



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

2013



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IMPORTANT NOTICE

- I. The Board, the Supervisory Committee of the Company and the Directors, supervisors and senior management collectively and individually accept full responsibility for the authenticity, 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 second meeting of the sixth session of the Board, among whom, Mr. Qiu Hongzhong, an independent non-executive Director, was unable to attend the meeting and had appointed Mr. Chu Xiaoping, an independent non-executive Director, to attend the meeting and vote on his behalf; Mr. Wong Lung Tak Patrick and Mr. Fang Shuting, both independent non-executive Directors, attended the meeting by means of telephone communication.
- III. The financial reports of the Group and the Company for the year ended 31 December 2013 are 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 an unqualified auditors' reports thereon.
- IV. Mr. Li Chuyuan (chairman of the Board), Mr. Wu Changhai (executive Director) and Ms. Yao Zhizhi (senior manager of finance department) declared that they warranted that the financial reports contained in this annual report were true and complete.
- V. The profit distribution plan approved by the Board for the Reporting Period is as follows: the consolidated net profit attributable to the shareholders of the Company for year 2013 was RMB980,045,077.10. Based on the Company's net profit of RMB550,834,619.89 for 2013 after the transfer of 10% amounting to RMB55,083,461.99 to the statutory surplus reserve fund plus the retained earnings of RMB1,329,205,080.02 transferred from last year and after deducting the dividend of RMB77,480,439.00 distributed for the year 2012, the amount of retained profits available for distribution to shareholders of the Company amounted to RMB1,747,475,798.92. According to the actual situation of the Company, considering that the Company is in the growth period and has a major capital expenditures, it is supposed to distribute dividend RMB2.30 (including tax) for every 10 shares as a base of 1,291,340,650 shares of year 2013, the total amount of distributing dividend was RMB297,008,349.50, the remaining undistributed dividend would be shifted to the next distribution. During the Year, there was no increase in share capital by transferring from capital reserve.

The profit distribution will be submitted to the annual general meeting of the Company for year 2013 for consideration and approval.

Contents

- VI.** The consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the twelve months ended 31 December 2013 have been restated to include the operating results and cash flows of Baiyunshan and Guangyao Baiyunshan Hong Kong Company. The consolidated balance sheet as at 1 January 2013 and the notes have been restated and adjusted.
- VII.** Forward-looking statements such as plans for the future and development strategy described in this annual report do not constitute any substantive commitment of the Company to investors. Investors are advised to pay attention to any investment risk.
- VIII.** There was no non-operational appropriation of funds of the Company by its connected parties.
- IX.** The Company had not provided any external guarantee in violation of the decision-making procedures stipulated by the Company or relevant authorities.
- X.** This annual report is prepared in both English and Chinese. In the event of discrepancy in interpretation, the Chinese version shall prevail.

Definitions

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

Company / GYBYS	Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (formerly known as Guangzhou Pharmaceutical Company Limited)
PRC or China	the People's Republic of China
Reporting Period / the Year	the 12 months ended 31 December 2013
Group	the Company and its subsidiaries
Board	the board of directors of the Company
Supervisory Committee	the supervisory committee of the Company
CSRC	China Securities Regulatory Commission
SSE	the Shanghai Stock Exchange
HKEx	the Stock Exchange of Hong Kong Limited
CSRC Guangdong Bureau	Guangdong Bureau of China Securities Regulatory Commission
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 SSE	Listing rules of the Shanghai Stock Exchange
Listing Rules of HKEx	the Rules Governing the Listing of Securities on the HKEx
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)
Xing Qun	Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd. (廣州白雲山星群(藥業)股份有限公司)
Zhong Yi	Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited (廣州白雲山中一藥業有限公司)

Definitions

Chen Li Ji	Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory (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 (formerly known as Polian Development Co., Ltd.)
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 (廣州白雲山製藥股份有限公司廣州白雲山製藥總廠)
Chemical Pharmaceutical Factory	Guangzhou Baiyunshan Chemical Pharmaceutical Factory (廣州白雲山製藥股份有限公司廣州白雲山化學製藥廠)

Definitions

He Ji Gong	Guangzhou Baiyunshan Pharmaceutical Co., Ltd. Baiyunshan He Ji Gong Pharmaceutical Factory (廣州白雲山製藥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)
Guangzhou Baxter	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	Baiyuanshan Weiling Pharmaceutical Co., Ltd. (白雲山威靈藥業有限公司)
Wei Yi Co., Ltd	Guangzhou Baiyunshan Wei Yi Medical Investment Management Co., Ltd. (廣州白雲山維醫醫療投資管理有限公司)
Baxter Healthcare	Baxter Healthcare (Guangzhou) Co., Ltd. (廣州百特醫療用品有限公司)
Bozhou Baiyunshan	Bozhou Baiyunshan Pharmaceutical Co., Ltd. (亳州白雲山制藥有限公司)
Guangzhou General Institute	Guangzhou Pharmaceutical Research General Institute (廣州醫藥研究總院)
Major Assets Reorganization	the major assets reorganization in respect of the absorption and merger of Baiyunshan through share swap and acquisition of relevant assets of GPLH through issuing shares which was started in November 2011
Golden Eagle Fund	Golden Eagle Fund Management Co., Ltd. (金鷹基金管理有限公司)

