds, consulted on-account
	<u>102,740,080.44</u>	

### (25) Advances from customers

- (a) Details of advances from customers:

	31 December 2016		31 December 2015	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	<b>1,519,493,443.20</b>	<b>97.85%</b>	945,769,911.96	97.05%
Over 1 year	<b>33,392,288.20</b>	<b>2.15%</b>	28,744,298.34	2.95%
	<u><b>1,552,885,731.40</b></u>	<u><b>100.00%</b></u>	<u>974,514,210.30</u>	<u>100.00%</u>

- (b) As at 31 December 2016 and 31 December 2015, there are no advances from customers that are individually significant aging are over 1 year.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (26) Employee benefits payable

	31 December 2015	Current increase	Current decrease	31 December 2016
1. Short-term employee benefits	412,212,971.45	2,929,034,452.90	2,798,210,630.19	<b>543,036,794.16</b>
Wages and salaries, bonuses, allowances and subsidies	390,473,136.72	2,473,391,861.99	2,346,552,949.37	<b>517,312,049.34</b>
Including: Service fee	183,493,987.47	441,082,785.05	538,412,842.84	<b>86,163,929.68</b>
Staff welfare	(378,326.93)	109,406,581.27	109,028,254.34	-
Including: Funds of bonus and welfare of Foreign Invested Enterprises	-	-	-	-
Social insurances	(12,541.06)	121,509,606.17	121,211,610.48	<b>285,454.63</b>
Including: Medical insurance	(5,520.88)	107,782,438.26	107,485,545.96	<b>291,371.42</b>
Work injury insurance	196.61	5,534,489.96	5,532,836.33	<b>1,850.24</b>
Maternity insurance	(7,216.79)	8,192,677.95	8,193,228.19	<b>(7,767.03)</b>
Housing funds	764,482.70	158,356,975.64	158,904,268.64	<b>217,189.70</b>
Labor union funds	3,649,619.45	27,368,787.15	25,998,429.41	<b>5,019,977.19</b>
Employee education funds	2,456,873.98	14,303,174.71	13,024,702.51	<b>3,735,346.18</b>
Non-monetary welfare	-	-	-	-
Housing allowance	14,917,233.49	14,826,792.99	14,695,083.64	<b>15,048,942.84</b>
Staff reward and welfare funds	-	146,100.00	146,100.00	-
Short-term paid absences	-	13,173.70	13,173.70	-
Other short-term benefits	342,493.10	9,711,399.28	8,636,058.10	<b>1,417,834.28</b>
2. Post-employment benefits	816,766.70	249,346,278.69	246,676,458.68	<b>3,486,586.71</b>
Defined contribution plans	816,766.70	249,346,278.69	246,676,458.68	<b>3,486,586.71</b>
Including: Basic pension insurance	6,178.82	182,535,382.98	182,369,316.19	<b>172,245.61</b>
Unemployment	2,749.40	7,262,547.65	7,260,955.95	<b>4,341.10</b>
Annuity	213,552.00	48,255,459.19	45,159,011.19	<b>3,310,000.00</b>
Others	594,286.48	11,292,888.87	11,887,175.35	-
Defined benefits plans	-	-	-	-
3. Termination benefits	-	4,619,139.52	4,619,139.52	-
Compensation for lay-off	-	4,619,139.52	4,619,139.52	-
Others	-	-	-	-
4. Other long-term employee benefits	-	-	-	-
Long-term paid absences	-	-	-	-
Long-term disability benefits	-	-	-	-
Long-term profit-sharing scheme	-	-	-	-
Other long-term benefits	-	-	-	-
	<b>413,029,738.15</b>	<b>3,182,999,871.11</b>	<b>3,049,506,228.39</b>	<b>546,523,380.87</b>

As at 31 December 2016, employee benefits payable mainly include the wages, bonus and service fee of December 2016 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 2017.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (27) Taxes payable

	<b>31 December 2016</b>	31 December 2015
VAT	<b>94,792,580.01</b>	(11,469,979.45)
Business tax	<b>33,574.53</b>	1,462,630.59
City maintenance and construction tax	<b>6,174,412.56</b>	3,767,929.85
Education surcharge	<b>2,647,120.75</b>	1,648,735.36
Local education surcharge	<b>1,767,074.63</b>	1,080,248.09
Enterprise income tax	<b>267,270,554.20</b>	66,193,089.78
Individual income tax	<b>8,734,156.41</b>	9,942,441.20
Real-estate tax	<b>1,496,755.63</b>	807,105.72
Land use tax	<b>113,683.34</b>	–
Urban area embankment maintenance fee	–	20,386.91
Stamp duty	<b>1,161,430.85</b>	1,061,852.06
Others	<b>812.48</b>	18.00
	<b>384,192,155.39</b>	74,514,458.11

### (28) Interest payable

Item	<b>31 December 2016</b>	31 December 2015
Interest payable of short-term borrowings	–	73,458.32
Interest payable of long-term borrowings	<b>257,658.10</b>	286,170.24
	<b>257,658.10</b>	359,628.56

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (29) Dividends payable

	<b>31 December 2016</b>	31 December 2015
Investor		
Public shares	<b>224,254.46</b>	156,180.46
BYS Group	<b>45.01</b>	45.01
Minority shareholders	<b>57,077,241.55</b>	51,909,873.44
	<b>57,301,541.02</b>	52,066,098.91

### (30) Other payables

(a) The aging of other payables is analyzed as follows:

	<b>31 December 2016</b>	31 December 2015
Within 1 year	<b>2,102,824,489.13</b>	1,585,891,463.00
Over 1 year	<b>165,157,031.56</b>	169,359,640.41
	<b>2,267,981,520.69</b>	1,755,251,103.41

(b) Other payables are analysed by categories as follows:

	<b>31 December 2016</b>	31 December 2015
Deposits	<b>103,478,187.84</b>	119,819,155.04
Technology development expenses	<b>334,955.10</b>	981,390.62
Rental expenses	<b>1,248,612.55</b>	890,668.56
Payables to third parties	<b>140,980,833.21</b>	89,407,540.85
Amount due to employees	<b>21,515,364.61</b>	12,054,678.84
Payables to related parties (Note 12)	<b>36,163,673.93</b>	43,357,745.40
Accruals for purchase of fixed assets	<b>21,525,224.68</b>	14,444,015.17
Sales rebate	<b>849,082,213.00</b>	138,376,142.93
Accrued expenses	<b>1,063,800,929.12</b>	1,318,679,764.89
Others	<b>29,851,526.65</b>	17,240,001.11
	<b>2,267,981,520.69</b>	1,755,251,103.41

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (30) Other payables (Continued)

#### (c) Details of accrued expenses:

	31 December 2016	31 December 2015
Rental expenses	4,522,268.70	7,014,509.87
Agent fees	701,560.82	1,202,896.67
Advertising and promotional expenses	732,272,953.34	1,095,142,853.64
Utilities	7,392,034.18	7,525,426.04
Transportation expenses	153,637,191.96	76,873,746.95
Conference expenses	4,832,154.62	1,082,302.98
Research and development expenses	29,014,068.19	16,054,341.60
Marketing expenses	27,936,624.70	44,565,889.15
Travelling expenses	15,104,647.64	6,489,622.76
Consulting expenses	1,235,000.00	959,223.96
Trademark expenses	3,900,000.00	3,900,000.00
Others	83,252,424.97	57,868,951.27
	<b>1,063,800,929.12</b>	<b>1,318,679,764.89</b>

- (d) As at 31 December 2016 and 31 December 2015, significant other payables whose aging are over 1 year mainly include unsettled balance for purchase of fixed assets and intangible assets, and purchase deposit.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (31) Long-term borrowings

#### (a) Classification of long-term borrowings:

Category of borrowings	31 December 2016	31 December 2015
Credit borrowings	<b>33,502,083.03</b>	39,755,174.34

The maturity date of long-term borrowings is April 17, 2018.

### (32) Long-term payables

	31 December 2016	31 December 2015
State fund	<b>17,208,759.82</b>	18,720,803.57
Department of Finance of Guangxi Zhuang Autonomous Region	<b>2,264,426.47</b>	2,264,426.47
State Pharmaceutical Administration	<b>305,000.00</b>	305,000.00
Others	<b>780,597.36</b>	929,669.30
	<b>20,558,783.65</b>	22,219,899.34

### (33) Payables for specific projects

	31 December 2015	Current increase	Current decrease	31 December 2016	Reason
Compensation of relocation due to policies	19,058,160.00	-	2,215,386.20	<b>16,842,773.80</b>	Compensation of relocation due to policies

# Notes to the Financial Statement

For the year ended 31 December 2016

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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (34) Provisions

	31 December 2016	31 December 2015	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	52,344,808.84	53,281,575.59	Note 1
Unemployed fee for relocation of Qi Xing	6,540,873.12	10,380,767.54	Note 2
Economic compensation for staffs of Jing Xiu Tang	1,660,000.00	–	Note 3
	<b>61,045,873.15</b>	<b>64,162,534.32</b>	

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, for the employee who has serviced for 15 years but has less than 5 years to the age at statutory retirement, if the relocation of Qi Xing was completed, these employee would await job assignment when they have no position, they would receive salary monthly until retirement, and this unemployed fee for relocation of Qi Xing are estimated consequently.

Note 3: The case of economic compensation of Jing Xiu Tang is not yet judged, details refer to Note 16(1)(c)(vii), the economic compensation for staffs of Jing Xiu Tang was estimated accordingly.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (35) Deferred income

Item	31 December 2015	Current increase of grants	Current revenue from non-operation	For cooperation	Other movement	31 December 2016	Reason
<b>Government grants related to assets:</b>	98,663,325.82	49,514,319.99	18,631,298.58	-	(2,471,342.21)	<b>127,075,005.02</b>	
Including:							
Technology funds granted by government	58,330,044.51	29,659,319.99	13,585,687.19	-	-	<b>74,403,677.31</b>	Received appropriation from government
Relocation compensation	4,462,976.46	-	365,644.44	-	(2,471,342.21)	<b>1,625,989.81</b>	Received appropriation from government
Financial discount	1,808,952.27	-	71,866.92	-	-	<b>1,737,085.35</b>	Received appropriation from government
Special fund of environmental protection	4,036,427.37	-	808,754.82	-	-	<b>3,227,672.55</b>	Received appropriation from government
Innovating platform construction	15,012,842.78	-	2,265,876.16	-	-	<b>12,746,966.62</b>	Received appropriation from government
Land support fund from government	10,250,041.42	-	811,300.41	-	-	<b>9,438,741.01</b>	Received appropriation from government
Support fund for industrial development	-	18,000,000.00	-	-	-	<b>18,000,000.00</b>	Received appropriation from government
Others	4,762,041.01	1,855,000.00	722,168.64	-	-	<b>5,894,872.37</b>	Received appropriation from government
<b>Government grants related to income:</b>	84,924,533.01	880,847,986.16	478,192,564.56	1,460,000.00	(1,110,797.05)	<b>485,009,157.56</b>	
Including:							
Technology funds granted by government	60,427,721.15	59,696,451.88	53,318,739.14	1,230,000.00	(111,282.05)	<b>65,464,151.84</b>	Received appropriation from government
Special fund of technology exports	151,628.72	-	56,666.66	-	-	<b>94,962.06</b>	Received appropriation from government
Medical industrial research project	11,830,464.30	7,080,236.67	9,192,608.63	230,000.00	-	<b>9,488,092.34</b>	Received appropriation from government
Special fund of energy-saving improvement	708,750.00	-	12,600.00	-	-	<b>696,150.00</b>	Received appropriation from government
Special fund of innovative firms	7,710.76	50,000.00	54,060.08	-	-	<b>3,650.68</b>	Received appropriation from government
Compensation of relocation	8,260,025.38	674,812,455.56	275,726,044.48	-	-	<b>407,346,436.46</b>	Received appropriation from government
Enterprise development fund	-	130,480,000.00	130,480,000.00	-	-	-	Received appropriation from government
Others	3,538,232.70	8,728,842.05	9,351,845.57	-	(999,515.00)	<b>1,915,714.18</b>	Received appropriation from government
<b>Total</b>	<b>183,587,858.83</b>	<b>930,362,306.15</b>	<b>496,823,863.14</b>	<b>1,460,000.00</b>	<b>(3,582,139.26)</b>	<b>612,084,162.58</b>	

### (36) Long-term employee benefits payable

Item	31 December 2016	31 December 2015
Post-employment benefits-Provision for long-term service bonus	<b>316,733.72</b>	296,646.40

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (37) Share capital

	31 December 2015		Current increase (+)/decrease(-)					31 December 2016	
	Amount	% of the total balance	Issued shares	Stock distribution	Capitalizing of capital reserves	Others	Subtotal	Amount	Ratio (%)
Shares subject to selling restrictions -									
State-owned shares	-	-	-	-	-	-	-	-	-
State-owned legal person shares	34,839,645.00	2.70	236,315,006.00	-	-	(34,839,645.00)	201,475,361.00	236,315,006.00	14.54
Other domestic shares	-	-	98,396,693.00	-	-	-	98,396,693.00	98,396,693.00	6.05
Including:									
Domestic non-state-owned legal person shares	-	-	-	-	-	-	-	-	-
Domestic natural person shares	-	-	-	-	-	-	-	-	-
Others	-	-	98,396,693.00	-	-	-	98,396,693.00	98,396,693.00	6.05
Foreign shares	-	-	-	-	-	-	-	-	-
Including:									
Foreign legal person shares	-	-	-	-	-	-	-	-	-
Foreign natural person shares	-	-	-	-	-	-	-	-	-
Shares subject to selling restrictions - subtotal	34,839,645.00	2.70	334,711,699.00	-	-	(34,839,645.00)	299,872,054.00	334,711,699.00	20.59
Shares subject to no selling restrictions:									
RMB ordinary shares	1,036,339,605.00	80.27	-	-	-	34,839,645.00	34,839,645.00	1,071,179,250.00	65.88
Foreign shares listed in the PRC	-	-	-	-	-	-	-	-	-
Foreign shares listed out of the PRC	219,900,000.00	17.03	-	-	-	-	-	219,900,000.00	13.53
Others	-	-	-	-	-	-	-	-	-
Shares subject to no selling restrictions - subtotal	1,256,239,605.00	97.30	-	-	-	34,839,645.00	34,839,645.00	1,291,079,250.00	79.41
Total share capital	1,291,079,250.00	100.00	334,711,699.00	-	-	-	334,711,699.00	1,625,790,949.00	100.00

At current period, the Company issued non-public 334,711,699 shares, which is RMB1 per share, capital share was increased RMB334,711,699.00, after change, the capital share is RMB1,625,790,949.00.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (37) Share capital (Continued)

	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

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (38) Capital surplus

	31 December 2015	Current increase	Current decrease	31 December 2016
Share premium	1,529,628,715.09	7,528,734,829.33	–	<b>9,058,363,544.42</b>
Other capital surplus	816,806,393.55	2,646.71	–	<b>816,809,040.26</b>
Including: Transfer of capital surplus recognized under the previous accounting system	24,955,836.66	–	–	<b>24,955,836.66</b>
	<u>2,346,435,108.64</u>	<u>7,528,737,476.04</u>	<u>–</u>	<u><b>9,875,172,584.68</b></u>

	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>

The fluctuation of the capital surplus at current period was due to:

- (a) The Company issued non-public 334,711,699 shares, with RMB23.56 per share, capital raised total amounted to RMB7,885,807,628.44, after deducting issuance cost amounted to RMB22,361,100.11, the net actual capital raised amounted to RMB7,863,446,528.33. Additional capital amounted to RMB334,711,699.00, capital reserve was increased to RMB7,528,734,829.33.
- (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 RMB3 thousand based on its ratio of shareholding in GP Corp. accordingly.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (39) Other comprehensive income

Item	Opening balance	Current Amount					Ending balance
		Current pre-tax	Less: profit or loss transferred by other comprehensive income at last period	Less: income tax	After-tax attributable to parent company	After-tax attributable to minority shareholders	
1. Items will not be classified into profit or loss at following accounting period	1,448,181.81	-	-	-	-	-	1,448,181.81
Including: Portion of items will not be classified into profit or loss when under equity method	1,448,181.81	-	-	-	-	-	1,448,181.81
2. Items will be classified into profit or loss at following accounting period.	(2,180,860.00)	9,554,910.06	(612,913.50)	(348,888.54)	10,520,745.16	(4,033.06)	8,339,885.16
Including: Portion of items will be classified into profit or loss when under equity method	414,932.57	(218,435.84)	-	-	(218,435.84)	-	196,496.73
Profit or loss arising from the changes in fair value of available for sale financial assets	4,977,844.81	6,443,827.01	(612,913.50)	(348,888.54)	7,409,662.11	(4,033.06)	12,387,506.92
Differences arising from translation of foreign currency	(7,573,637.38)	3,329,518.89	-	-	3,329,518.89	-	(4,244,118.49)
Total other comprehensive income	(732,678.19)	9,554,910.06	(612,913.50)	(348,888.54)	10,520,745.16	(4,033.06)	9,788,066.97