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
 Previous Legal Chinese Name: 廣州藥業股份有限公司
 Previous Chinese Name Abbreviation: 廣州藥業
 Previous English Name: GUANGZHOU PHARMACEUTICAL COMPANY LIMITED
 Previous English Name Abbreviation: GPC

2. Legal Representative: Li Chuyuan

3. 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 1217/6628 1219
 Fax: (8620) 6628 1229
 E-mail: chenjing@gybys.com.cn/huangxz@gybys.com.cn

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

5. Designated newspapers for information disclosure: Mainland China: China Securities News (中國證券報), Shanghai Securities News (上海證券報), Securities Times (證券時報), Securities Daily (證券日報)
 Internet website designated by the CSRC for publication of this annual report: <http://www.sse.com.cn>
 Internet website designated by HKEx for publication of 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

Company Profile

6. Stock exchanges and codes of the Company's shares: A Shares: SSE
Previous Stock Abbreviation: Stock Code: 600332 Stock Abbreviation: BAIYUNSHAN
A Shares: GZ Phar.
H Shares: HKEx
Stock Code: 0874 Stock Abbreviation: BAIYUNSHAN PH
Previous Stock Abbreviation: H Shares: GZ Phar.
7. Other corporate 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 changes: 16 August 2013
Place of registration for subsequent changes: 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;
4th floor, No.61 Nanjing Road East, Shanghai, China
Authorized signatory of Auditors: Zhang Ning, Zhang Xi

Financial Data and Financial Highlights

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

Principal accounting data	2013	2012		Year on year increase/ (decrease) (%)	2011		2010		2009	
		After restatement	Before restatement		After restatement	Before restatement	After restatement	Before restatement	After restatement	Before restatement
Income from operations (RMB'000)	17,608,193	12,062,642	8,229,059	45.97	8,869,704	5,439,612	7,523,493	4,486,067	6,511,671	3,881,938
Net profit attributable to the shareholders of the Company (RMB'000)	980,045	729,040	395,278	34.43	542,763	287,531	469,216	267,112	301,634	210,989
Net profit attributable to the shareholders of the Company after deducting non-recurring items (RMB'000)	891,802	706,882	377,425	26.16	509,456	265,742	397,109	233,168	190,395	156,584
Net cash flow from operating activities (RMB'000)	1,339,140	999,230	506,530	34.02	83,079	(185,040)	402,565	73,218	734,786	439,393
Total profit (RMB'000)	1,229,190	881,063	457,839	39.51	656,121	334,993	575,572	321,341	344,613	231,331

Principal accounting data	As at 31 December 2013	As at 31 December 2012		Year on year increase/ (decrease) (%)	As at 31 December 2011		As at 31 December 2010		As at 31 December 2009	
		After restatement	Before restatement		After restatement	Before restatement	After restatement	Before restatement	After restatement	Before restatement
Shareholder's equity attributable to the shareholders of the Company (RMB'000)	6,831,768	5,566,352	4,096,589	22.73	4,943,960	3,781,652	4,471,669	3,539,369	4,050,086	3,304,186
Total assets (RMB'000)	12,249,123	9,394,208	6,235,394	30.39	7,742,904	4,851,266	7,250,778	4,477,892	6,912,847	4,226,137
Total liabilities (RMB'000)	5,226,886	3,638,244	2,011,073	43.67	2,626,151	956,094	2,622,278	836,351	2,712,959	824,561
Total equity per share attributable to shareholders of the Company (RMB)	5.29	4.41	5.05	19.87	3.92	4.66	3.55	4.36	3.21	4.07

Financial Data and Financial Highlights

Principal accounting data	2013	2012		Year on year increase/ (decrease) (%)	2011		2010		2009	
		After restatement	Before restatement	After restatement	After restatement	Before restatement	After restatement	Before restatement	After restatement	Before restatement
Basic earnings per share (RMB)	0.768	0.578	0.487	32.84	0.430	0.355	0.372	0.329	0.239	0.260
Diluted earnings per share (RMB)	0.768	0.578	0.487	32.84	0.430	0.355	0.372	0.329	0.239	0.260
Basic earnings per share after deducting non-recurring items (RMB)	0.699	0.560	0.465	24.67	0.404	0.328	0.315	0.288	0.151	0.193
Weighted average return on net assets ratio (%)	15.71	13.89	10.05	An increase of 1.82 percentage points	11.50	7.84	11.01	7.81	7.76	6.56
Ratio of weighted return on net assets after deducting non-recurring items (%)	14.30	13.47	9.60	An increase of 0.83 percentage point	10.80	7.25	9.32	6.82	4.90	4.87
Return on total equity attributable to shareholders of the Company (%)	14.35	13.10	9.65	An increase of 1.25 percentage points	10.98	7.60	10.49	7.55	7.45	6.39
Ratio on total equity attributable to shareholders of the Company to total assets (%)	55.77	59.25	65.70	A decrease of 3.48 percentage points	63.85	77.95	61.67	79.04	58.59	78.18
Gearing ratio (%) (note)	42.67	38.73	32.25	An increase of 3.94 percentage points	33.92	19.71	36.17	18.68	39.25	19.51