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (40) Surplus reserve

	31 December 2015	Current increase	Current decrease	31 December 2016
Statutory surplus reserve	811,596,644.87	121,512,156.61	–	<b>933,108,801.48</b>
Discretionary surplus reserve	118,925,617.49	–	–	<b>118,925,617.49</b>
	<u>930,522,262.36</u>	<u>121,512,156.61</u>	<u>–</u>	<u><b>1,052,034,418.97</b></u>

	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>

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

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (41) Undistributed profits

	The year ended 31 December 2016	The year ended 31 December 2015
Undistributed profits at the beginning of the year (before adjustments)	<b>3,883,510,490.48</b>	3,059,769,635.87
Adjustments of undistributed profits at the beginning of the year (Add: positive; Less: negative)	-	-
Undistributed profits at the beginning of the year (after adjustments)	<b>3,883,510,490.48</b>	3,059,769,635.87
Add: Net profit for current period	<b>1,508,032,671.07</b>	1,300,351,292.59
Less: Appropriation for surplus reserve	<b>121,512,156.61</b>	115,035,055.98
Less: Distributed dividends	<b>487,737,284.70</b>	361,575,382.00
Less: Others	-	-
Undistributed profits at the end of period	<b><u>4,782,293,720.24</u></b>	<u>3,883,510,490.48</u>

- (a) As at 31 December 2016, surplus reserves of the Company's subsidiaries amounted to RMB592,865 thousand and was included in undistributed profits (As at 31 December 2015: RMB462,235 thousand).
- (b) Pursuant to the resolution of 2nd extraordinary shareholders meeting of 2016 on 11 November 2016, the Company distributed cash dividends total amounted to RMB487,737 thousand RMB0.30 per share which was calculated by issued shares amounted to 1,625,790,949 to all shareholders.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (42) Minority interests

Investee	Investment relationship with the Company	31 December 2016	31 December 2015
Xing Qun	Direct subsidiary	22,505,216.93	22,256,243.19
Guangzhou Han Fang	Direct subsidiary	69,558.44	67,649.58
Jing Xiu Tang	Direct subsidiary	17,633,764.53	17,220,844.13
Pan Gao Shou	Direct subsidiary	24,683,887.64	23,483,406.94
Tibet Lin Zhi Guangyao Development Co., Ltd.	Indirect subsidiary	167,591.71	169,403.78
Guangxi Ying Kang	Direct subsidiary	16,358,401.99	14,998,338.75
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd.	Indirect subsidiary	3,289,403.54	2,741,098.44
Guangzhou Guang Yao Yi Gan Biological Product Co., Ltd.	Direct subsidiary	278,706.31	657,724.77
Xing Zhu	Direct subsidiary	17,860,472.70	19,508,039.08
Tian Xin	Direct subsidiary	34,222,695.43	32,649,180.15
Guang Hua	Direct subsidiary	20,573,323.98	17,942,964.91
Baiyunshan Pharmaceutical Technology	Direct subsidiary	83,570,171.43	52,997,602.26
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	109,389.22	192,548.90
Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd. (Note 1)	Indirect subsidiary	–	672,412.21
Jingyu Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	2,468,409.89	2,489,208.01
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	2,216,957.28	1,760,758.20
Heilongjiang Sen Gong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	1,351,437.12	1,236,217.03
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	1,469,848.81	1,121,224.76
Zhejiang Guang Kang Hospital Co., Ltd.	Indirect subsidiary	20,187,323.86	20,909,325.09
Guang Hua Health	Indirect subsidiary	236,160.45	44,525.44
Guangzhou Baiyunshan Hospital	Indirect subsidiary	37,565,360.55	–
Guangzhou Wang Lao Ji Food & Beverage Management Development Co., Ltd.	Indirect subsidiary	1,892,626.60	–
		<b>308,710,708.41</b>	<b>233,118,715.62</b>

Note 1: Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd. which is held by Cai Zhi Lin, Guang Hua and Chen Li Ji entered into liquidation in November 2016, and was cancelled in November 2016.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (43) Revenue and cost of operation

	The year ended 31 December 2016		
	Principal operation	Other operation	Subtotal
Revenue	<b>19,875,179,176.98</b>	<b>160,502,322.39</b>	<b>20,035,681,499.37</b>
Cost of operation	<b>13,372,297,606.33</b>	<b>39,765,289.70</b>	<b>13,412,062,896.03</b>
Gross profit	<b>6,502,881,570.65</b>	<b>120,737,032.69</b>	<b>6,623,618,603.34</b>

	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

(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 2016	The year ended 31 December 2015	The year ended 31 December 2016	The year ended 31 December 2015
Great Souther TCM	<b>6,906,387,390.92</b>	6,759,160,340.15	<b>3,893,998,424.65</b>	3,746,800,084.10
Great Health	<b>7,769,431,121.54</b>	7,768,457,533.80	<b>4,601,044,716.98</b>	4,318,442,180.75
Great Commerce	<b>5,148,330,618.04</b>	4,438,327,304.45	<b>4,839,248,695.98</b>	4,099,880,503.04
Other	<b>51,030,046.48</b>	546,738.50	<b>38,005,768.72</b>	440,301.23
	<b>19,875,179,176.98</b>	18,966,491,916.90	<b>13,372,297,606.33</b>	12,165,563,069.12

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (43) 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 2016	The year ended 31 December 2015	The year ended 31 December 2016	The year ended 31 December 2015
Southern China	10,819,594,823.69	9,877,335,599.92	7,645,736,840.02	6,650,628,385.04
Eastern China	3,563,652,859.23	3,705,871,031.73	2,291,061,377.58	2,289,384,676.90
Northern China	2,262,849,495.94	2,408,726,759.44	1,310,359,644.10	1,342,841,403.48
Northeastern China	335,257,327.86	294,498,111.13	206,754,742.02	180,234,306.25
Southwestern China	2,194,768,076.04	1,993,506,821.76	1,495,606,618.93	1,239,776,071.14
Northwestern China	629,943,001.02	487,747,009.64	355,340,328.79	272,580,684.77
Other countries	69,113,593.20	198,806,583.28	67,438,054.89	190,117,541.54
	<b>19,875,179,176.98</b>	<b>18,966,491,916.90</b>	<b>13,372,297,606.33</b>	<b>12,165,563,069.12</b>

(c) Top five of the revenue of the Group amounted to RMB2,592,605 thousand in total (For the year ended 31 December 2015: RMB2,047,539 thousand), which accounts for 13.04% of the total revenue of the Group (for the year ended 31 December 2015: 10.80%).

	Revenue of the principal operation	Percentage of the total revenue of the principal operation of the Group
Customer 1	1,217,866,444.23	6.13%
Customer 2	450,082,295.54	2.26%
Customer 3	384,110,073.43	1.93%
Customer 4	280,075,826.42	1.41%
Customer 5	260,470,085.44	1.31%
	<b>2,592,604,725.06</b>	<b>13.04%</b>

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (43) Revenue and cost of operation (Continued)

#### (d) Revenue from other operation

	The year ended 31 December 2016	The year ended 31 December 2015
Leases of assets	<b>83,341,808.19</b>	81,161,897.13
Sales of materials	<b>1,197,965.26</b>	833,159.35
Trademark fee income	<b>12,282,912.62</b>	14,702,434.23
Consulting fee income	<b>3,711,613.33</b>	2,563,712.33
Medicine slotting fee income	<b>465,968.26</b>	526,985.32
Technology services income	<b>282,319.82</b>	2,499,774.23
Utilities expense collected on behalf	<b>11,350,575.24</b>	9,652,092.62
Management fee	<b>6,865,767.18</b>	7,325,833.32
Labor income	<b>1,166,386.22</b>	658,937.03
License fee	<b>25,062,055.66</b>	25,767,301.80
Others	<b>14,774,950.61</b>	12,474,254.64
	<b>160,502,322.39</b>	158,166,382.00

#### (e) Expenses from other operation

	The year ended 31 December 2016	The year ended 31 December 2015
Depreciation of assets leased out	<b>17,176,070.34</b>	18,487,040.17
Cost of materials sold	<b>630,558.41</b>	93,407.50
Service fee for technology	<b>72,863.64</b>	1,405,905.15
Utilities expense collected on behalf	<b>12,678,454.30</b>	9,446,175.56
Labor fee	<b>4,056,433.72</b>	658,937.03
Management fee	<b>72,700.34</b>	88,815.24
Others	<b>5,078,208.95</b>	4,756,700.15
	<b>39,765,289.70</b>	34,936,980.80

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (44) Taxes and surcharges

	The year ended 31 December 2016	The year ended 31 December 2015
Business tax	3,685,687.89	8,852,723.22
City maintenance and construction tax	79,565,834.69	89,216,901.46
Education surcharge	34,415,152.91	38,346,793.45
Local education surcharge	22,916,119.16	25,564,937.28
Real-estate tax	22,461,303.90	7,552,813.37
Vehicle and vessel use tax	564,594.46	–
Land use tax(fee)	7,807,153.66	–
Stamp duty	17,604,037.18	–
Others	289,273.14	93,621.49
	<b>189,309,156.99</b>	<b>169,627,790.27</b>

Basis of calculation: refer to Note 4

### (45) Selling and distribution expenses

	The year ended 31 December 2016	The year ended 31 December 2015
Employee benefit	1,722,045,917.36	1,659,841,809.77
Sales service fee	806,928,622.76	742,156,491.01
Transportation expenses	148,157,757.14	149,920,116.75
Office expenses	18,431,753.12	15,791,301.08
Freight and miscellaneous charges	497,022,503.90	392,178,783.54
Rental expenses	19,587,154.57	21,998,624.70
Conference expenses	42,622,105.80	43,386,750.88
Advertising and promotion fees	511,152,206.86	1,095,958,515.03
Consulting fees	5,465,864.57	4,661,909.20
Depreciation charges	3,104,655.26	3,059,459.49
Others	49,070,948.85	38,727,140.09
	<b>3,823,589,490.19</b>	<b>4,167,680,901.54</b>

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (46) General and administrative expenses

	The year ended 31 December 2016	The year ended 31 December 2015
Employee benefit	656,477,090.12	594,786,018.40
Insurance premium	2,788,052.96	2,713,969.32
Depreciation charges	52,371,382.36	46,376,642.23
Utilities	10,427,918.37	10,985,466.63
Administrative expenses	38,789,989.72	34,960,857.08
Travelling expenses	14,694,617.90	16,217,856.05
Freight and miscellaneous charges	15,800,365.72	16,126,321.39
Repairing expenses	15,399,045.81	17,060,115.97
Rental expenses	37,847,526.80	28,827,677.22
Conference expenses	4,906,348.24	4,890,356.30
Research and development expenses	330,367,834.40	313,848,003.38
Taxation charges	12,860,034.65	44,336,437.69
Amortization	27,896,685.59	26,883,307.61
Professional service fees	12,650,071.10	10,961,185.86
Including: Audit fees	2,443,000.00	2,393,000.00
Consulting fees	5,783,774.20	13,880,780.01
Trademark License fees	93,919,705.53	91,178,552.35
Others	106,753,869.00	100,772,138.32
	<b>1,439,734,312.47</b>	<b>1,374,805,685.81</b>

### (47) Financial expenses

	The year ended 31 December 2016	The year ended 31 December 2015
Interest expenses	16,657,530.56	32,088,902.33
Discount interest expenses of notes	4,026,530.44	8,625,817.84
Interest income	(122,186,583.37)	(65,045,905.93)
Exchange (gains)/losses	917,249.77	(825,518.56)
Bank charges	3,710,856.84	3,218,879.30
Others	354,156.79	-
	<b>(96,520,258.97)</b>	<b>(21,937,825.02)</b>

The interest expenses for the year ended 31 December 2016 and for the year ended 31 December 2015 is the last term of interest on borrowings which repayment date within 5 years.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (48) Losses on impairment of assets

	The year ended 31 December 2016	The year ended 31 December 2015
Losses for bad debts	<b>(2,719,705.07)</b>	27,829,137.82
Losses for declines in values of inventories	<b>9,448,598.91</b>	8,483,732.80
	<b>6,728,893.84</b>	36,312,870.62

### (49) Profit arising from changes in fair value

	The year ended 31 December 2016	The year ended 31 December 2015
Gains arising from changes in fair value of listed shares of Zhongzhi	<b>(249,161.10)</b>	873,509.10
Gains arising from changes in fair value of listed shares of Harbin Pharmaceutical Group Co., Ltd. held by the Group	<b>(224,504.56)</b>	940,257.50
	<b>(473,665.66)</b>	1,813,766.60

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (50) Investment income

	The year ended 31 December 2016	The year ended 31 December 2015
Investment income from financial assets:		
Investment income in the period of holding of financial assets based on fair value to confirm profit or loss	14,452.60	297,403.40
Investment income in the period of holding of available-for-sale financial assets	12,460,498.13	5,445,140.70
Investment income from the disposal of available-for-sale financial assets	(612,913.50)	–
Gain or loss of entrusted loans	–	(1,743,226.44)
	<b>11,862,037.23</b>	<b>3,999,317.66</b>
Income from long-term equity investment:		
Income from long-term equity investments recognized by equity method	194,459,911.23	206,845,139.58
Income from disposal of long-term equity investments	–	8,499.86
	<b>194,459,911.23</b>	<b>206,853,639.44</b>
	<b>206,321,948.46</b>	<b>210,852,957.10</b>

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (51) Non-operating income

	The year ended 31 December 2016	The year ended 31 December 2015
Gains on disposal of non-current assets	<b>17,866,008.79</b>	698,961.19
Including: Gains on disposal of fixed assets	<b>12,707,556.72</b>	698,961.19
Gains on disposal of intangible assets	<b>5,158,452.07</b>	–
Government grants	<b>496,823,863.14</b>	307,220,284.09
Penalty income	<b>251,471.14</b>	440,493.09
Sales of scraps	<b>4,233,100.22</b>	3,979,713.19
Waived funds	<b>4,151,775.58</b>	3,276,004.02
Indemnity income	<b>19,727,059.79</b>	8,198,762.19
Expatriates benefits	<b>5,397,371.30</b>	3,336,719.64
Others	<b>6,341,892.34</b>	4,047,640.92
	<b>554,792,542.30</b>	331,198,578.33

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### (51) Non-operating income *(Continued)*

Details of government grants are as below:

Item	<b>The year ended 31 December 2016</b>	The year ended 31 December 2015
Government grants related to assets: Including:		
Technology funds granted from government	<b>13,585,687.19</b>	14,497,578.61
Compensation for relocation	<b>365,644.44</b>	4,312,349.04
Financial discount	<b>71,866.92</b>	71,866.92
Specific funds of environmental protection	<b>808,754.82</b>	1,099,009.39
Innovating platform construction	<b>2,265,876.16</b>	2,666,775.24
Government grants for land	<b>811,300.41</b>	40,477.94
Others	<b>722,168.64</b>	603,176.03
	<b>18,631,298.58</b>	23,291,233.17
Government grants related to income: Including:		
Technology funds granted from government	<b>53,318,739.14</b>	20,934,469.02
Special funds of technology export	<b>56,666.66</b>	56,666.67
Special funds for project of medical industrial research	<b>9,192,608.63</b>	6,335,011.24
Special funds of reconstruction for energy saving	<b>12,600.00</b>	12,600.00
Special funds of innovating enterprises	<b>54,060.08</b>	3,899.76
Compensation of relocation	<b>275,726,044.48</b>	129,757,696.78
Special funds for "Enterprises Development"	<b>130,480,000.00</b>	117,560,000.00
Others	<b>9,351,845.57</b>	9,268,707.45
	<b>478,192,564.56</b>	283,929,050.92
Total	<b>496,823,863.14</b>	307,220,284.09