Note: Gearing ratio = Total liabilities / Total assets × 100%

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

Financial Data and Financial Highlights

(2) NON-RECURRING ITEMS INCLUDE:

Items	Amount in 2013 (RMB'000)	Explanation	Amount in 2012 (RMB'000) (After restatement)	Amount in 2011 (RMB'000) (After restatement)
Gain/(Loss) on disposal of non-current assets	(537)		(1,169)	1,234
Government subsidies recognized as gain/(loss)	111,537	This is the amount of government subsidies received by the Company's subsidiaries which was transferred to non-operating income in the Reporting Period	36,563	37,679
Gain/(Loss) on changes in fair value arising from trading financial assets and trading financial liabilities held (excluding the valid hedging business related to normal operating activities of the Company), as well as investment gains received from disposal of trading financial assets, trading financial liabilities and financial assets available for sale	487		(252)	(3,159)
Write back of provision for impairment of accounts receivable undergoing independent impairment test	372		537	1,233
Loss from entrusted loans	(974)		(756)	(654)
Other non-operating income and expenses excluding the above items	1,241		(9,646)	1,390
Income tax effect	(22,566)		(1,874)	(1,782)
Effect on minority interest (after tax)	(1,317)		(1,245)	(2,634)
Total	88,243		22,158	33,307

Financial Data and Financial Highlights

(3) CHANGES IN SHAREHOLDERS' EQUITY IN 2013 (CONSOLIDATED)

Items	Share capital	Capital reserve	Surplus reserve	Retained earnings	Others	Shareholders' equity
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Opening balance	810,900	1,702,774	787,732	2,271,551	(6,605)	5,566,352
Additions	480,441	800,704	55,083	980,045	–	2,316,273
Deductions	–	9,690	118,995	921,081	1,091	1,050,857
Closing balance	1,291,341	2,493,788	723,820	2,330,515	(7,696)	6,831,768

1. Reasons for changes in share capital during the Year:

- (1) The Company issued an addition of 445,601,005 A shares by way of share swap to absorb and merger Baiyunshan, a subsidiary of GPLH, in May 2013.
- (2) The Company issued an addition of 34,839,645 A shares to GPLH as consideration payment, to acquire the buildings and trademarks which are owned by GPLH or GPLH has the right to dispose, and 100% equities of Guangyao Baiyunshan Hong Kong Company, a subsidiary of GPLH, and 12.5% equities of Baxter Healthcare held by GPLH.

2. Reasons for changes in capital reserve during the Year:

- (1) As in May 2013, the Company merger Baiyunshan under common control and transfer the surplus reserve amounted to RMB118,559,000 and undistributed profits amounted to RMB793,598,000 into the capital surplus of the Company amounted to RMB912,157,000 on 31 May 2013.
- (2) The Company issued 30,101,000 shares to acquire the relevant assets of GPLH at current period, the fair value of the acquired assets exceed the issued shares by RMB334,119,000, the capital reserve of the Company increased by RMB334,119,000 accordingly.
- (3) Upon the completion of absorption and merger of Baiyunshan through share swap with issuing 445,601,000 shares and acquisition of Guangyao Baiyunshan Hong Kong Company, which was under the same control, by issuing 4,739,000 shares to GPLH of the Company, will transfer the capital surplus arising from common control when preparing the 2012 financial statements and decrease RMB450,340,000 of capital surplus.
- (4) The capital surplus amounted to RMB1,261,000 of Nuo Cheng, a joint venture of Guangzhou Bai Di (a subsidiary of the Company), is recognized by the shares proportion held by Guangzhou Bai Di.
- (5) Chen Li Ji, a subsidiary of the Company, transfer the long-term payables to capital reserve amounted to RMB2,149,000 in current period.

Financial Data and Financial Highlights

- (6) Qi Xing, a subsidiary of the Company, scrap the fixed assets from investment in capital and transfer the assessed appreciation as an addition to capital surplus amounted to RMB1,358,000.

Details of reduction is mainly for:

- (1) The decrease of capital surplus amounted to RMB1,635,000 is due to the net changes in fair value of available-for-sale financial assets held by the Group, which include the decrease of RMB1,233,000 due to the decline in the price of the A-share of China Everbright Bank Company Limited held by the Group and the decrease of RMB402,000 due to the increase in the price of the A-share of Bank of Communications held by the Group.
 - (2) The recognized investment losses of Pan Gao Shou arising from the purchasing of 10% minority shareholding of Guangzhou Pan Gao Shou Health Products Co., Ltd. and the net assets difference is allocated against capital surplus. The portion calculated at the increased shareholding ratio of the Group is RMB3,348,000.
 - (3) As the capital surplus of GP Corp., a jointly controlled entity, decreased in the current period, the Group recognized the decrease in capital surplus amounted to RMB64,000 based on its share of interest in GP Corp..
 - (4) As the sales of Bozhou Baiyunshan, a subsidiary of the Company, in the current period, the Group recognized the decrease in capital surplus amounted to RMB4,644,000 based on its share of interest.
3. The fluctuation of surplus reserve in current period was due to:
- (1) Current increment was the statutory surplus reserves calculated by 10% of net profit.
 - (2) As the sales of Bozhou Baiyunshan, a subsidiary of the Company, in the current period, the Group recognized the decrease in surplus reserve amounted to RMB437,000 based on its share of interest.
 - (3) As in May 2013, the Company absorbed and merged Baiyunshan under common control and transfer the surplus reserve amounted to RMB118,559,000 into the capital surplus of the Company on 31 May 2013.

Financial Data and Financial Highlights

4. The fluctuation of undistributed profits in current period was due to:
- (1) As the sales of Bozhou Baiyunshan, a subsidiary of the Company, capital surplus and surplus reserve which amounted to RMB5,080,000 at the beginning of period shall transfer to the undistributed profits at the end of period.
 - (2) As in May 2013, the Company absorbed and merged Baiyunshan under common control and transferred the undistributed profits amounted to RMB793,598,000 into the capital surplus of the Company on 31 May 2013.
 - (3) Pursuant to the temporary resolution of board of shareholders on 30 December 2013, the Group distributed cash dividends amounted to RMB77,480,000 which was calculated by issued shares amounted to 1,291,340,650 to all shareholders, total distributed cash dividends was RMB0.06 per share.

ITEMS RELATED TO FAIR VALUE MEASUREMENT

Items	Amount 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)
Financial assets available for sale	20,402	17,608	(2,794)	442
Financial assets for trading	2,876	3,363	487	496
Total	23,278	20,971	(2,307)	938

Report of the Board of Directors

BUSINESS SCOPE

The Group is principally engaged in: (1) the research and development, manufacturing and sales of Chinese and western patent medicine, chemical active pharmaceutical ingredients (API), natural medicine, biological medicine and chemical API intermediates; (2) wholesale, retail and import and export of western and Chinese pharmaceutical products and medical apparatus; and (3) research and development, production and sales of great health products.

(1) DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS

Business Review

During the Reporting Period, the Major Assets Reorganization has been successfully implemented. In May 2013, the Company had completed the absorption and merger of Baiyunshan. The trading of the additional shares issued by the Company for absorption and merger of Baiyunshan officially commenced on 23 May 2013. On 30 June 2013, the Company and GPHL signed the Assets Settlement Agreement in relation to the issuance of A shares for acquisition of assets. Registration formalities in respect of the newly issued shares have been completed on 5 July 2013. At this point, the Company's Major Assets Reorganization was basically completed, setting up the first-ever reorganization precedent which involved stock exchanges in Shanghai, Shenzhen and Hong Kong in the history of Chinese securities industry. According to the date provided by China Center for Market Value Management (中國上市公司市值管理研究中心), the Company ranked first in terms of the growth in total market capitalization in pharmaceutical sector. In addition, the Company received many accolades, such as "100 Best Market Capitalization Management" ("市值管理百佳"), "100 Strong Brands with Capital Value" ("資本品牌價值百強") and "The Most Competitive Advantage of Listing Corporation" ("最具競爭優勢上市公司") etc. for its outstanding performance in value creation and materialization and its great market influence. In July 2013, upon the approval of domestic administration for industry and commerce, the Company officially changed its name to "Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited". In August 2013, the Company officially completed relevant filing formalities for the change of the Company's name in Hong Kong. On 29 August 2013, the short name of the securities of the Company in Shanghai was formally changed into "Baiyunshan" and in Hong Kong was formally changed into "BAIYUNSHAN PH".

Manufacturing operations

During the Reporting Period, with respect to the manufacturing operations, firstly, the Group proactively promoted the governmental affairs, handled supplementing of basic medicine catalog in various provinces, and strived to maintain the prices and carry out the medicine bidding. During the Reporting Period, the exclusive medicine, namely Kou Yan Qing Ke Li, Xiao Ke Wan, Zhang Yan Ming Pian, Hua Tuo Zai Zao Wan and Wang Lao Ji Bao Ji Kou Fu Ye were successfully selected for inclusion in the "2012 National Basic Medicine Catalog" (2012版國家基藥目錄). Secondly, we carried out the integration of propaganda and accelerated the marketing innovation. During the Reporting Period, the activity of collecting expired medicine in families that went on for nearly ten years was expanded to 185 cities around the country, and drop-in collection service was provided in fixed points, receiving good appraises and made a Guinness World Records as The World's Largest Public Services of Collecting Expired Medicine in Families as at the end of the Reporting Period; HWBYS promoted the public micro film "Let

Report of the Board of Directors

(1) DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS (Continued)

Manufacturing operations (Continued)