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (52) Non-operating expenses

	The year ended 31 December 2016	The year ended 31 December 2015
Losses on disposal of non-current assets	2,622,479.73	1,992,658.12
Including: Losses on disposal of fixed assets	2,622,479.73	1,992,658.12
Public welfare donations	6,501,128.78	3,905,071.54
Relocation	59,663,128.43	104,533,862.62
Penalty and overdue fines	2,154,142.71	1,938,298.14
Reward of family planning	247,975.07	720,691.42
Other	5,175,580.86	321,472.35
	<b>76,364,435.58</b>	<b>113,412,054.19</b>

### (53) Income tax expenses

	The year ended 31 December 2016	The year ended 31 December 2015
Current income tax	425,896,218.16	268,720,343.83
Deferred income tax	(39,516,814.99)	14,114,757.58
	<b>386,379,403.17</b>	<b>282,835,101.41</b>

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (53) 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:

	<b>The year ended 31 December 2016</b>	The year ended 31 December 2015
Total profit	<b>1,945,053,398.34</b>	1,628,122,073.60
Income tax expenses calculated at 25%	<b>486,263,349.59</b>	407,030,518.40
Tax effect of different rates applicable to subsidiaries	<b>(162,646,170.96)</b>	(99,445,526.71)
Adjust effect for income tax of previous period	<b>(2,936,163.85)</b>	(2,578,259.68)
Gain or loss belong to associates & joint venture	<b>(29,508,374.06)</b>	(32,624,742.09)
Non-taxable revenue	<b>(2,025,468.61)</b>	(1,723,504.36)
Expenses not deductible for tax purposes	<b>4,420,280.84</b>	7,264,809.04
Effect for the balance of deferred income tax in initial stage of changes on tax rate	<b>84,252,750.07</b>	–
Tax effect of deductible temporary differences & deductible loss which are not recognized in current period	<b>8,854,698.28</b>	7,023,747.80
Tax effect of unrecognized deferred income tax assets	<b>(295,498.13)</b>	(2,111,940.99)
Income tax expenses	<b>386,379,403.17</b>	282,835,101.41

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (54) 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 2016	The year ended 31 December 2015
Consolidated net profit attributable to ordinary shareholders of the Company	1,508,032,671.07	1,300,351,292.59
Weighted average number of ordinary shares outstanding:	1,402,649,816	1,291,188,167
Weighted average basic earnings per share	1.075	1.007

##### (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 2016	The year ended 31 December 2015
Consolidated net profit attributable to ordinary shareholders of the Company	1,508,032,671.07	1,300,351,292.59
Number of ordinary shares outstanding:	1,625,790,949	1,291,079,250
Overall diluted basic earnings per share	0.928	1.007

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (54) 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 2016, there were no potential ordinary shares (For the year ended 31 December 2015: nil), diluted earnings per share is equal to basic earnings per share.

### (55) Notes to the cash flow statement

#### (a) Cash received relating to other operating activities:

	<b>The year ended 31 December 2016</b>	The year ended 31 December 2015
Non-operating income	<b>35,927,515.28</b>	20,003,329.03
Other operation income	<b>160,502,322.39</b>	158,166,382.00
Government grants	<b>912,458,570.47</b>	349,405,210.43
Interest income	<b>122,186,583.37</b>	65,045,905.93
Received guarantee and others	–	18,219,614.12
	<b>1,231,074,991.51</b>	610,840,441.51

#### (b) Cash paid relating to other operating activities:

	<b>The year ended 31 December 2016</b>	The year ended 31 December 2015
Cash payments of selling and distribution expenses	<b>2,032,276,280.43</b>	2,066,872,950.32
Cash payments of general and administrative expenses	<b>505,390,363.53</b>	482,061,268.89
Financial expenses – bank charges	<b>3,710,856.84</b>	3,218,879.30
Others	<b>107,688,676.75</b>	164,419,090.97
	<b>2,649,066,177.55</b>	2,716,572,189.48

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (55) Notes to the cash flow statement (Continued)

#### (c) Cash received relating to other investing activities:

	The year ended 31 December 2016	The year ended 31 December 2015
Net cash received from acquire investments	5,391,663.23	8,512,691.75
Interest return	3,221.18	–
Interest received from internal borrowings	2,520,201.23	–
Interest received from securities accounts	–	12,017.88
	<b>7,915,085.64</b>	<b>8,524,709.63</b>

#### (d) Cash paid relating to other investing activities:

	The year ended 31 December 2016	The year ended 31 December 2015
Business tax and surcharge for payment of entrusted loans and interests of internal borrowings	1,990,385.70	3,300,299.19
Guarantee for delisting of Guangyao general Institute	–	2,703,162.47
Performance bond	–	545,066.67
	<b>1,990,385.70</b>	<b>6,548,528.33</b>

#### (e) Cash paid relating to other financing activities:

	The year ended 31 December 2016	The year ended 31 December 2015
Repurchasing for share	–	1.00
Poundage of borrowings	–	335,993.11
Liquidation fee paid for minority shareholders	–	557,396.33
Withholding tax paid for overseas financing	307,223.86	7,548,766.40
Non-public issuance	–	764,670.71
	<b>307,223.86</b>	<b>9,206,827.55</b>

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### (56) Supplementary information of cash flow statements

#### (a) Supplementary information of cash flow statements

##### (i) Reconciliation of net profit to cash flow operating activities

	<b>The year ended 31 December 2016</b>	The year ended 31 December 2015
Net profit	<b>1,558,673,995.17</b>	1,345,286,972.19
Add: Provision for assets impairment	<b>6,728,893.84</b>	36,312,870.62
Depreciation of fixed assets, and depreciation and amortization of Investment properties	<b>218,197,741.96</b>	203,601,689.32
Amortization of intangible assets	<b>17,328,545.18</b>	14,302,515.12
Amortization of long-term prepaid expenses	<b>7,418,478.02</b>	5,965,195.38
Loss (less: gain) on disposal of fixed assets, intangible assets and other long-term assets	<b>(15,243,529.06)</b>	1,293,696.93
Loss on scrapping of fixed assets	-	-
Loss (less: gain) on changes in fair value	<b>473,665.66</b>	(1,813,766.60)
Financial expenses (less: increase)	<b>22,053,415.38</b>	41,143,646.16
Investment gain (less: increase)	<b>(206,321,948.46)</b>	(210,852,957.10)
Decrease (less: increase) in deferred tax assets	<b>(87,383,128.45)</b>	(56,918.00)
Increase (less: decrease) in deferred tax liabilities	<b>47,866,313.46</b>	14,171,675.58
Decrease in inventories (less: increase)	<b>(246,797,412.27)</b>	28,907,105.46
Decrease of operating receivables (less: increase)	<b>(341,768,245.74)</b>	(32,009,873.26)
Increase of operating payables	<b>1,463,444,843.38</b>	495,704,645.45
Others	-	-
Net cash flows from operating activities	<b>2,444,671,628.07</b>	1,941,956,497.25

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (56) 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:

	<b>The year ended 31 December 2016</b>	The year ended 31 December 2015
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

	<b>The year ended 31 December 2016</b>	The year ended 31 December 2015
Cash at the end of period	<b>12,756,469,786.51</b>	3,837,603,553.98
Less: Cash at the beginning of year	<b>3,837,603,553.98</b>	3,049,528,750.47
Add: Cash equivalents at end of the period	–	–
Less: Cash equivalents at beginning of the year	–	–
Net movement in cash and cash equivalents	<b>8,918,866,232.53</b>	788,074,803.51

The cash and cash equivalents do not include housing fund amounted to RMB585 thousand, deposit of letter of guarantee amounted to RMB836 thousand, guarantee of notes payable amounted to RMB117,153 thousand, frozen account amounted to RMB115,964 thousand, structured deposits amounted to RMB100,000 thousand.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### (56) Supplementary information of cash flow statements *(Continued)*

(b) Details of cash and cash equivalents:

	<b>31 December 2016</b>	31 December 2015
Cash	<b>12,756,469,786.51</b>	3,837,603,553.98
Including: Cash on hand	<b>1,137,275.82</b>	637,187.57
Bank deposits that are readily available for payment	<b>12,749,600,724.86</b>	3,831,098,568.48
Other cash that are readily available for payment	<b>5,731,785.83</b>	5,867,797.93
Cash equivalents	–	–
Total cash and cash equivalent	<b>12,756,469,786.51</b>	3,837,603,553.98
Including: Cash and cash equivalents that are restricted	–	–
	<b>31 December 2016</b>	31 December 2015
Balance of cash at bank and on hand	<b>13,091,007,880.23</b>	4,118,291,426.52
Less: Balance of cash at bank and on hand that are restricted to use	<b>334,538,093.72</b>	280,687,872.54
Balance of cash and cash equivalents	<b>12,756,469,786.51</b>	3,837,603,553.98

### (57) Assets that restricted for ownership or use right

	<b>31 December 2016</b>	31 December 2015
Cash at bank and on hand	<b>334,538,093.72</b>	280,687,872.54

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (58) 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			16,886,300.25
Including: USD	1,839,846.62	6.9370	12,763,016.00
HKD	4,609,545.17	0.89451	4,123,284.25
Other receivable			513,887.24
Including: HKD	574,490.21	0.89451	513,887.24
Accounts receivable			21,130,831.29
Including: USD	2,713,194.40	6.9370	18,821,429.55
HKD	2,581,750.61	0.89451	2,309,401.74
Other payable			92,204.47
Including: HKD	103,078.19	0.89451	92,204.47
Accounts payable			3,538,269.94
Including: USD	257,404.00	6.9370	1,785,611.55
HKD	1,959,350.25	0.89451	1,752,658.39
Advances from customers			24,369.53
Including: USD	3,492.75	6.9370	24,229.21
HKD	156.87	0.89451	140.32
Short-term borrowings			10,165,424.88
Including: USD	1,465,392.08	6.9370	10,165,424.88
Long-term borrowings			33,502,083.03
Including: HKD	37,453,000.00	0.89451	33,502,083.03

- (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

For the year ended 31 December 2016

(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
Guangzhou Baiyunshan Hospital	2016.4	46,500,000.00	51.00	Purchase	2016.4	Transfer of control right	51,030,046.48	3,559,315.86

(b) Cost of consolidation and goodwill

#### Cost of consolidation

– Cash	46,500,000.00
Total cost of consolidation	46,500,000.00
Less: proportion of fair value of obtained identifiable net assets	37,283,389.44
Goodwill	9,216,610.56

# Notes to the Financial Statement

For the year ended 31 December 2016

(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

	<u>Guangzhou Baiyunshan Hospital</u>	
	<u>Fair value at acquisition date</u>	<u>Book value at acquisition date</u>
Assets:		
Cash at bank and on hand	51,891,663.23	51,891,663.23
Accounts receivable	12,974,680.55	12,974,680.55
Advance to supplier	306,924.45	306,924.45
Inventories	2,376,709.31	2,376,709.31
Other current assets	48,632.00	48,632.00
Fixed assets	6,853,956.00	6,357,688.74
Construction in progress	3,766,875.72	3,593,270.33
Long-term prepaid expenses	4,580,817.65	4,580,817.65
Deferred income tax assets	8,213.35	8,213.35
Liabilities:		
Accounts payables	7,090,996.45	7,090,996.45
Advances from customers	671,968.77	671,968.77
Employee benefits payable	1,477,974.33	1,477,974.33
Taxes payable	462,847.54	462,847.54
Net assets	73,104,685.17	72,434,812.52
Less: minority interests	35,821,295.73	35,493,058.13
Obtained net assets	37,283,389.44	36,941,754.39

Pursuant to the capital increase agreement which entered into by the Company and Guangzhou Baiyunshan Hospital, the Company increased capital amounted to RMB46,500 thousand, which is 51% equity interest of Guangzhou Baiyunshan Hospital, among them, RMB20,816 thousand is as registered capital, RMB25,684 thousand is as capital surplus. This additional capital is divided into 2 phases, the Company has 51% equity interest of Guangzhou Baiyunshan Hospital after contributing the first phase amounted to RMB23,250 thousand, another contribution amounted to RMB23,250 thousand will be paid up within 15 workdays after receiving the confirmed 80% of accounts receivable. In consideration of calculating goodwill, when stating the-above-mentioned identifiable assets, liabilities at purchase date, the Company assumed that fully contributed additional capital amounted to RMB46,500 thousand.

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 (Continued)

The fair value of identifiable assets and liabilities is recognized by appraisal report (ZLYCPZ(2016)No. XKGPD0210) which was issued by Guang Dong Zhong Lian Yang Cheng Assets Appraisal Co., Ltd.

There are no contingent liabilities of acquiree to assume in business combination.

### (2) 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
Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd.	-	67.67	liquidation	November 2016	cancelled	-	-	-	not applicable	not applicable	not applicable	-

### (3) Changes in scope of consolidation arising from other reasons:

The reasons for the addition of 4 companies in scope of consolidation comparing to the previous period are:

- (1) Xing Qun, a subsidiary of the Company, established Guangzhou Baiyunshan Xingqun Health Technology Co., Ltd. in May 2016 with registered capital of RMB3 million, and holds 100% equity interest.
- (2) The Company established Guangzhou Wang Lao Ji Investment Co., Ltd. in June 2016 with registered capital of RMB10 million, and holds 100% equity interest.
- (3) Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd., a subsidiary of the Company, established Guangzhou Baiyunshan Jinge Male Health Consulting Co., Ltd. in August 2016 with registered capital of RMB1 million, and holds 100% equity interest.
- (4) Guangzhou Wang Lao Ji Investment Co., Ltd., a subsidiary of the Company, established Guangzhou Wang Lao Ji Food & Beverage Management Development Co., Ltd. in September 2016 with registered capital of RMB20 million, and holds 80% equity interest.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 7 EQUITY IN OTHER ENTITIES

### (1) Equity in subsidiaries

#### (a) Details of the Group:

Name of subsidiary	Principal place of business	Registration place	Nature of business	Registered capital ('0000)	% equity interest held		% voting rights held		Acquisition method
					Direct	Indirect	Direct	Indirect	
Xing Qun	Guangzhou	Guangzhou	Pharmaceutical manufacturing	7,717.00	88.99		88.99		Establishment or Investment
Zhong Yi	Guangzhou	Guangzhou	Pharmaceutical manufacturing	21,741.00	100.00		100.00		Establishment or Investment
Chen Li Ji	Guangzhou	Guangzhou	Pharmaceutical manufacturing	11,285.00	100.00		100.00		Establishment or Investment
Guangzhou Han Fang (1)	Guangzhou	Guangzhou	Pharmaceutical manufacturing	24,606.00	99.96		100.00		Establishment or Investment
Guangzhou Qi Xing Pharmaceutical Factory Co. Ltd	Guangzhou	Guangzhou	Pharmaceutical manufacturing	8,242.00	100.00		100.00		Establishment or Investment
Jing Xiu Tang	Guangzhou	Guangzhou	Pharmaceutical manufacturing	8,623.00	88.40		88.40		Establishment or Investment
Pan Gao Shou	Guangzhou	Guangzhou	Pharmaceutical manufacturing	6,544.00	87.77		87.77		Establishment or Investment
Cai Zhi Lin	Guangzhou	Guangzhou	Pharmaceutical trading	3,220.00	100.00		100.00		Establishment or Investment
Pharmaceutical Import & Export	Guangzhou	Guangzhou	Pharmaceutical trading	2,400.00	100.00		100.00		Establishment or Investment
Guangzhou Bai Di	Guangzhou	Guangzhou	Pharmaceutical manufacturing	13,160.00	100.00		100.00		Establishment or Investment
WLJ Great Health	Guangzhou	Guangzhou	Food 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 Zhu	Guangzhou	Guangzhou	Pharmaceutical manufacturing	8,648.00	75.00		75.00		Establishment or Investment
Baiyunshan Medical and Healthcare Industry Company	Guangzhou	Guangzhou	Commercial services	10,650.00	100.00		100.00		Establishment or Investment
Guangzhou Baiyunshan Chemical Medicine Technology Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	5,100.00	100.00		100.00		Establishment or Investment
Guangzhou Baiyunshan Pharmaceutical Marketing CO., Ltd	Guangzhou	Guangzhou	Pharmaceutical trading	1,000.00	100.00		100.00		Establishment or Investment
Qi Xing	Guangzhou	Guangzhou	Pharmaceutical manufacturing	10,000.00		100.00		100.00	Establishment or Investment

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 7 EQUITY IN OTHER ENTITIES (Continued)

### (1) Equity in subsidiaries (Continued)

#### (a) Details of the Group: (Continued)

Name of subsidiary	Principal place of business	Registration place	Nature of business	Registered capital ('0000)	% equity interest held		% voting rights held		Acquisition method
					Direct	Indirect	Direct	Indirect	
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd. (1)	Guangzhou	Guangzhou	Pharmaceutical trading	300.00		45.08		51.00	Establishment or Investment
Guangzhou Pan Gao Shou Natural Healthcare Products Co., Ltd (1)	Guangzhou	Guangzhou	Pharmaceutical manufacturing	1,400.00		87.77		100.00	Establishment or Investment
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	Guangzhou	Guangzhou	Pharmaceutical trading	294.00		100.00		100.00	Establishment or Investment
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Guangzhou	Guangzhou	Pharmaceutical manufacturing	2,000.00		100.00		100.00	Establishment or Investment
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	500.00		100.00		100.00	Establishment or Investment
Guangzhou Ao Ma Medical Apparatus Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	668.00		100.00		100.00	Establishment or Investment
Tibet Lin Zhi Guangyao Development Co., Ltd (1)	Linzhi	Linzhi	Pharmaceutical trading	200.00		54.82		55.00	Establishment or Investment
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Wulanchabu	Wulanchabu	Pharmaceutical trading	100.00		80.00		80.00	Establishment or Investment
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Linqi	Linqi	Pharmaceutical trading	200.00		60.00		60.00	Establishment or Investment
Jingyuxian Dong E Guangyao Chinese Raw Medicine Development Co., Ltd (1)	Jingyu	Jingyu	Pharmaceutical trading	300.00		57.50		60.00	Establishment or Investment
Heilongjiang Sen Gong Guangyao Raw Medicine Development Co., Ltd.	Haerbin	Haerbin	Pharmaceutical trading	300.00		60.00		60.00	Establishment or Investment
Wang Lao Ji Great Health Industry (Ya'an) Co., Ltd.	Yaan	Yaan	Pharmaceutical manufacturing	5,000.00		100.00		100.00	Establishment or Investment
Guang Hua Health (1)	Guangzhou	Guangzhou	Pharmaceutical manufacturing	1,000.00		63.36		75.00	Establishment or Investment
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Fengshun	Fengshun	Pharmaceutical trading	200.00		60.00		60.00	Establishment or Investment
Zhejiang Guang Kang Pharmaceutical Co., Ltd.	Shengzhou	Shengzhou	Pharmaceutical manufacturing	4,400.00		51.00		51.00	Establishment or Investment

# Notes to the Financial Statement

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(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 7 EQUITY IN OTHER ENTITIES (Continued)

### (1) Equity in subsidiaries (Continued)

#### (a) Details of the Group: (Continued)

Name of subsidiary	Principal place of business	Registration place	Nature of business	Registered capital ('0000)	% equity interest held		% voting rights held		Acquisition method
					Direct	Indirect	Direct	Indirect	
Tibet Linzhi Baiyunshan Tibetan Health Castle Management Co., Ltd.	Linzhi	Linzhi	Pharmaceutical manufacturing	3,500.00		100.00		100.00	Establishment or Investment
Guangzhou Wang Lao Ji Great Health Enterprise Development Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	1,000.00		100.00		100.00	Establishment or Investment
Guangzhou Wang Lao Ji Industry Company	Guangzhou	Guangzhou	Pharmaceutical manufacturing	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 trading	5,000.00		100.00		100.00	Establishment or Investment
Guangzhou Baiyunshan Xingqun Health Technology Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	300.00		100.00		100.00	Establishment or Investment
Guangzhou Wang Lao Ji Investment Co., Ltd.	Guangzhou	Guangzhou	Commercial services	1,000.00	100.00			100.00	Establishment or Investment
Guangzhou Wang Lao Ji Food & Beverage Management Development Co., Ltd.	Guangzhou	Guangzhou	Commercial services	2,000.00		80.00		80.00	Establishment or Investment
Guangzhou Baiyunshan Jinge Male Health Consulting Co., Ltd.	Guangzhou	Guangzhou	Consulting	100.00		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	Jiexi	Jiexi	Pharmaceutical manufacturing	1,179.00	100.00			100.00	Business combinations involving entities under common control
BYS Pharmaceutical Technological	Guangzhou	Guangzhou	Pharmaceutical trading	200.00	51.00			51.00	Business combinations involving entities under common control

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 7 EQUITY IN OTHER ENTITIES (Continued)

### (1) Equity in subsidiaries (Continued)

#### (a) Details of the Group: (Continued)

Name of subsidiary	Principal place of business	Registration place	Nature of business	Registered capital ('0000)	% equity interest held		% voting rights held		Acquisition method
					Direct	Indirect	Direct	Indirect	
Baiyunshan Great Health Hotel	Guangzhou	Guangzhou	Hotel	50.00	100.00		100.00		Business combinations involving entities under common control
Guangyao Baiyunshan Hong Kong Company	Hongkong	Hongkong	Pharmaceutical trading	HKD7,500	100.00		100.00		Business combinations involving entities under common control
Guangyao General Institute	Guangzhou	Guangzhou	Medical research	8,000.00	100.00		100.00		Business combinations involving entities under common control
Guangyao Haima	Guangzhou	Guangzhou	Advertising	50.00	100.00		100.00		Business combinations involving entities not under common control
Guangxi Ying Kang	Nanning	Nanning	Pharmaceutical manufacturing	3,188.00	51.00		51.00		Business combinations involving entities not under common control
Guangzhou Baiyunshan Hospital	Guangzhou	Guangzhou	Medical	4,081.60		51.00	51.00		Business combinations involving entities not under common control

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 6 companies is that the Company indirectly holds these 6 companies through subsidiaries which are not wholly-owned by the Company, making the ratio of equity interest held lower than ratio of voting rights held.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 7 EQUITY IN OTHER ENTITIES (Continued)

### (2) Equity in joint venture or associates

#### (a) Summary of joint venture and associates that are insignificant

Item	Ending balance /Current amount	Opening balance/ Prior amount
Joint venture:		
Total carrying amount of investments	<b>2,182,936,657.68</b>	2,073,127,925.62
Calculated by rate of interests held:		
– Net profit	<b>185,270,336.27</b>	208,783,994.99
– Other comprehensive income	<b>(123,024.34)</b>	(3,501.34)
– Total comprehensive income	<b>185,147,311.94</b>	208,780,493.65
Associates:		
Total carrying amount of investments	<b>107,506,805.02</b>	38,085,050.82
Calculated by rate of interests held:		
– Net profit	<b>8,694,153.19</b>	7,129,769.54
– Other comprehensive income	<b>(95,411.50)</b>	95,411.50
– Total comprehensive income	<b>8,598,741.69</b>	7,225,181.04

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 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 2016 and 31 December 2015, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarized as follows:

	31 December 2016					Total
	USD	HKD	EUR	JPY	GBP	
Financial assets denominated in foreign currency –						
Cash at bank and on hand	12,763,016.00	4,123,284.25	-	-	-	16,886,300.25
Accounts receivable	18,821,429.55	2,309,401.74	-	-	-	21,130,831.29
Other receivables	-	513,887.24	-	-	-	513,887.24
	<u>31,584,445.55</u>	<u>6,946,573.23</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,531,018.78</u>
Financial liabilities denominated in foreign currency –						
Short-term borrowings	10,165,424.88	-	-	-	-	10,165,424.88
Accounts payable	1,785,611.54	1,752,658.40	-	-	-	3,538,269.94
Advances from customers	24,229.21	140.32	-	-	-	24,369.53
Other payable	-	92,204.47	-	-	-	92,204.47
Long-term borrowings	-	33,502,083.03	-	-	-	33,502,083.03
	<u>11,975,265.63</u>	<u>35,347,086.22</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,322,351.85</u>

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 8. FINANCIAL INSTRUMENT AND RISK (Continued)

### (1) Market risk (Continued)

#### (a) Foreign exchange risk (Continued)

	31 December 2015					Total
	USD	HKD	EUR	JPY	GBP	
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 –						
Short-term borrowings	–	–	–	–	–	–
Accounts receivable	859,245.58	–	–	–	–	859,245.58
Advances from customers	82,711.45	–	–	–	–	82,711.45
Other payables	–	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>

As at 31 December 2016, if RMB had strengthened/weakened by 10% against the USD, HKD, EUR and JPY with all other variables held constant, the Group's net profit for the period would have been higher/lower approximately RMB659 thousand (As at 31 December 2015: approximately RMB989 thousand).

#### (b) Interest rate risk

As at 31 December 2016, long-term interest bearing borrowings of the Group amounted to RMB33,502 thousand, if annual interest rate declined 50 basic point with all other variables held constant, the Group's net profit would increase RMB1,184 thousand (As at 31 December 2015: RMB1,404 thousand).

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 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 2016	31 December 2015
Financial assets based on fair value to confirm profit or loss	<b>6,026,123.94</b>	6,499,789.60
Available-for-sale financial assets	<b>25,932,151.59</b>	76,415,058.59
Total	<b>31,958,275.53</b>	82,914,848.19

As at 31 December 2016, 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 RMB603 thousand, other comprehensive income amounted to RMB2,196 thousand accordingly (As at 31 December 2015: RMB650 thousand, RMB7,209 thousand). Management considers 10% a reasonable range where the value of equity instruments might change in next period.

### (2) Credit risk

Credit risk is managed on a group basis. Credit risk mainly arises from cash at bank, accounts receivable, other receivables, notes receivable etc.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on accounts receivable, other receivables and notes receivable. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 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 2016, 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 2016					Total
	Within 1 year	1 - 2 years	2 - 5 years	Over 5 years	Without fixed maturity	
Financial assets -						
Cash at bank and on hand	13,091,007,880.23	-	-	-	-	13,091,007,880.23
Notes receivable	1,604,767,885.21	-	-	-	-	1,604,767,885.21
Accounts receivable	1,182,866,120.30	-	-	-	-	1,182,866,120.30
Other receivables	227,201,614.85	-	-	-	-	227,201,614.85
	<u>16,105,843,500.59</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,105,843,500.59</u>
Financial liabilities						
Short-term borrowings	25,217,408.94	-	-	-	-	25,217,408.94
Long-term borrowings	1,189,498.16	33,852,324.15	-	-	-	35,041,822.31
Notes payable	320,811,521.98	-	-	-	-	320,811,521.98
Accounts payable	2,267,279,067.87	-	-	-	-	2,267,279,067.87
Other payables	2,267,981,520.69	-	-	-	-	2,267,981,520.69
Long-term payables	-	-	-	20,558,783.65	-	20,558,783.65
	<u>4,882,479,017.64</u>	<u>33,852,324.15</u>	<u>-</u>	<u>20,558,783.65</u>	<u>-</u>	<u>4,936,890,125.44</u>
Provision of guarantees	-	-	-	-	-	-

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 8. FINANCIAL INSTRUMENT AND RISK (Continued)

### (3) Liquidity risk (Continued)

	31 December 2015					
	Within 1 year	1 – 2 years	2 – 5 years	Over 5 years	Without fixed maturity	Total
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
	<u>6,922,425,932.64</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,922,425,932.64</u>
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
	<u>5,327,136,789.31</u>	<u>1,411,515.42</u>	<u>39,842,758.45</u>	<u>22,219,899.34</u>	<u>-</u>	<u>5,390,610,962.52</u>
Provision of guarantees	-	-	-	-	-	-

The repayment periods of the bank loans and other loans are analyzed as follow:

	31 December 2016		31 December 2015	
	Bank borrowings	Other borrowings	Bank borrowings	Other borrowings
Wholly repayable within 5 years	<u>60,259,231.25</u>	<u>-</u>	<u>684,058,752.06</u>	<u>-</u>

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 9 DISCLOSURE OF FAIR VALUE

### (a) Financial instruments not measured at fair value

Financial assets and liabilities not measured at fair value mainly represent receivables, short-term borrowings, payables and long-term payables.

The carrying amount of financial assets and liabilities not measured at fair value is a reasonable approximation of their fair values.

### (b) Financial instruments measured at fair value

Based on the lowest level input that is significant to the fair value measurement in its entirety, the fair value hierarchy has the following levels:

Level 1: 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 2016, 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	6,026,123.94	–	–	6,026,123.94
Available-for-sale financial assets – Available-for-sale equity instruments	25,932,151.59	–	–	25,932,151.59
	<b>31,958,275.53</b>	–	–	<b>31,958,275.53</b>

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 9 DISCLOSURE OF FAIR VALUE *(Continued)*

### (b) Financial instruments measured at fair value *(Continued)*

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>

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.

# Notes to the Financial Statement

For the year ended 31 December 2016

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## 10. FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

	31 December 2015	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	Deferred tax liabilities recognized during the current period	Available-for- sale financial assets that are transferred during the current period	31 December 2016
Financial assets –							
Financial assets based on fair value to confirm profit or loss	6,499,789.60	(473,665.66)	–	–	–	–	6,026,123.94
Available-for-sale financial assets	76,415,058.59	–	3,896,278.50	6,792,715.56	(348,888.55)	(60,823,012.51)	25,932,151.59
	<u>82,914,848.19</u>	<u>(473,665.66)</u>	<u>3,896,278.50</u>	<u>6,792,715.56</u>	<u>(348,888.55)</u>	<u>(60,823,012.51)</u>	<u>31,958,275.53</u>

## 11. FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

	31 December 2015	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 2016
Financial assets–					
Cash and bank	26,029,298.27	–	–	–	16,886,300.25
Accounts receivable	4,286,557.82	–	–	–	21,130,831.29
Other receivables	21,983.67	–	–	–	513,887.24
	<u>30,337,839.76</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>38,531,018.78</u>
Financial liabilities					
Short-term borrowings	–	–	–	–	10,165,424.88
Accounts payable	859,245.58	–	–	–	3,538,269.94
Advances from customers	82,711.45	–	–	–	24,369.53
Other payables	2,825,464.82	–	–	–	92,204.47
Long-term borrowings	39,755,174.34	–	–	–	33,502,083.03
	<u>43,522,596.19</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>47,322,351.85</u>

# Notes to the Financial Statement

For the year ended 31 December 2016

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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
GPHL	Parent Company	Limited liability company (wholly state-owned)	No. 45, North Street, Shamian Liwan District Guangzhou	Li Chuyuan	Manufacturing and trading	125,281	45.04%	45.04%	Guangzhou State-owned Assets Supervision and Administration Commission

Registered capital and changes in registered capital of the parent company:

	31 December 2016 (RMB '0000)
GPHL	<b>125,281</b>

The percentage of equity interests and voting rights held by the parent company in the Company:

	31 December 2016	
	% equity interest held	% voting rights held
GPHL	<b>45.04%</b>	<b>45.04%</b>

### (2) Information of subsidiaries

For the general information and related information of the subsidiaries, please refer to Note 7.