Love Go Home” and Wang Lao Ji promoted the inspirational film “Allure Love”, organically integrating the commercialization of brand with the artistic nature of films and realizing marketing innovation with new media to promote brands. Thirdly, the Group vigorously conducted brand, culture and academic marketing activities and promoted the reputation of brands and products. During the Reporting Period, the Company’s subsidiaries contributed to the society through various public benefit activities through donation of money and medicine, representing the civic responsibilities of the enterprises. Chen Li Ji established a “Chen Li Ji Golden Image Outlet” which integrated the sales of Chinese medicine and brand display in one outlet, and it was the sole pharmaceutical company in Guangzhou chosen as representative to participate in the exhibition of the “the 3rd Cantonese Cultural Festival” organized by Guangzhou City. Zhong Yi evidence-based medical research for Xiao Ke Wan, made great breakthroughs in the scientific research such as Modern Research and Application of Xiao Ke Wan, and drove the academic marketing; Zhong Yi Exhibition Hall of Zhong Yi was officially commenced, serving as a medical culture platform in addition to Chen Li Ji Museum and Shen Nong Cottage. Wang Lao Ji released “*San Gongzai • Love Children in a Proper Way – A White book for Medication Security for Children*”, the first report for children’s medication security, successfully integration public benefit activities with brand communication. Fourthly, Wang Lao Ji vigorously promoted the great health products industry and opened up the domestic great health products market through establishing great health platform. In June of 2013, during the “Conference of Wan Lao Ji Herbal Tea of International Standards and Latest Scientific Results under Wang Lao Ji Herbal Tea National 863 Plan”, an agreement with Swiss SGS and Murad Translational Medicine Center was signed for kicking off the first international standard for herbal research in the world, in order to further accelerate the process of internationalization of herbal tea; accelerated the construction of herbal tea production base and set up production bases in Ya’an of Sichuan, Dapu of Meizhou and Xinxiang of Henan in succession to cope with the capacity demand; ramped up its sales force and strengthened the build-up and management of its customer base; enhanced development of catering channels to drive the consumptions of catering; the distribution rate of red-canned and red bottles Wang Lao Ji herbal tea throughout the nation increased rapidly; focused on satisfying consumers’ diversified needs for herbal tea products, launched new low-sugar herbal tea, sugar-free herbal tea and solid herbal tea beverages, and provided instantly drinkable herbal tea machines to chain restaurants directly, breaking through limitation of its traditional product specification; in 2013, WLJ Great Health practically carried out intensive efforts to develop the marketing channels and realize the rapid sales growth of red-canned Wang Lao Ji by integration technical resources, purchase of resources, expanding the production capacity of aluminium cans, improving technology and efficiency and lowering the consumption. WLJ Great Health products ranked the first in four indicators such as satisfaction, brand image, cognitive quality and confidence on security in the “2013 Consumer Satisfaction Investigation and Analysis Report of Food Industry (Tea Beverage)” released by China Association for Quality (中國質量協會), and was recognized as the most satisfying tea beverage brand by consumers; WLJ Great Health built a herbal team museum with the largest scale, most abundant collections and highest technological contents---Wang Lao Ji Museum, and set up the first academic institution for herbal tea in China---Wang Lao Ji Culture Institute; enhanced the culture of Wang Lao Ji Brand with “the Real Herbal Tea Wang Lao Ji Handed Down from 185 Years Ago” as the theme of communication; initiated cultural promotion of Chinese “Ji” and set up the Wang Lao Ji Zhonghua “Ji” Culture Research Institute. Fifthly, the Group promoted “special plan for new cash cow”,

Report of the Board of Directors

(1) DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS *(Continued)*

Manufacturing operations *(Continued)*

carried out the strategy of pillar varieties, vigorously improved the market share of the gross profit, high value-added and high technology products, cultivated the “varieties of cows” and improved the comprehensive gross margin. In 2013, the products with great increases in sales income included herbal tea, cefixime, Xiao Ke Wan, Hua Tuo Zai Zao Wan series and Cephthiamidine for Injection etc. Among others, 13 varieties realized sales of over RMB100 million and 13 varieties realized sales of between RMB50 million to RMB100 million. Sixthly, the Group accelerated the development of new GMP authentication of its subsidiaries. During the Year, the Group made good achievements in new GMP authentication. Jing Xiu Tang, Guang Hua, Baxter Qiao Guang, Pan Gao Shou, Zhong Yi, Xing Qun, Ming Xing, HWBYS, Nuo Cheng and Chen Li Ji all passed GMP authentication, and the authentication coverage reached more than 90%. Qi Xing successfully passed GMP re-authentication of Australian TGA and the on-site examination of Hong Kong Mateway. Meanwhile, by taking the opportunities of new GMP authentication to facilitate resources integration, Baiyunshan General Factory acquired a production line of sterile powder for injection and relevant products, in which contained the ceftizoxime sodium with specification of 0.25g. The specification is for children’s medicine and also an exclusive specification in China.

During the Reporting Period, the gross profit margin of the manufacturing operations was 39.36%, representing a decrease of 0.46 percentage point as compared with last year.

During the Reporting Period, the Group adopted effective measures to promote the steady growth of its core business on one hand. On the other hand, it integrated social responsibility and cultural construction, carried out its operation and management embedded with social responsibility, with the aims of demonstrating its civic responsibility and contributing to society. During the Reporting Period, “RMB182.80 Million Wang Lao Ji Love Fund” sponsored 10,000 poor students in 2012 and further provided financial assistance to 1,828 people whose illnesses caused their families fall into poverty; jointly initiated the first charity program in Guangdong province with the Red Cross in Guangdong Province for fighting against H7N9 avian influenza, through which RMB8 million of relief supply and donation was given out, donated RMB3 million of relief supply and pharmaceutical products to affected victims in Ya’an, Sichuan through the Red Cross in Guangdong Province immediately after the occurrence of earthquake on 20 April 2013, and formed a “Back-up Team for Blood Donation” and a “120 Rescue Back-up Team” to jet to the disaster area for aiding the rescue efforts. In addition, WLJ Great Health invested RMB300 million to build a Wang Lao Ji production base at the earthquake-stricken area in Ya’an, Sichuan, in order to provide jobs and other long-term supports for post-earthquake rebuilding works. In the Year, the Group achieved initial success in aiding Tibet where the Group has set up a joint venture company for aiding Tibet and constructed GAP bases for planting salvia roots and ganoderma. Qi Xing and the Red Cross in Guangdong Province jointly organized a large-scale charity activity titled “Bringing Brightness to Others, Spreading Love in China” for helping the stroke patients in China who suffered from social isolation. Zhong Yi, Guangzhou City Volunteer Guidance Centre, Youth Daily and Peoples’ Dispensary Guangdong Company jointly held an activity called “Healthy Spring and Love Action” for giving medical kits and providing emergency treatment and other services to travellers during the Spring Festival travel season. Volunteers from Wang Lao Ji organized the “Caring for Future, Jili Giving Help” Campaign to show their caring and heart towards the children living in mountain areas of northern Guangdong in practical ways by giving them “love green boxes” and “colorful huts”.

Report of the Board of Directors

(1) DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS *(Continued)*

Trading operations

During the Reporting Period, with respect to the trading operations, firstly, the Group continuously expanded the sales channels and network, proactively explored new business and vigorously developed the pharmacy trusteeship business. GP Corp. signed a cooperative agreement for extending services of modern medical logistics with several hospitals such as the Second People's Hospital of Guangdong Province, Meizhou Dapu People's Hospital, etc. Cai Zhi Lin obtained full trusteeship of TCM pharmacy of the community hospital of Liwan District, Haizhu District, Baiyun District, and Huangpu District and several grade A hospitals of second class in Guangzhou. Secondly, the Group expanded the financing channel, accelerated the construction of warehousing and logistics and enhanced the terminal distribution. Thirdly, the Group constantly improved the cooperation with the production enterprises on issues such as the list of basic medicine and bidding, strengthened cooperation between industrial and commercial enterprises to facilitate integration of resources. During the Reporting Period, the integrated marketing of Chinese medicine under the core brands namely HWBYS, Zhong Yi and Qi Xing has made smooth progress. Baiyunshan General Factory, Guang Hua and Jing Xiu Tang strengthened communication between industrial and commercial enterprises and promoted the integration of marketing by jointly holding meetings for exchanging industry and commerce information. Fourthly, the Group, relying on the successful implementation of major assets reorganization, accelerated the integration of resources, and set up various purchase platforms for purchases of Chinese herbal medicine materials, large bulk raw and supporting materials, and imported facilities in succession, further enhanced the "integrated operation" of the Group. Fifthly, the Group accelerated the promotion of external investment and merger and acquisition, and construction of GAP planting bases for bulk raw materials of Chinese herbal medicine. During the Reporting Period, the companies merged and acquired by GP Corp. in Guangxi and Jiangmen of Guangdong had started operation. Sixthly, the Group constantly developed e-commerce. The e-commerce of GP Corp. "Guang Yao Jian Min Web" (廣藥健民網) recorded a new height in business and realized rapid growth. Formosa Optical, the largest Chinese chain spectacles company in the world, became the e-commerce partner of GP Corp.; "Cai Zhi Lin Yang Sheng Tang" (廣藥采芝林養生堂) set up by Cai Zhi Lin recorded sales of traditional Chinese medicine decoction pieces of up to RMB 1 million after half a year's operation.

During the Reporting Period, the gross profit margin of the trading operations was 7.25%, representing a decrease of 0.57 percentage point as compared with the corresponding period of last year.

As at 31 December 2013, the Group had 36 retail chain pharmacy outlets, including 35 "Cai Zhi Lin" which specialized in traditional Chinese medicines and one pharmacy named Ying Bang.

Report of the Board of Directors

(1) DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS *(Continued)*

Trading operations *(Continued)*

A. Analysis of changes in items of financial statement

Items	The Reporting Period (RMB'000)	Corresponding period of 2012 (RMB'000) (restated)	Increase/ (Decrease) over the same period of 2012 (%)	Reason for change
Revenue	17,608,193	12,062,642	45.97	Increase was mainly due to the effective marketing strategies by the Group, especially WLJ Great Health achieved substantial increase in sales volume in the Year.
Include: income from principal operations	17,463,016	11,914,511	46.57	
Cost of sales	11,806,295	8,231,938	43.42	The operating cost increased with the growth of sales in the Year.
Include: cost from principal operations	11,768,412	8,191,130	43.67	
Selling and distribution expenses	3,485,311	1,971,898	76.75	In order to actively carry out marketing activities and increase sales, the Group increased cost of advertising, marketing personnel and transport in the Year.
General and administrative expenses	1,227,255	1,086,928	12.91	Increase was mainly due to the increase in the employee benefits, research and development expenses of the Group in the Year.
Financial expenses	28,305	49,504	(42.82)	The Group strengthened internal capital management and reduce bank borrowings in the Year.