# Notes to the Financial Statement

For the year ended 31 December 2016

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## 12. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

### (3) Information of joint venture and associates

Details of joint venture or associates that had connected transactions with the Group at current period or at previous period are as below:

Name	Relation with the Group
GP Corp.	joint venture
Wang Lao Ji	joint venture
Nuo Cheng	joint venture
HWBYS	joint venture
Baxter Qiaoguang	joint venture
Chuangmei	Associated enterprise

### (4) Information of other related parties that are not controlled by the Group

Name of entity	Relationship with the Group
Guangzhou Yu Fa Medical Apparatus Co., Ltd.	Controlled by the same parent company
Guangzhou South China Medical Apparatus Co., Ltd.	Controlled by the same parent company

### (5) Related party transactions

- (a) For the subsidiaries which are controlled by the Company and consolidated into the consolidated financial statements, the transactions amongst them and that between the Company and them have been eliminated.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 12. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

### (5) Related party transactions (Continued)

#### (b) Purchase of goods from related parties

Name of related party	Type of transaction	Nature of transaction	Pricing Policies and procedures for decision-making	For the year ended 31 December 2016		For the year ended 31 December 2015	
				Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
HWBYS	Purchase of goods	Chinese raw medicine or medicine	Market price	319,397,476.78	2.98	726,457,876.03	6.93
GP Corp.	Purchase of goods	Chinese raw medicine or medicine	Market price	687,602,738.40	6.41	266,633,872.65	2.54
Wang Lao Ji	Purchase of goods	Chinese raw medicine or medicine	Market price	772,868,045.48	7.20	630,068,063.32	6.01
Chuangmei	Purchase of goods	Chinese raw medicine or medicine	Market price	240,471.19	0.00	-	-
				<b>1,780,108,731.85</b>	<b>16.59</b>	1,623,159,812.00	15.48

#### (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 2016		For the year ended 31 December 2015	
				Amount	Percentage of similar transactions(%)	Amount	Percentage of similar transactions(%)
GPHL	Sales of goods	Chinese raw medicine or medicine	Market price	4,032.03	0.00	61,376.00	0.00
HWBYS	Sales of goods	Chinese raw medicine or medicine	Market price	184,616,332.68	0.93	208,869,571.73	1.13
GP Corp.	Sales of goods	Chinese raw medicine or medicine	Market price	1,217,866,444.23	6.16	472,107,564.70	2.54
Wang Lao Ji	Sales of goods	Chinese raw medicine or medicine	Market price	450,082,295.54	2.28	441,333,650.86	2.38
Nuo Cheng	Sales of goods	Chinese raw medicine or medicine	Market price	234,835.91	0.00	8,957.27	0.00
Baxter Qiaoguang	Sales of goods	Chinese raw medicine or medicine	Market price	1,200,909.40	0.01	1,611,366.65	0.01
Chuangmei	Sales of goods	Chinese raw medicine or medicine	Market price	17,463,433.04	0.09	-	-
				<b>1,871,468,282.83</b>	<b>9.47</b>	1,123,992,487.21	6.06

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 2016		For the year ended 31 December 2015	
				Amount	Percentage of similar transactions(%)	Amount	Percentage of similar transactions(%)
HWBYS	Rendering of service	Advertising agency	Market price	30,216,809.70	39.62	44,094,673.94	87.93
GP Corp.	Rendering of service	Advertising agency	Market price	424,048.58	0.56	308,414.15	0.61
Wang Lao Ji	Rendering of service	Advertising agency	Market price	39,053,346.24	51.21	2,516,816.43	5.02
Baxter Qiaoguang	Rendering of service	Advertising agency	Market price	38,313.21	0.05	92,455.65	0.18
Subtotal				69,732,517.73	91.44	47,012,360.17	93.74
Wang Lao Ji	Rendering of service	Consigned processing	Market price	23,249,667.48	100.00	17,491,424.62	83.99
HWBYS	Rendering of service	Service of research and development	Market price	47,169.81	0.55	113,207.55	1.33
Wang Lao Ji	Rendering of service	Service of research and development	Market price	943.40	0.01	-	-
Subtotal				48,113.21	0.56	113,207.55	1.33

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 2016

##### (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 RMB1,499 thousand of the above-mentioned for the current period (For the year ended 31 December 2015: RMB13,815 thousand)

#### 2) Office Tenancy Agreement – No. 5 front stalls of GPLH located at No. 45 North Shamian Street

Pursuant to the Tenancy Agreement entered into by the Company and GPLH on 27 June 2013, the Company rents the No. 5 front stalls of GPLH located at No. 45 North Street Shamian at a fixed annual rent., which term is 3 years, on 1 July 2016, the agreement came up for renewal to 30 June 2019, GPLH should pay the company RMB448 thousand in current period. (For the year ended 31 December 2015: RMB549 thousand)

#### 3) Warehouse and Office Building Tenancy Agreement

Pursuant to the Tenancy Agreement entered into by the Company and GP Corp, the Company rents certain buildings to GP Corp. at fixed amount per annum with a lease term from 1 January 2014 to 31 December 2016 and the rental amounted to RMB2,814 thousand. (For the year ended 31 December 2015: RMB2,566 thousand)

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 the Company and Baxter Qiaoguang, the Company rents the building located in No.25, Fangcun Avenue to Baxter Qiaoguang at fixed amount per annum with a lease term from 10 May 2007 to the relocated date and the rental amounted to RMB2,962 thousand (For the year ended 31 December 2015: RMB3,000 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 January 2017 and the rental amounted to RMB102 thousand (For the year ended 31 December 2015: RMB64 thousand)

Pursuant to the Tenancy Agreement entered into by Guangzhou Bai Di and Nuo cheng Biological, Guangzhou Bai Di rents the building located in No.1, Wanbao Street North, Panyu District, Guangzhou to Nuo cheng Biological at fixed amount per annum with a lease term from 15 March 2011 to 14 March 2019 and the rental amounted to RMB2,238 thousand (For the year ended 31 December 2015: RMB1,949 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 2017 and the rental amounted to RMB53 thousand (For the year ended 31 December 2015: RMB73 thousand).

Pursuant to the Tenancy Agreement entered into by Guang Hua, a subsidiary of the Company, and GP Corp., Guang Hua rents the building located in No.355, Shatai Rd North, Guangzhou to GP Corp. at fixed amount per month with a lease term from 17 July 2015 to 14 July 2020 and the rental amounted to RMB438 thousand (For the year ended 31 December 2015: RMB218 thousand).

# Notes to the Financial Statement

For the year ended 31 December 2016

(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*

- 1) Pursuant to the Trademark License Agreement entered into by Wang Lao Ji Great Health and GPLH on 25 May 2012 and 26 April 2013, GPLH authorized the use of 5 trademarks by Wang Lao Ji Great Health; Wang Lao Ji Great Health agreed to pay license fees to GPLH at 2.1% of its aggregate net sales, GPLH and the Company are to entitled by 53% and 47% of the license fee respectively. That Trademark License Agreement has expired on 31 December 2015, Wang Lao Ji Great Health and GPLH have entered into <Confirm Letter> in accordance with <Trademark License Agreement> in year 2016, periods of license has been extended to 24 May 2018.

Pursuant to the Trademark License Supplementary Agreement entered into by the Company, Wang Lao Ji and GPLH on 28 July 2005, Wang Lao Ji agreed to pay license fees to GPLH for the use of the trademarks at 2.1% of its aggregate net sales since Wang Lao Ji become to be a foreign-invested company limited. GPLH and the Company are to entitled by 53% and 47% of the license fee respectively.

The Company should receive license fee amounted to RMB81,004 thousand for the current period (For the year ended 31 December 2015: RMB82,565 thousand)and GPLH should receive RMB91,345 thousand (For the year ended 31 December 2015: RMB93,105 thousand)

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 authorizes all the use rights of "Wang Lao Ji" trademark to consignee; (2) During the period of validity of Trusteeship Agreement, consignee shall pay the expenses arising from trusteeship. (but consignor shall pay the expenses arising from dispute to the authority and the expenses arising from the dispute to the previous Trademark Trusteeship Agreement and Trademark Trusteeship Supplementary Agreement); (3) Consignee shall directly receive the trademark license fee which is arranged in the Trademark License Agreement signed during the trusteeship (including the supplementary agreement or new agreement which is signed by consignor or consignee). (4) During the period of validity of Trusteeship Agreement, consignor should pay the company RMB1,000 thousand for the basic trusteeship fee before the end of every March; (5) On the premise of non-violation to the Trademark License Agreement or supplementary which is entered into by consignor and third party before this Agreement become effective, for the Trademark License Agreement which is signed during the period of validity of Trusteeship Agreement, (including the supplementary agreement or new agreement which is signed during the expiry date of Trusteeship), consignee should pay consignor 80% of the trademark license fee of the previous year before the end of every March. (or the lower portion which is negotiated by consignor and consignee, the portion could not higher than 80% in any case, it could be 80% if both parties failed to reach an agreement for that.) as the authorized income for consignor. (the basic trusteeship fee of previous year of consignor shall directly deducted from this expenses by consignee) As the confirmed trademark "Wang Lao Ji", the portion to be shared of consignor and consignee shall be confirmed in accordance with the previous arrangement before this agreement was signed, and shall not be limited to the trademark trusteeship agreement. This agreement became effective on 5 July 2013, and will expire on the date of trademark transfer or the date of termination from both parties' negotiation.

# Notes to the Financial Statement

For the year ended 31 December 2016

(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)*

Meanwhile, when the legal dispute is settled, GPLH committed to legally transfer the trademark "Wang Lao Ji" and other 4 trademarks authorized to Wang Lao Ji exclusively to the company within 2 years since the above-mentioned trademarks can be transferred in accordance with the effective laws and regulation.

Pursuant to <Notice of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. on Unfulfilled Commitment in respect of Shareholders, Related Parties and the Company > issued on 25 June 2014, the term of contract expire on 20 January 2015. On 13 March 2015, the First Extraordinary Shareholders Meeting 2015 of the Company adopted <Solution of Guangzhou Pharmaceutical Group Co., Ltd. Revise Trademark of "Wang Lao Ji">, GPLH revised the term of contract, which will expire within 2 years from the date of "Red jar decoration dispute" coming into force.

GPLH started to authorize the Group and its joint-control entity to use the registered trademark "GPC" without compensation in June 2000.

- 3) Pursuant to <Trademark License Agreement> entered into by Xing Qun and the Company on 5 September 2014, Xing Qun is able to use 32 kinds of trademark owned by GPLH for 32 kinds of plant beverage and coke products from 5 September 2013 to 6 March 2016 (both parties otherwise agreed to extend the term if need to, 2.1% of net sale volume for the products which use these 32 kinds of trademark shall be paid to the Company as a license fee by Xing Qun. <Trademark License Agreement> will expire on 6 March 2019. Xing Qun should pay the Company license fee amounted to RMB909 thousand at current period. (For the year ended 31 December 2015: RMB1,374 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 RMB909 thousand (For the year ended 31 December 2015: RMB1,347 thousand), and pay GPLH RMB727 thousand (For the year ended 31 December 2015: RMB1,078 thousand).

# Notes to the Financial Statement

For the year ended 31 December 2016

(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) Remise*

The land use planning of Xinzhou Warehouse held by Cai Zhi Lin (A wholly subsidiary of the Company), which located in No.2439, Xingang Rd East, Haizhu District, Guangzhou City has been adjusted from industrial land to commercial land. In order to improve comprehensive income of land, Cai Zhi Lin is planning to the "Three Olds (old town, old factory, old village)" program for this land. Cai Zhi Lin has the land use right for 3,471m<sup>2</sup>, which is accounted for 17.7% of the total land, and GPLH is real property owner to the other land use right of 16,113.80m<sup>2</sup>.

In order to accelerate "Three Olds" program and reduce cost, considered by board of directors of the Company, Cai Zhi Lin entered into <Property Storage Agreement> on 27 April 2016 with GPLH, in accordance with this agreement, the land use right and buildings are transferred to GPLH, "Three Olds" program are implemented by GPLH, the transfer consideration has been evaluated by assets evaluation agency on the basis of assessed value which recorded by department of state owned assets supervision and administration; The land transfer price is a compensation for land expropriation, which is calculated by <Measures of Guangzhou City Revitalization> and relevant documentary, if there is a more favourable policy, price would be calculated on it. Cai Zhi Lin has transferred the above-mentioned land and buildings to GPLH, GPLH had paid the down payment of land, transfer consideration of buildings and land transfer fee paid by Cai Zhi Lin totally amounted to RMB21,079.60 thousand, Cai Zhi Lin has confirmed income of transferred assets amounted to RMB17,496.60 thousand at current period.

##### *(v) Employee benefits of key management personnel*

Employee benefits of the Group's key management personnel amounted to RMB4,575 thousand for the year ended 31 December 2016 (For the year ended 31 December 2015: RMB4,496 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 2016 (For the year ended 31 December 2015: 16 persons), among which 5 persons received their salaries from the Group (For the year ended 31 December 2015: 5 persons).

# Notes to the Financial Statement

For the year ended 31 December 2016

(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

Remuneration of each director and supervisor for the year ended 31 December 2016 is as below:

Name	Remuneration of directors and supervisors							Total
	Salary and subsidy	Pension	Bonus	Sign-on bonus	Severance package	Others		
<b>Name of director</b>								
Li Chuyuan	-	-	-	-	-	-	-	-
Chen Mao	-	-	-	-	-	-	-	-
Liu Juyan	-	-	-	-	-	-	-	-
Chen Ning	-	-	-	-	-	-	-	-
Ni Yidong	-	-	-	-	-	-	-	-
Wu Changhai	-	425,476.00	73,864.00	330,367.00	-	-	-	829,707.00
Wang Wenchu	-	310,416.00	73,864.00	473,754.00	-	-	-	858,034.00
Qiu Hongzhong	80,000.00	-	-	-	-	-	-	80,000.00
Jiang Wenqi	80,000.00	-	-	-	-	-	-	80,000.00
Chu Xiaoping	80,000.00	-	-	-	-	-	-	80,000.00
Wong Lung Tak Patrick	80,000.00	-	-	-	-	-	-	80,000.00
<b>Name of supervisor</b>								
Xian Jiaxiong	-	-	-	-	-	-	-	-
Wu Quan (Note 1)	-	353,199.95	35,722.05	173,127.00	-	-	-	562,049.00
Li Jinyun (Note 2)	-	106,153.00	19,810.00	138,480.00	-	-	-	264,443.00
Wu Yan	30,000.00	-	-	-	-	-	-	30,000.00

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 2015 is as below:

Name	Remuneration of directors and supervisors	Salary and subsidy	Pension	Bonus	Sign-on bonus	Severance package	Others	Total
<b>Name of director</b>								
Li Chuyuan	-	-	-	-	-	-	-	-
Chen Mao	-	-	-	-	-	-	-	-
Liu Juyan	-	-	-	-	-	-	-	-
Cheng 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: 3)	63,334.00	-	-	-	-	-	-	63,334.00
Chu Xiaoping	80,000.00	-	-	-	-	-	-	80,000.00
Fang Shuting (Note: 4)	16,667.00	-	-	-	-	-	-	16,667.00
Wong Lung Tak Patrick	80,000.00	-	-	-	-	-	-	80,000.00
<b>Name of supervisor</b>								
Xian Jiaxiong	-	-	-	-	-	-	-	-
Wu Quan	-	513,183.92	49,684.08	161,000.00	-	-	-	723,868.00
Wu Yan	30,000.00	-	-	-	-	-	-	30,000.00

Note 1: 7 September 2016, reaching statutory retirement age, resigned as a supervisor.

Note 2: 1 September 2016, elected the sixth board of supervisor, term of service id from the date of Wu Quan resigned as a supervisor to the date of the Supervisory Committee expired.

Note 3: 17 March 2015 appointed as a director.

Note 4: 17 March 2015 resigned as a director. In accordance with relevant requirement of < Opinions on further standardizing the part-time or resignation for leading cadres of party and government > (ZhongZuFa[2013]No.18), management cadres cannot resigned as an independent director.

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 Jiaxiong received remuneration amounted to RMB977,288.00, RMB929,341.00, RMB906,037.00, RMB858,759.00, RMB837,835.00, RMB864,796.00 respectively from the subsidiaries of the Company. (As at 31 December 2015: Li Chuyuan, Chen Mao, Liu Juyan, Cheng Ning, Ni Yidong and Xian Jiaxiong received remuneration amounted to RMB1,088,402.00, RMB949,566.00, RMB800,099.00, RMB818,837.00, RMB959,452.00, RMB857,838.00 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 2016, no directors have give up or agreed to give up any arrangements of remuneration. (2015: nil)

#### (g) Top five of remuneration

Top five of remuneration of the Group for the year ended 31 December 2016 includes 2 directors (For the year ended 31 December 2015: includes 2 directors). 3 among top five of remuneration of the Group for the year ended 31 December 2016 (For the year ended 31 December 2015: 3) are as below:

	<b>The year ended 31 December 2016</b>	The year ended 31 December 2015
Salary and subsidies	<b>1,373,667.08</b>	1,368,327.00
Pension	<b>154,127.72</b>	134,001.00
Bonus	<b>1,528,814.20</b>	1,192,942.00
Others	<b>285.00</b>	2,700.00
Total	<b>3,056,894.00</b>	2,697,970.00

	Number of people	
	<b>The year ended 31 December 2016</b>	The year ended 31 December 2015
Scope of remuneration		
RMB0 – RMB1,000,000	<b>1</b>	3
Over RMB1,000,000	<b>2</b>	0

# Notes to the Financial Statement

For the year ended 31 December 2016

(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

		31 December 2016		31 December 2015	
Related party		Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Notes receivable:	GP Corp.	93,317,991.43	-	24,524,200.00	-
	HWBYS	100,000.00	-	-	-
		<b>93,417,991.43</b>	<b>-</b>	<b>24,524,200.00</b>	<b>-</b>
Accounts receivable:	GPHL	4,638.25	46.38	-	-
	HWBYS	38,256,826.54	382,568.27	31,332,414.44	313,324.14
	GP Corp.	16,959,266.38	169,592.66	16,814,175.95	168,141.76
	Wang Lao Ji	49,722,527.70	876,655.25	63,598,489.35	876,655.25
	Baxter Qiaoguang	234,960.00	2,349.60	761,300.00	7,613.00
	Nuo Cheng	242,358.00	2,423.58	-	-
	Chuangmei	15,514,325.81	155,179.75	-	-
	<b>120,934,902.68</b>	<b>1,588,815.49</b>	<b>112,506,379.74</b>	<b>1,365,734.15</b>	
Other receivables:	GPHL	1,897,580.42	-	6,000,573.30	-
	Guangzhou South China Medical Apparatus Co., Ltd.	100,000.00	100,000.00	100,000.00	100,000.00
	HWBYS	16,313,594.56	-	20,159,243.27	-
	GP Corp.	580,062.90	-	57,600.00	-
	Wang Lao Ji	1,055,070.54	-	3,098,563.65	-
	<b>19,946,308.42</b>	<b>100,000.00</b>	<b>29,415,980.22</b>	<b>100,000.00</b>	
Advances to suppliers:	HWBYS	859,482.83	-	5,945,156.25	-
	GP Corp.	3,357.20	-	270,257.00	-
	Wang Lao Ji	22,479,785.87	-	38,780.21	-
	Guangzhou Yu Fa Medical Apparatus Co., Ltd.	210,278.62	-	210,278.62	-
		<b>23,552,904.52</b>	<b>-</b>	<b>6,464,472.08</b>	<b>-</b>

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 2016	31 December 2015
Notes Payable:	HWBYS	–	1,000,000.00
	Wang Lao Ji	–	1,410,000.00
		–	2,410,000.00
Accounts Payable:	HWBYS	<b>12,689,814.80</b>	2,593,012.54
	GP Corp.	<b>28,482,093.08</b>	12,450,440.51
	Chuangmei	<b>450,526.40</b>	–
		<b>41,622,434.28</b>	15,043,453.05
Other Payables:	GPHL	<b>35,798,578.74</b>	42,574,153.82
	HWBYS	<b>20,000.00</b>	520,000.00
	GP Corp.	<b>239,044.54</b>	237,599.54
	Wang Lao Ji.	<b>59,547.77</b>	–
	Baxter Qiaoguang	<b>26,502.88</b>	25,992.04
	Chuangmei	<b>20,000.00</b>	–
	<b>36,163,673.93</b>	43,357,745.40	
Advances from customers:	HWBYS	<b>2,796,750.93</b>	4,010,690.63
	GP Corp	<b>101,172,141.46</b>	13,754,837.05
	Chuangmei	<b>16,403,401.64</b>	–
	<b>120,372,294.03</b>	17,765,527.68	

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 2016	31 December 2015
Investment	106,900,000.00	59,878,887.68
Building, machinery and equipment	182,573,557.05	221,569,932.06
	<b>289,473,557.05</b>	<b>281,448,819.74</b>

The Group's share of the jointly controlled entities' capital commitments are as follows:

	31 December 2016	31 December 2015
Building, machinery and equipment	143,520,238.89	52,332,142.50

- (b) Capital commitments authorized by the management but are not yet contracted for:

	31 December 2016	31 December 2015
Investment	340,000,000.00	320,000,000.00
Building, machinery and equipment	736,199,524.50	386,062,983.80
	<b>1,076,199,524.50</b>	<b>706,062,983.80</b>

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 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 2016	31 December 2015
Within 1 year	<b>70,289,159.86</b>	54,584,993.02
1 to 2 years	<b>62,683,535.24</b>	23,726,819.62
2 to 3 years	<b>35,383,679.85</b>	22,363,443.20
Over 3 years	<b>188,013,794.23</b>	198,784,413.03
	<b>356,370,169.19</b>	299,459,668.87

The rental expenses under operating lease amounted to RMB80,041 thousand are recognized in the profit or loss For the year ended 31 December 2016 (For the year ended 31 December 2015: RMB74,291 thousand).

### (3) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 31 December 2016.

## 14 CONTINGENCIES

Contingencies related to litigation refer to Note 16(1).

## 15 EVENTS AFTER THE BALANCE SHEET DATE

- (1) On January 2017, the Company entered into <Shares Subscription Agreement with Respect to the shares with Entry-into-Force Conditions for Non-public RMB Common Share offering by Yunnan Hongxiang Yixintang Pharmaceutical (Group) Holdings Co., Ltd.> with Yunnan Hongxiang Yixintang Pharmaceutical (Group) Holdings Co., Ltd. ("Yi Xin Tang"). With a price amounted to RMB0.8 billion, RMB19.28 per share, the Company is planning to purchase the 41,493.80 thousand shares of non-public A share offered by Yi Xin Tang, restricted stock trade period is for 36 months, which accounted for 6.92% of stock right after Yi Xin Tang completing issuance. As at reporting date, Yi Xin Tang's non-public offering has not yet been approved by China Securities Regulatory Commission.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 16 OTHER SIGNIFICANT EVENTS

### (1) Litigation

#### (a) Litigation of A company, a subsidiary of the Company.

- (i) Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. started a suit to the unreceived payment amounted to RMB36,880 thousand by A company, a subsidiary of the Company on 5 February 2015, and required A company to pay maturity payment and overdue interest.

Pursuant to <Written Civil Ruling> with reference of (2015)SuiYueFaMinErChuZi No.328-3 issued by Guangzhou Yue Xiu District People's Court on 14 March 2016, the prosecution by Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. was rejected.

On 23 March 2016, Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. has lodged an appeal.

Pursuant to <Written Civil Ruling> with reference of (2016) Yue01MinZhong No.10682 issued by Guangzhou Intermediate Court on 16 December 2016, <Written Civil Ruling> with reference of (2015)SuiYueFaMinErChuZi No.328-3 issued by Guangzhou Yue Xiu District People's Court was judged to quash, and the case was referred to Guangzhou Yue Xiu District People's Court.

Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. started a suit to the unreceived payment amounted to RMB18,440 thousand by A company, a subsidiary of the Company on 4 February 2015, and required A company to pay maturity payment and overdue interest.

Pursuant to <Written Civil Ruling> with reference of (2015)SuiLiFaMinErChuZi No.774-3 issued by Guangzhou Li Wan District People's Court on 21 December 2015, the prosecution by Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. was rejected, and transferred to public security organization to handle as criminal case. Guangdong Guangsheng Non Ferrous Metal Group Co., Ltd. has lodged an appeal.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 16 OTHER SIGNIFICANT EVENTS *(Continued)*

### (1) Litigation *(Continued)*

#### (a) Litigation of A company, a subsidiary of the Company. *(Continued)*

##### (i) *(Continued)*

Pursuant to <Written Civil Ruling> with reference of (2016)Yue01MinZhong No.3446 issued by Guangzhou Intermediate Court on 16 December 2016, <Written Civil Ruling> with reference of (2015)SuiYueFaMinErChuZi No.774-3 issued by Guangzhou Li Wan District People's Court was judged to quash, and the case was referred to Guangzhou Li Wan District People's Court.

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.

Pursuant to <Written Civil Ruling> with reference of (2015)SuiYueFaMinErChuZi No.744 issued by Guangzhou Yue Xiu District People's Court on 11 July 2016, all of the prosecution by Guangzhou Meijian Co., Ltd. was rejected.

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.

Pursuant to <Written Civil Ruling> with reference of (2015)SuiYueFaMinErChuZi No.745 issued by Guangzhou Yue Xiu District People's Court on 11 July 2016, all of the prosecution by Guangzhou Fuel Group Co., Ltd. was rejected.

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. Guangdong Guangsheng Investment Group Energy Co., Ltd. has lodged an appeal to Guangzhou Intermediate People's Court.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 16 OTHER SIGNIFICANT EVENTS *(Continued)*

### (1) Litigation *(Continued)*

#### (a) Litigation of A company, a subsidiary of the Company. *(Continued)*

##### (i) *(Continued)*

Pursuant to 15 <Written Civil Ruling> with reference of (2016)Yue01MinZhong No.3437-3445, No.5158-5163 issued by Guangzhou Intermediate Court on 16 December 2016, 15 <Written Civil Ruling> with reference of (2015) SuiLiFaMinErChuZi No.454-1 – 468-1 issued by Guangzhou Li Wan District People's Court was judged to quash, and the case was referred to Guangzhou Li Wan District People's Court.

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.

According to the above case, A company has applied to Guangzhou Luogang District People's Court (now for Guangzhou Huang Pu 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.

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 Defenghang Petrolchemical 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.

Pursuant to <Written Civil Ruling> with reference of (2015)SuiLuoFaMinErChuZi No.25, No.26, No. 27, No.21, No.21, No.45, No.46 issued by Guangzhou Huang Pu District Court on 24 March 2016, all claims of the Company were rejected, and the request of property preservation before litigation was quashed.

According to the opinion of external lawyer, upstream customers of A company could not provide logistics certificates of delivery to Guangzhou Defenghang Petrolchemical Co., Ltd. and Guangzhou Tongtai Fuel Chemical Co., Ltd., the relationship of liabilities may not be established, A company does not have to pay to the upstream customers, and there are no overdue accounts receivable that are not be covered.

Management of A company has assessed the case with external opinion of lawyer, the accounts receivable for Guangzhou Defenghang Petrolchemical Co., Ltd. and Guangzhou Tongtai Fuel Chemical Co., Ltd., accounts receivable for Dongguan Ye Lian Road Modified Asphalt Co., Ltd. are individual subject to separate provision for bad debts, ratio of provision is 10%. For the accounts that have been paid, which includes other receivables amounted to RMB10,315.7 thousand of Guangzhou Defenghang Petrolchemical Co., Ltd., Account receivables amounted to RMB10,541.8 thousand of Sinogas (Zhuhai) Petrochemical Co. Ltd., are individual subject to separate provision for bad debts, ratio of provision is 50%.

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 6 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 7 companies accused by Industrial Bank Jiangmen Branch from Guangdong Province Jiangmen City Intermediate People's court, according to indictment, Jiangmen Yuehui Fuel Co., Ltd. applied to Industrial 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.

Pursuant to <Written Civil Ruling> with reference of (2014)Jiang ZhongFaMinErChuZi No.55 issued by Jiangmen Intermediate Court on 14 June 2016, all claims of Industrial Bank Jiangmen Branch were rejected; and transferred to Jiangmen City Bureau of Public Security; and the appraisal fee was bore by Industrial Bank. Industrial Bank has not lodged an appeal.

- (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 Industrial Bank Jiangmen Branch from Guangdong Province Jiangmen City Pengjiang District Intermediate People's court, according to indictment, Jiangmen Yuehui Fuel Co., Ltd. applied to Industrial 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.

Pursuant to <Written Civil Ruling> with reference of (2015)JiangPengFaMinErChuZi No.55 issued by Jiangmen City Pengjiang District People's Court on 15 April 2016, the evidence from Industrial Bank Jiangmen Branch was not sufficient to prove that A company still owed Yuehui Company accounts receivable, the court did not support these evidence with no factual and legal basis, all claims of Industrial Bank Jiangmen Branch were rejected; and the appraisal fee was bore by Industrial Bank. Industrial Bank has not lodged an appeal.

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 (2014)SuiLiFaMinErChuZi No.2424, 2425-4 issued by Guangzhou Li Wan District People's Court on 30 December 2015, A company should pay maturity payment and overdue interest to Guangzhou Linhai Trading Industry Co., Ltd.

Pursuant to <Written Civil Ruling> with reference of (2016)Yue01MinZhong No.7733, No.7734 issued by Guangzhou Intermediate People's Court on 21 December 2016, <Written Civil Ruling> with reference of (2014)SuiLiFaMinErChuZi No 2424, No.2425 issued by Guangzhou Li Wan District People's Court was judged to quash; all claims of Guangzhou Linhai Trading Industry Co., Ltd. were rejected.

- (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.

# Notes to the Financial Statement

For the year ended 31 December 2016

(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)*

##### (v) *(Continued)*

On 22 December 2016, Jiangmen Pengjiang People's Court selected Guangdong Huasheng Judicial Expertise Center as an agency of this case, and paid the appraisal fee amounted to RMB70240. In accordance with the summons, the Company was required to appear in court for appraisal and to provide an original sample of signature from "Feng Yaowen".

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.

#### (b) Other litigation of A company

- (i) A company, a subsidiary of the Company, started a suit for the unreceived payment amounted to RMB5,582 thousand by Guangzhou Gelingkang Pharmaceutical Co., Ltd. on to Guangzhou City Li Wan District People's Court on 19 October 2015, and required Guangzhou Gelingkang Pharmaceutical Co., Ltd. to pay maturity payment and overdue interest.

At the end of year 2015, management of A company estimated the case which takes account of external legal advice. The above accounts receivable amounted to RMB5,582 thousand are individual subject to separate provision for bad debts, ratio of provision is 100%.

Pursuant to <Written Civil Ruling> with reference of (2015)SuiLiFaMinErChuZi No.55 issued by Guangzhou City Li Wan District People's Court on 14 June 2016, Guangzhou Gelingkang Pharmaceutical Co., Ltd. shall pay up the loan amounted to RMB5,581,994.72 and overdue interest to A company (overdue interest is calculated by the similar coterminous rate of People's Bank of China, with a cardinal number of principle amounted to RMB5,581,994.72 in a period from 29 November 2013 to the date when Guangzhou Gelingkang Pharmaceutical Co., Ltd. has paid up the loan), and Guangzhou Gelingkang Pharmaceutical Co., Ltd. bore the acceptance fee of this case amounted to RMB54.850 thousand, announcement fee of this case amounted to RMB1 thousand. This payment is being under recovered for the moment.

# Notes to the Financial Statement

For the year ended 31 December 2016

(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)*

- (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 10 December 2014, and required Hengshan Zhongkong Paper Co., Ltd. to pay maturity payment and overdue interest.

On 5 December 2014, Hunan Province Hengshan County People's Court accepted and heard the bankruptcy liquidation of Hengshan Zhongkong International Paper Co., Ltd. According to the application of Hengshan County Urban and Rural Construction Investment Co., Ltd. The litigation of Hengshan Zhongkong International Paper Co., Ltd. was rejected, creditor's rights of A company will be dealt with in the procedure of bankruptcy liquidation.

On 20 November 2015, the accountant in bankruptcy considered the seal of the contract for declaring creditor's right by A company is inconsistent with the one used by Hengshan Zhongkong International Paper Co., Ltd., A company is not creditor. A company has reported to Guangzhou Public Security on 29 February 2016.

In the end of year 2015, management of A company estimated the case which takes account of external legal advice. The above accounts receivable amounted to RMB5,191.2 thousand are individual subject to separate provision for bad debts, ratio of provision is 100%.

# Notes to the Financial Statement

For the year ended 31 December 2016

(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)*

- (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 Li Wan 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 "Gaozhokeng", Jinbenjianggen Village Committee, South west Street, Sanshui District, Foshan City and West "Gaozhokeng", 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>.

In the end of year 2015, management of A company estimated the case which takes account of external legal advice. The above accounts receivable amounted to RMB5028.3 thousand are individual subject to separate provision for bad debts, ratio of provision is 100%.

Pursuant to <Written Civil Ruling> with reference of (2014) FoZhongFaMinZhongZi No.40-17 issued by Foshan Intermediate People's Court and <Public Announcement> with reference of (2014) FoZhongFaMinErPoZi No.40-18 on 20 June 2016, reorganization of Foshan Sanshui Changshun Fuel Co., Ltd. was judged to discontinued, and Foshan Sanshui Changshun Fuel Co., Ltd. is declared bankrupt.

#### (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.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 16 OTHER SIGNIFICANT EVENTS *(Continued)*

### (1) Litigation *(Continued)*

#### (c) Respond to prosecution of other subsidiaries of the Company *(Continued)*

- (ii) 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.

Pursuant to the final judgment of Shenzhen City Intermediate People's Court on 30 May 2016, China International Economic and Trade Arbitration Commission has no jurisdiction to the dispute for <Shareholder Contract> of Wang Lao Ji Pharmaceutical.