Report of the Board of Directors

(1) DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS *(Continued)*

Trading operations *(Continued)*

A. Analysis of changes in items of financial statement *(Continued)*

Items	The Reporting Period (RMB'000)	Corresponding period of 2012 (RMB'000) (restated)	Increase/ (Decrease) over the same period of 2012 (%)	Reason for change
Profit before tax	1,229,190	881,063	39.51	In the Year, the increase in sales revenue and gross profit ratio was greater than the increase in cost.
Net profit attributable to shareholders of the Company	980,045	729,040	34.43	In the Year, the increase in sales revenue and gross profit ratio were greater than the increase in costs.
Net cash flow from operating activities	1,339,140	999,230	34.02	This is due to the increase in the Group's sales revenue, raise in the capital return and growth in advances from customers received by the Group in the Year.
Net cash flow from investing activities	(323,700)	(66,094)	(389.76)	Increase was mainly due to the increased investments in technical renovation and GMP transformation projects by the Group in the Year.
Net cash flow from financing activities	(211,689)	(446,427)	52.58	Increase was mainly due to the decrease in dividend payment, interests and foreign loans of the Group in the Year.

Report of the Board of Directors

(1) DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS *(Continued)*

Trading operations *(Continued)*

A. Analysis of changes in items of financial statement *(Continued)*

Items	The Reporting Period (RMB'000)	Corresponding period of 2012 (RMB'000) (restated)	Increase/ (Decrease) over the same period of 2012 (%)	Reason for change
Research and development expenses	282,195	224,357	25.78	In the Year, increase was mainly due to the manufacturing companies of the Company further accelerated the technology innovation, promoted the capability of independent innovation and increased investment in the research and development.

B. Revenue

In 2013, the main reasons for the changes in the Group's business revenue are the Group being continuously encountering the challenges of "two-downs-and-one-up" in the pharmaceutical industry, the Group concentrated its resources to vigorously developing the "great health industry" and achieved rapid growth in the sales revenue while maintaining growth in the pharmaceutical industry.

Report of the Board of Directors

(1) DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS (Continued)

Trading operations (Continued)

C. Cost

(i) Analysis of cost

Operation Cost	Items of constitute	2013		2012		
		Amount (RMB'000)	Percentage of the proportion of operation costs (%)	Amount (RMB'000) (restated)	Percentage of the proportion of operation costs (%)	Percentage of the proportion of operation cost (%)
Manufacturing	Raw materials	3,377,255	40.39	2,535,632	48.30	33.19
	Fuel	98,667	1.18	98,170	1.87	0.51
	Labor costs	310,216	3.71	306,586	5.84	1.18
	Others	4,575,473	54.72	2,309,367	43.99	98.13
Trading	Procurement costs	3,406,801	100.00	2,941,375	100.00	15.82

(ii) Major customers and suppliers

During the Year, purchases of goods and services from the 5 largest suppliers amounted to RMB1,637,806,000 representing approximately 18.86% of the total purchases. The purchases from the largest supplier amounted to RMB484,239,000 representing 5.58% of the total purchases. Goods and services sold to the 5 largest customers amounted to RMB1,469,063,000 representing 8.41% of the total sales. Sales to the largest customer amounted to RMB438,299,000 representing 2.51% of the total sales of the Group.

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

D. Expenses

During the Reporting Period, the Group's selling expense was approximately RMB3,485,311,000 with a growth of 76.75% as compared with last year mainly due to the Group's active marketing efforts to increase sales revenue. The expenses of the Group in advertising marketing personnel and transport in the Year had increased.

During the Reporting Period, the general and administrative expenses of the Group for the Reporting Period amounted to RMB1,227,255,000, representing an increase of 12.91% as compared with 2012, which was mainly due to the increase in the employee remunerations, research and development expenses of the Group.

Report of the Board of Directors

(1) DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS *(Continued)*

Trading operations *(Continued)*

D. Expenses *(Continued)*

During the Reporting Period, the Group's financial expense was approximately RMB28,305,000, representing a decrease of 42.82% as compared with last year, mainly due to strengthening of the management of funds internally and reduction in bank borrowings.

During the Reporting Period, the Group's income tax expense was approximately RMB222,243,000, with a growth of 94.33% as compared with last year, mainly due to the increase in profit of the Company's subsidiaries.