- (iii) The dispute between WLJ Great Health, wholly-owned subsidiary of the Company, and Wuhan Jiaduobao Beverage Co., Ltd. in Changsha City arising from the slogan of "The red cans herbal tea – national top sales – renamed JDB", "The red cans herbal tea – national top sales – JDB", "7 of a sale of 10 cans herbal tea are JDB", which constitute false propaganda, under the 1st trial ((2013) ChangZhongMinWuChuZi No.00308) and 2nd trial((2016)XiangMinZhong No.94), the slogan of Wuhan Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. constitute false propaganda, the infringement is ordered to stop, Wuhan Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. pay Wang Lao Ji Great Health pecuniary loss amounted to RMB9,022,978.20 and reasonable rights protection fee amounted to RMB239,779.00. The court of 2nd trial upheld the judgement of lower court except for the compensation amounted to RMB6 million, which is paid to Wang Lao Ji Great Health. Wuhan Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. refused to accept the first-instance judgment and applied for a retrial to the high court, there are some applicable issues of this case, the highest court decided to arraign this case on 23 December 2016.

As at the reporting date, management of the Company considers that it is not probable that it will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 16 OTHER SIGNIFICANT EVENTS *(Continued)*

### (1) Litigation *(Continued)*

#### (c) Respond to prosecution of other subsidiaries of the Company *(Continued)*

- (iv) 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 as at the reporting date, the rental of this property was not recognized since January 2015, B company took back this property on 9 September 2016. 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.

Pursuant to <Written Civil Ruling> with reference of (2015)Sui TianFaMinErChuZi No720-No.724, issued by Guangzhou Tian He District People's Court on 17 August 2016, all claims of Guangdong Guangsheng Investment Group Energy Co., Ltd. were rejected. Guangsheng has not lodged an appeal. The bank account of C company has been unfrozen.

# Notes to the Financial Statement

For the year ended 31 December 2016

(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) 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.

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. Guangdong Guangsheng Investment Group Energy Co., Ltd. lodged an appeal.

Pursuant to <Written Civil Ruling> with reference of (2014)Sui TianFaMinErChuZi No4584, issued by Guangzhou Tian He District People's Court on 9 August 2016, all claims of Guangdong Guangsheng Investment Group Energy Co., Ltd. were rejected. This judgement has become effective.

Pursuant to <Written Civil Ruling> with reference of (2014)Sui TianFaMinErChuZi No4619 and No4620, issued by Guangzhou Tian He District People's Court on 16 August 2016, all claims of a subsidiary of the Company were rejected. The subsidiary lodged an appeal, and in accordance with <Written Civil Ruling> with reference of (2016)Yue01MinZhong No16382 and No16383 issued by Guangzhou Intermediate People's Court on 16 December 2016, <Written Civil Ruling> with reference of (2014)SuiTianFaMinErChuZi No.4619 and No.4620 issued by Guangzhou Tian He District People's Court was judged to quash, and the case was referred to Guangzhou Tian He District People's Court.

Pursuant to <Written Civil Ruling> with reference of (2016)Yue01MinZhong No5365 issued by Guangzhou Intermediate People's Court on 16 December 2016, <Written Civil Ruling> with reference of (2014)SuiTianMinErChuZi No4583-2 issued by Guangzhou Tian He District People's Court was judged to quash, and the case was referred to Guangzhou Tian He District People's Court.

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.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 16 OTHER SIGNIFICANT EVENTS *(Continued)*

### (1) Litigation *(Continued)*

#### (c) Respond to prosecution of other subsidiaries of the Company *(Continued)*

- (vii) On 27 December 2016, 4 staffs of D company, which is a subsidiary of the Company, started a suit to sever labor relation with D company from 31 October 2016, and D company need to pay them compensation for severing labor relation amounted to RMB1,667,898 and the salary for September 2016 and October 2016 amounted to RMB130,966.

As at the reporting date, management of D company made a provision for the above compensation amounted to RMB1,660 thousand at the end of period which takes account of external legal advice.

- (viii) Pursuant to <Administrative Resolution>(SuiGuoFangZi[2015]No.56) issued by Guangzhou Land Resources and Planning Commission on 23 June 2015, Guangdong Construction Engineering Corporation real estate development company and E company, a subsidiary of the Company were required to pay up land-transferring fees amounted to RMB13,160,051.26, and penalty till 23 June 2015 amounted to RMB13,216,059.26, totally amounted to RMB26,376,110.52.

E company and Guangdong Construction Engineering Corporation real estate development company applied for administrative reconsideration to Guangzhou Municipal People's Government. In accordance with <Administrative Resolution>(SuiFuXingFu[2015]No.872 and No.879) issued by Guangzhou Municipal People's Government on 5 January 2017, the <Administrative Resolution>(SuiGuoFangZi[2015]No.56) is maintained effect.

E company started a suit to Guangzhou Railway Transportation Intermediate Court on 15 January 2017, requested for rescind the above administrative resolution and reconsideration.

As at reporting date, this case is under trial. Management of E 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

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 16 OTHER SIGNIFICANT EVENTS *(Continued)*

### (1) Litigation *(Continued)*

#### (c) Respond to prosecution of other subsidiaries of the Company *(Continued)*

- (ix) Guangzhou Ruigu Enterprise Management Consulting Co., Ltd. started a suit to the dispute of contract of legal service, required F company, a subsidiary of the Company to pay legal service fee and overdue interest amounted to RMB22,421,800.

Pursuant to < Written Civil Ruling >(SuiNanFangMinErChuZi[2015]No.254) issued by Guangzhou Nansha District People's Court on 8 January 2016, F company pay Guangzhou Ruigu Enterprise Management Consulting Co., Ltd. service fee amounted to RMB13,192,825 within 10 days from the date of judgement become effective.

F company and Guangzhou Ruigu Enterprise Management Consulting Co., Ltd. refuse the judgement of 1st trial, they lodged an appeal to Guangzhou Intermediate People's Court. Pursuant to < Written Civil Ruling >((2016)Yue01MinZhong No.5137) issued by Guangzhou Intermediate People's Court on 17 May 2016, F company pay Guangzhou Ruigu Enterprise Management Consulting Co., Ltd. service fee amounted to RMB4,352,350 within 10 days from the date of judgement become effective.

Guangzhou Ruigu Enterprise Management Consulting Co., Ltd. refused the judgement of 2nd trial, and lodged an appeal to Guangdong Province Supreme People's Court on 1 September 2016.

As at reporting date, this case is under trial. Management of F company considers that it is not probable that it will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

# Notes to the Financial Statement

For the year ended 31 December 2016

(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)*

- (x) On 17 November 2014, the Company conducted prosecution to Huanan International Economic and Trade Arbitration Commission (SHEN T2014811), which reason is: Tongxing Pharmaceutical transfers 48.0465% shares of Wang Lao Ji (98,378,439 shares) with a consideration amounted to RMB468,126,196.35. Tongxing pays a retaining fee and prosecution fee (including case-filing fee and other prosecution fee) for the Company.

On 11 January 2016, the Company conducted a change of prosecution (SHEN T2014811) to Huanan International Economic and Trade Arbitration Commission, which reason is: Tongxing Pharmaceutical transfers 48.0465% shares of Wang Lao Ji (98,378,439 shares) with a consideration amounted to RMB358,245,085.62 (with tax), and handles the procedures for transferring stock right of Wang Lao Ji. Tongxing pays a retaining fee and prosecution fee (including case-filing fee, case-accepting fee, cost for prosecution and other expenses) for the Company.

On 20 February 2016, Huanan International Economic and Trade Arbitration Commission conducted 1st court hearing for the above cases, in accordance with the decision, Deloitte & Touche Consulting (Beijing) Co., Ltd. and Deloitte & Touche Hua Yong Certified Public Accountants LLP Beijing Branch were entrusted to audit and evaluate "net asset value per share of common-law corporation" of <Guangzhou Wang Lao Ji Pharmaceutical Holdings Shareholders Contract> as an evaluation agency and an audit agency respectively.

As at 31 December 2016, Tongxing refused to sign a contract, the Company has paid up expenses for auditing and evaluating, the 2 agencies have started fieldwork.

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 17 SEGMENT INFORMATION

With the strategic management and business development, the Group basically completed the industrial chain layout and internal structure of 4 sectors in 2015, which include "Great Southern TCM", "Great Commerce", "Great Health", "Great Medical Care", according to the requirements of regulatory laws, regulations and company management, 4 sectors are divided into 4 operating segments, as business scale of "Great Medical Care" is fail to 10%, details for other segments are as below:

- "Great 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

For the year ended 31 December 2016

(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 2016 and as of 31 December 2016 is as follows:

	Great Southern TCM	Great Health	Great Commerce	Other	Elimination	Total
Revenue	7,019,333,990.54	7,769,472,680.57	5,170,595,594.73	76,279,233.53	-	20,035,681,499.37
Inter-segment revenue	362,058,069.77	14,409,500.90	6,211,880,839.11	132,586,479.33	(6,720,934,889.11)	-
Interest income	(24,537,249.28)	(56,898,929.13)	(4,346,084.48)	(38,254,530.89)	1,850,210.41	(122,186,583.37)
Interest expenses	21,801,112.56	-	48,349,681.46	18,730,302.15	(68,197,035.17)	20,684,061.00
Share of profit or loss of associates and jointly controlled entities	6,877,946.28	-	801,062.50	184,378,081.23	2,402,821.22	194,459,911.23
Asset impairment losses	(1,271,157.67)	263,769.80	971,484.77	934,282.20	5,830,514.74	6,728,893.84
Depreciation and amortization	200,324,561.75	17,074,294.30	7,383,704.06	18,306,310.05	(144,105.00)	242,944,765.16
Total profit	936,405,138.93	621,205,532.83	73,083,539.18	785,504,217.43	(471,145,030.03)	1,945,053,398.34
Income tax expenses	53,410,776.16	188,857,254.61	17,424,259.48	113,599,134.78	13,087,978.14	386,379,403.17
Net profit (Including: Minority interests)	882,994,362.77	432,348,278.22	55,659,279.70	671,905,082.65	(484,233,008.17)	1,558,673,995.17
Total assets	8,215,356,021.51	4,536,823,808.46	4,006,996,218.57	16,144,661,530.04	(7,006,667,358.04)	25,897,170,220.54
Total liabilities	4,671,712,476.03	3,777,036,736.50	3,737,139,513.69	609,593,407.39	(4,552,102,361.34)	8,243,379,772.27
Long-term equity investments in associates and jointly controlled entities	81,955,813.17	-	61,624,075.01	2,146,863,574.52	-	2,290,443,462.70
Additions of non-current assets other than long-term equity investments	463,602,322.19	105,722,329.63	8,500,773.52	50,728,219.02	-	628,553,644.36

- (2) 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

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 17 SEGMENT INFORMATION (Continued)

The Group's revenue from external customers in the PRC and other countries/regions, and the total non-current assets other than financial assets and deferred tax assets located in the PRC and other countries/regions are summarized as follows:

Revenue from external customers	<b>For the year ended 31 December 2016</b>	For the year ended 31 December 2015
PRC	<b>19,966,567,906.17</b>	18,925,851,715.62
Other countries/regions	<b>69,113,593.20</b>	198,806,583.28
	<b>20,035,681,499.37</b>	19,124,658,298.90
Total non-current assets	<b>31 December 2016</b>	31 December 2015
PRC	<b>5,920,389,492.25</b>	5,639,816,203.36
Other countries/regions	<b>19,704,081.33</b>	19,855,998.99
	<b>5,940,093,573.58</b>	5,659,672,202.35

## 18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

### (1) Accounts receivable

(a) The aging of accounts receivable is analyzed as follows:

	<b>31 December 2016</b>	31 December 2015
Within 1 year	<b>326,272,130.74</b>	335,235,055.50
1 to 2 years	<b>12,745,909.87</b>	39,709,959.86
2 to 3 years	<b>16,149.24</b>	223.20
3 to 4 years	–	20,502.80
4 to 5 years	<b>15,834.58</b>	1,552,184.23
Over 5 years	<b>3,257,329.52</b>	2,921,502.04
	<b>342,307,353.95</b>	379,439,427.63
Less: provision for bad debts	<b>7,812,154.25</b>	11,796,914.32
	<b>334,495,199.70</b>	367,642,513.31

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 2016				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provisions	1,500,000.00	0.44%	1,500,000.00	100.00%	-
Subject to provision by groups: Group 1	339,952,727.71	99.31%	5,457,528.01	1.61%	334,495,199.70
Individually insignificant but subject to separate provisions	854,626.24	0.25%	854,626.24	100.00%	-
	<b>342,307,353.95</b>	<b>100.00%</b>	<b>7,812,154.25</b>	<b>2.28%</b>	<b>334,495,199.70</b>

	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%	-
	<b>379,439,427.63</b>	<b>100.00%</b>	<b>11,796,914.32</b>	<b>3.11%</b>	<b>367,642,513.31</b>

Classification of accounts receivable: refer to Note 3 (11).

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 2016, 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 2016			31 December 2015		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
Within 1 year	326,272,130.74	95.98%	3,262,721.31	335,235,055.50	88.90%	3,352,350.56
1 to 2 years	12,745,909.87	3.75%	1,274,590.99	39,709,959.86	10.53%	3,970,995.98
2 to 3 years	16,149.24	0.00%	4,844.77	223.20	0.00%	66.96
3 to 4 years	-	0.00%	-	20,502.80	0.01%	10,251.40
4 to 5 years	15,834.58	0.00%	12,667.66	52,184.23	0.01%	41,747.38
Over 5 years	902,703.28	0.27%	902,703.28	2,066,875.80	0.55%	2,066,875.80
	<b>339,952,727.71</b>	<b>100.00%</b>	<b>5,457,528.01</b>	<b>377,084,801.39</b>	<b>100.00%</b>	<b>9,442,288.08</b>

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 2016, accounts receivable that are individually insignificant but subject to separate provision are as follows:

	Ending balance	Amount of bad debts	Ratio	Reason
Customer 1	470,000.00	470,000.00	100.00%	Its aging is over 5 years, it is expected that the amount would not be recovered
Customer 2	315,508.74	315,508.74	100.00%	Its aging is over 5 years, it is expected that the amount would not be recovered
Customer 3	69,117.50	69,117.50	100.00%	Its aging is over 5 years, it is expected that the amount would not be recovered
	<u>854,626.24</u>	<u>854,626.24</u>	100.00%	

- (f) There are no accounts receivables that are reversed or collected during the current period.
- (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.

# Notes to the Financial Statement

For the year ended 31 December 2016

(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)

- (i) As at 31 December 2016, 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	246,356,367.89	Within 1year	71.97%
Customer 2	Third party	10,481,466.16	Within 1year, 1-2 years	3.06%
Customer 3	Third party	9,030,343.65	Within 1year	2.64%
Customer 4	Related party	8,203,162.65	Within 1year	2.40%
Customer 5	Third party	6,577,281.50	Within 1year	1.92%
		<u>280,648,621.85</u>		81.99%

- (j) There are no accounts receivables derecognized as at 31 December 2016.
- (k) As at 31 December 2016, there are no securitizations that targeted at accounts receivable.

# Notes to the Financial Statement

For the year ended 31 December 2016

(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

	31 December 2016	31 December 2015
Receivables due from related parties	<b>1,454,566,918.74</b>	1,057,170,703.77
Including: Entrusted loan	<b>1,074,113,486.36</b>	618,120,000.00
Others	<b>380,453,432.38</b>	439,050,703.77
Rentals, deposits and staff advances	<b>5,377,616.32</b>	18,792,162.71
Others	<b>43,486,852.76</b>	29,190,075.88
	<b>1,503,431,387.82</b>	1,105,152,942.36
Less: Provision for bad debts	<b>5,604,438.00</b>	5,579,791.92
	<b>1,497,826,949.82</b>	1,099,573,150.44

(a) The aging of other receivables is analyzed as follows:

	31 December 2016	31 December 2015
Within 1 year	<b>1,475,787,374.15</b>	1,079,841,799.07
1 to 2 years	<b>5,148,256.59</b>	2,541,057.08
2 to 3 years	<b>58,235.81</b>	364,946.15
3 to 4 years	<b>68,730.21</b>	66,172.45
4 to 5 years	<b>43,584.45</b>	57,035.39
Over 5 years	<b>22,325,206.61</b>	22,281,932.22
	<b>1,503,431,387.82</b>	1,105,152,942.36

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 2016					
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	1,040,121.11	0.07%	1,040,121.11	100.00%	-
Subject to provision by groups:					
Group 1	7,369,794.10	0.49%	1,426,747.45	19.36%	5,943,046.65
Group 2	31,939,368.11	2.12%	-	0.00%	31,939,368.11
Group 3	1,454,566,918.74	96.75%	-	0.00%	1,454,566,918.74
Group 4	5,377,616.32	0.36%	-	0.00%	5,377,616.32
Individually insignificant but subject to separate provision	3,137,569.44	0.21%	3,137,569.44	100.00%	-
	<u>1,503,431,387.82</u>	<u>100.00%</u>	<u>5,604,438.00</u>	<u>0.37%</u>	<u>1,497,826,949.82</u>

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>	<u>100.00%</u>	<u>5,579,791.92</u>	<u>0.50%</u>	<u>1,099,573,150.44</u>

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

### (2) Other receivables (Continued)

- (c) Other receivables that are individually significant and subject to separate provision are analyzed as follows:

Name of entity	Ending balance	Provision for bad debts	Ratio	Reason
Other receivables 1	502,043.54	502,043.54	100.00%	it is expected that the amount would not be recovered
Other receivables 2	430,077.57	430,077.57	100.00%	it is expected that the amount would not be recovered
Other receivables 3	108,000.00	108,000.00	100.00%	it is expected that the amount would not be recovered
	<u>1,040,121.11</u>	<u>1,040,121.11</u>		

- (d) The groups of other receivables in which provisions are made using aging analysis method are analyzed as follows:

	31 December 2016			31 December 2015		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	<b>5,707,875.84</b>	<b>77.45%</b>	<b>57,078.78</b>	8,467,887.26	85.52%	84,678.88
1 to 2 years	<b>261,838.00</b>	<b>3.55%</b>	<b>26,183.80</b>	82,250.61	0.83%	8,225.06
2 to 3 years	<b>46,954.31</b>	<b>0.64%</b>	<b>14,086.29</b>	44,920.00	0.45%	13,476.00
3 to 4 years	<b>43,520.00</b>	<b>0.59%</b>	<b>21,760.00</b>	9,836.87	0.10%	4,918.43
4 to 5 years	<b>9,836.87</b>	<b>0.13%</b>	<b>7,869.50</b>	32,035.39	0.32%	25,628.31
Over 5 years	<b>1,299,769.08</b>	<b>17.64%</b>	<b>1,299,769.08</b>	1,265,174.69	12.78%	1,265,174.69
	<u><b>7,369,794.10</b></u>	<u><b>100.00%</b></u>	<u><b>1,426,747.45</b></u>	<u>9,902,104.82</u>	<u>100.00%</u>	<u>1,402,101.37</u>

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 portionate but are reversed or collected in full amount or in large portionate 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 2016, 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	549,956,615.09	Within 1 year	36.58%
Other receivables 2	Wholly-owned subsidiary	362,571,198.40	Within 1 year	24.12%
Other receivables 3	Wholly-owned subsidiary	170,043,233.37	Within 1 year, 3-4 years	11.31%
Other receivables 4	Wholly-owned subsidiary	146,308,614.88	Within 1 year	9.73%
Other receivables 5	Indirect subsidiary	67,623,942.29	Within 1 year	4.50%
		1,296,503,604.03		86.24%

- (h) As at 31 December 2016, there are no other receivables that are derecognized.
- (i) As at 31 December 2016, there are no securitizations that targeted at other receivables.

### (3) Long-term equity investments

Item	31 December 2016			31 December 2015		
	Book balance	Provision for impairment	Current amount	Book balance	Provision for impairment	Current amount
For subsidiary investment	2,177,185,363.78	171,000,000.00	2,006,185,363.78	2,075,585,363.78	171,000,000.00	1,904,585,363.78
For Joint entity, and Associates investment	2,144,554,635.77	-	2,144,554,635.77	1,980,392,343.67	-	1,980,392,343.67
Total	4,321,739,999.55	171,000,000.00	4,150,739,999.55	4,055,977,707.45	171,000,000.00	3,884,977,707.45

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

### (3) Long-term equity investments (Continued)

#### (a) For subsidiary investment

Name of entity	31 December 2015	Current increase	Current decrease	31 December 2016	Impairment losses recognized in current period	Provision for impairment on 31 December 2016
Xing Qun	125,322,300.00	-	-	125,322,300.00	-	-
Zhong Yi	324,320,391.34	-	-	324,320,391.34	-	-
Chen Li Ji	142,310,800.00	-	-	142,310,800.00	-	-
Guangzhou Han Fang	249,017,109.58	-	-	249,017,109.58	-	55,000,000.00
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	100,000,000.00	-	-	100,000,000.00	-	-
Guangzhou Guang Yao Yi Gan Biological Product Co., Ltd.	12,600,000.00	5,100,000.00	-	17,700,000.00	-	-
Xing Zhu	64,860,000.00	-	-	64,860,000.00	-	-
Guangyao Baiyunshan Hong Kong Company	93,874,006.87	-	-	93,874,006.87	-	-
Tian Xin	96,192,658.47	-	-	96,192,658.47	-	-
Guang Hua	53,659,963.75	-	-	53,659,963.75	-	-
Ming Xing	12,581,294.18	-	-	12,581,294.18	-	-
Wei Ling	10,444,783.48	-	-	10,444,783.48	-	-
Guangyao Haima	7,000,000.00	-	-	7,000,000.00	-	-
Baiyunshan Pharmaceutical Technology	1,020,000.00	-	-	1,020,000.00	-	-
Baiyunshan Great Health Hotel	500,000.00	-	-	500,000.00	-	-
Guangzhou Baiyunshan Chemical Technology Co., Ltd.	26,000,000.00	25,000,000.00	-	51,000,000.00	-	-
Baiyunshan Medical Health	45,000,000.00	61,500,000.00	-	106,500,000.00	-	-
Guangyao General Institute	70,000,000.00	-	-	70,000,000.00	-	-
Guangzhou baiyunshan Pharmaceutical Marketing Co., Ltd.	10,000,000.00	-	-	10,000,000.00	-	-
Guangzhou Wang Lao Ji Investment Co., Ltd.	-	10,000,000.00	10,000,000.00	-	-	-
<b>Total</b>	<b>2,075,585,363.78</b>	<b>101,600,000.00</b>	<b>-</b>	<b>2,177,185,363.78</b>	<b>-</b>	<b>171,000,000.00</b>

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 2015	Current period movement	Under the equity	Current period	Other equity movement	Cash dividends declared to distribute	Others	31 December 2016	Provision for impairment	Impairment losses recognised in current period
				method to confirm the investment profit and loss	movement on other comprehensive income						
Equity method:											
Jointly-controlled entities:											
GP Corp.	396,589,139.78	1,159,498,159.19	-	110,359,299.32	(123,024.34)	2,646.71	-	-	1,269,737,080.88	-	-
Wang Lao Ji	102,035,124.44	386,929,395.21	-	(9,675,543.64)	-	-	-	-	377,253,851.57	-	-
HWBYS	100,000,000.00	363,648,769.40	-	71,707,347.85	-	-	(20,000,000.00)	-	415,356,117.25	-	-
Baxter Qiao Guang	37,000,000.00	32,230,969.05	-	4,093,887.01	-	-	-	-	36,324,856.06	-	-
Associates:											
Guangzhou Jinshen Pharmaceutical Technology Co., Ltd.	765,000.00	-	-	-	-	-	-	-	-	-	-
Golden Eagle Asset Management Co., Ltd.	50,000,000.00	36,106,562.73	-	7,875,381.31	(95,411.50)	-	-	-	43,886,532.54	-	-
Wei Yi Co., Ltd.	2,020,000.00	1,978,488.09	-	17,709.38	-	-	-	-	1,996,197.47	-	-
Sub-total of equity method	688,409,264.22	1,980,392,343.67	-	184,378,081.23	(218,435.84)	2,646.71	(20,000,000.00)	-	2,144,554,635.77	-	-

(c) There are no limitation on fund transfer between the Group and its investing entities.

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 2016		
	Principal operation	Other operations	Subtotal
Revenue	<b>2,481,068,313.79</b>	<b>364,954,042.93</b>	<b>2,846,022,356.72</b>
Cost of operation	<b>1,187,195,638.50</b>	<b>151,592,574.82</b>	<b>1,338,788,213.32</b>
Gross profit	<b>1,293,872,675.29</b>	<b>213,361,468.11</b>	<b>1,507,234,143.40</b>

	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

(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 2016	For the year ended 31 December 2015	For the year ended 31 December 2016	For the year ended 31 December 2015
Great Southern				
TCM	<b>2,481,052,782.92</b>	2,544,859,266.14	<b>1,187,185,402.27</b>	1,334,465,823.44
Great Commerce	<b>15,530.87</b>	501,140.15	<b>10,236.23</b>	483,720.24
	<b>2,481,068,313.79</b>	2,545,360,406.29	<b>1,187,195,638.50</b>	1,334,949,543.68

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 2016	For the year ended 31 December 2015	For the year ended 31 December 2016	For the year ended 31 December 2015
Southern China	<b>2,220,871,676.56</b>	2,148,380,442.45	<b>1,037,794,834.51</b>	1,160,585,650.54
Eastern China	<b>65,422,835.75</b>	194,201,509.14	<b>39,693,389.42</b>	58,482,066.05
Northern China	<b>55,579,238.81</b>	69,235,730.76	<b>34,480,155.26</b>	41,869,094.38
North east China	<b>6,177,270.62</b>	7,012,293.57	<b>5,469,626.09</b>	4,586,772.29
South west China	<b>123,419,122.90</b>	118,712,234.59	<b>63,530,477.02</b>	65,271,955.78
North west China	<b>9,598,169.15</b>	7,818,195.78	<b>6,227,156.20</b>	4,154,004.64
	<b>2,481,068,313.79</b>	2,545,360,406.29	<b>1,187,195,638.50</b>	1,334,949,543.68

(c) The total top five of customer sales is RMB2,111,027 thousand, which is 85.08% of revenue from principal operation this period.

	Revenue from principal operation	% of revenue from principal operation of the company
Customer 1	1,852,626,605.67	74.67%
Customer 2	144,194,464.23	5.81%
Customer 3	42,646,112.01	1.72%
Customer 4	42,504,000.00	1.71%
Customer 5	29,055,706.49	1.17%
	<b>2,111,026,888.40</b>	<b>85.08%</b>

# Notes to the Financial Statement

For the year ended 31 December 2016

(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

	<b>For the year ended 31 December 2016</b>	For the year ended 31 December 2015
Investment Income from financial assets: Investment Income in the period of holding of financial assets based on fair value to confirm profit or loss	<b>14,452.60</b>	297,403.40
Investment Income from available-for- sale financial assets	<b>10,929,380.86</b>	5,314,895.32
Investment Income from entrusted loans	–	29,385,817.24
Investment Income from long-term equity investments under cost method	<b>512,804,918.78</b>	481,878,739.10
Investment Income from long-term equity investments under equity method	<b>184,378,081.23</b>	198,837,752.58
Investment Income from disposal long- term equity investments	–	–
	<b><u>708,126,833.47</u></b>	<b><u>715,714,607.64</u></b>

#### (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:

	<b>For the year ended 31 December 2016</b>	For the year ended 31 December 2015
WLJ Great Health	<b><u>293,032,082.68</u></b>	<b><u>273,866,725.48</u></b>

#### (c) Among the long-term equity investments measured at equity method, there are no investment income accounted for more than 10% of net profit.

# Notes to the Financial Statement

For the year ended 31 December 2016

(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 2016	For the year ended 31 December 2015
<b>(a) Reconciliation from net profit to cash flows from operating activities</b>		
Net profit	1,215,121,566.06	1,150,350,559.84
Add: Provisions for asset impairment	(2,309,712.84)	8,137,243.96
Depreciation and amortization of fixed assets and investment property	57,026,804.95	55,307,540.54
Amortization of intangible assets	7,789,720.01	6,654,277.61
Amortization of long-term prepaid expenses	539,067.23	339,753.51
Gains on disposal of fixed assets, intangible assets and other long-term assets	536,548.96	459,236.86
Losses on scrapping of fixed assets	-	-
Loss (less: gains) on change in fair value	473,665.66	(1,813,766.60)
Financial expenses	18,707,774.15	29,683,301.81
Investment income	(751,842,981.13)	(715,714,607.64)
Decrease in deferred tax assets (less: increase)	(24,165,909.62)	4,779,524.45
Increase (less: decrease) in deferred tax liabilities	(178,739.46)	(43,880.46)
Decrease (less: increase) in inventories	20,780,989.95	42,120,393.97
Decrease in operating receivables (less: increase)	(164,270,906.14)	(127,693,597.88)
Increase in operating payables (less: decrease)	93,389,306.66	221,433,294.60
Others	-	-
Net cash flows from operating activities	<b>471,597,194.44</b>	673,999,274.57
<b>(b) Investing and financing activities that do not involve cash receipts and payments</b>		
Conversion of debt into capital	-	-
Convertible company bonds due within one year	-	-
Fixed assets held under finance leases	-	-
<b>(c) Net movement in cash and cash equivalents</b>		
Cash at end of period	8,326,923,391.07	960,889,437.00
Less: Cash at beginning of year	960,889,437.00	709,868,368.22
Add: Cash equivalents at end of period	-	-
Less: Cash equivalents at beginning of year	-	-
Net movement in cash and cash equivalents	<b>7,366,033,954.07</b>	251,021,068.78

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 1 SUMMARY OF NON-RECURRING PROFIT OR LOSS

Item	<b>For the year ended 31 December 2016</b>	For the year ended 31 December 2015
Losses on disposal of non-current assets	<b>15,243,529.06</b>	(1,285,197.07)
Tax return or exemption without proper authorization	-	11,769.02
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)	<b>496,823,863.14</b>	307,220,284.09
Interests received from entities other than financial institutions recognised in profits or losses	-	-
Gains arising from the difference between Investment cost on subsidiaries, associates and jointly controlled entities and the fair value of the net assets attributable to the Group	-	-
Gains or losses arising from non-monetary assets exchange	-	-
Gains or losses arising from entrusted investments or entrusted asset management	-	-
Asset impairment provided in current year due to forced majeure	-	-
(e.g. natural disasters)	-	-
Gains or losses arising from debt restructuring	-	-
Corporate restructuring costs (e.g. staff replacement costs and costs during the course of integration)	-	-
Gains or losses arising from the difference between the fair value and transaction price in obviously unfair transactions	-	-
Net profit of subsidiaries acquired under common control from beginning of year to the merger date	-	-

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## 1 SUMMARY OF NON-RECURRING PROFIT OR LOSS *(Continued)*

Item	For the year ended 31 December 2016	For the year ended 31 December 2015
Gains or losses arising from contingencies irrelevant to the Group's normal business	–	–
Gains or losses from changes in fair value of financial assets and liabilities held for trading except for hedging contracts and disposal of financial assets and liabilities held for trading and available-for-sale financial assets	<b>(1,086,579.16)</b>	1,813,766.60
Reversal of provision for bad-debts of accounts receivable subject to separate provision	<b>3,110,041.50</b>	671,482.01
Gains or losses arising from entrusted loan granted to other entities	–	(1,743,226.43)
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	<b>(33,639,285.48)</b>	(88,140,063.02)
Other profit or loss items meeting the definition of non-recurring profit or loss	–	–
Impact on income tax	<b>(40,659,345.08)</b>	(45,632,804.27)
Impact on minority interests (post-tax)	<b>(2,871,015.08)</b>	(1,329,376.52)
Total	<b>436,921,208.90</b>	171,586,634.41

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## (2) RETURN ON NET ASSETS AND EARNINGS PER SHARE:

For the year ended 31 December 2016	Weighted average return on net assets	Earnings per share	
		Weighted average basic earnings per share	Weighted average diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	12.75%	1.075	1.075
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	9.06%	0.764	0.764

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

# Notes to the Financial Statement

For the year ended 31 December 2016

(All amounts in Renminbi yuan unless otherwise stated) (English Translation for Reference Only)

## (2) RETURN ON NET ASSETS AND EARNINGS PER SHARE: (Continued)

For the year ended 31 December 2016	Overall diluted return on net assets	Earnings per share	
		Overall diluted basic earnings per share	Overall diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	8.69%	0.928	0.928
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	6.18%	0.659	0.659

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

The Group presented return on net assets and earnings per share in accordance with the regulations of <Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No.9 – Calculation and Disclosure of Return on Net Assets and Earnings Per Share > (revised 2010).

# Documents Available for Inspection

1. The financial statements signed by the legal representative and the Financial Controller of the Company;
2. The auditor's reports signed by BDO China Shu Lun Pan CPAs LLP together with the financial statements prepared in accordance with PRC Accounting Standards;
3. The original company documents disclosed and announcements published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報) and Securities Daily (證券日報) during the Reporting Period;
4. The documents listed above are available at the Secretariat to the Board.