E. Research and development expenses

Current cost of research and development expenses during the Reporting Period (RMB'000)	282,191
Current capitalization of research and development expenses during the Reporting Period (RMB'000)	4
Total research and development expenses (RMB'000)	282,195
Total research and development expenses accounted for the proportion of net assets (%)	4.02
Research and development expenses to total operating revenue ratio (%)	1.60

In 2013, the Group vigorously promoted scientific and research innovation, strengthened its intellectual property right related affairs and made remarkable achievements, mainly including:

(i) Grants and approval of patents

During the Reporting Period, the Group obtained 2 clinic approvals of medicine: approvals of the clinic researches on change of formulation and process of cefuroxime axetil tablets and metoprolol tartrate sustained release tablets of Tian Xin; obtained 2 approvals for production of medicine and 3 approvals of supplementary applications: fasudil hydrochloride injection (chemical medicine category VI) and amikacin sulfate injection (supplementary application for change of formulation and process) of Tian Xin, potassium iodide tablets (chemical medicine category VI) of Guang Hua, and cephaliamidine for injection of Baiyunshan Pharmaceutical General Factory (supplementary applications for changes of the packing materials of medicine of direct contacts, 2 specifications); obtained 3 approvals for production of medical equipment: substratum of frozen dry cells of Guangzhou Bai Di (exclusive), culture solution for amniotic cells and coupling agent.

Report of the Board of Directors

(1) DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS *(Continued)*

Trading operations *(Continued)*

E. Research and development expenses *(Continued)*

(ii) Science and technology awards

During the Year, Zhong Yi obtained the title of “Model Enterprise of Independent Innovation of Guangdong Province in 2013” granted by the Federation of Enterprises of Guangdong Province, obtained the first quality award of district director of Luogang District of the development zone, the award of nomination of quality award of mayor of Guangzhou. “Modern Research and Application of Xiao Ke Wan” was awarded the first class prize of science and technology award of China Association of Chinese Medicine; “Research and Application of Key Technologies for Quality Control in the Process of Production of Chinese Traditional Medicine Pills (Xiao Ke Wan)” was granted the second class prize of technology innovation achievements of China Association of Quality Assessment in 2013; the research findings of evidence-based medicine of Xiao Ke Wang was released on PLoS one, a leading international core journal in the field of biological medicine. The findings showed that, compared with glibenclamide, Xiao Ke Wan was much safer and more efficient in treating diabetes; Zi Shen Yu Tai Wan became the first Chinese patent medicine in gynecology, for which the evidence-based medical research was conducted. Mr. Li Chuyuan, the General Manager of HWBYS, won the twelfth Ding Ying Technology Award of Guangdong Province. The project of “Improvement of Quality Standards of the Famous Chinese Patent Medicine of Nao Xin Pian and Industrialization of Key Technology for Quality Control” obtained the second class prize of Technology Progress Award of Guangzhou City. The “Shan” trademark of Baiyunshan General Factory was recognized as the famous brand of Guangdong Province; the trademark of “Xian Li Su” was determined to be the famous brand of Guangzhou City, and Baiyunshan General Factory was entitled the model enterprise for credit construction with reliable medical quality in the pharmaceutical industry of China, and again obtained the first prize of QC Release of National pharmaceutical industry and the award of best release. Chen Li Ji was recognized as among the third batch of innovative (pilot) enterprises of Guangzhou City and the sixth batch of innovative enterprise of Guangzhou City. A scientific research project titled “Research and Development on Mulberry Resource’s Functional Substance and Its Edible and Medicinal Uses”, which Cai Zhi Lin took part in, won the “Guangdong Provincial Science and Technology First Award”. Pan Gao Shou was recognized as to be the research and development center of Guangzhou for the engineering technology of agents for lung caring and treatment, the sixth batch of innovative enterprise of Guangzhou, the research and development center of Guangzhou for the engineering technology of antineoplastic medicine, and the fourth batch of enterprise technical center of Guangzhou at the municipal level; the project of “Research and Application on Industrialization of Asparaginase (Erwinia)---Medicine for Curing Leucocythemia” won the second prize of Technology Progress Award of Guangzhou City. Wang Lao Ji was recognized as to be the research and development center of Guangdong Province for engineering technology of herbal tea (Wang Lao Ji), the seventh innovative pilot enterprise

Report of the Board of Directors

(1) DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS *(Continued)*

Trading operations *(Continued)*

E. Research and development expenses *(Continued)*

(ii) Science and technology awards *(Continued)*

of Guangdong Province and the enterprise with advantages in intellectual property rights in the pharmaceutical industry in Guangzhou. Tian Xin was recognized as to be the research and development center of Guangdong Province for the engineering technology of sterile agent (Tian Xin), the sixth batch of innovative enterprise of Guangdong Province, and the model enterprise for upgrading and transformation of manufacturing industry of Guangzhou in 2013. Han Fang was recognized as the enterprise of Guangdong Province for cultivation of strategic emerging industry in 2013, the fourth batch of enterprise technical center at the municipal level of Guangzhou. Jing Xiu Tang was recognized as to be the fourth batch of enterprise technical center at the municipal level of Guangzhou. Guang Hua was recognized as to be the model enterprise for upgrading and transformation of manufacturing industry of Guangzhou in 2013. The project of "Systematic Research and Improvement of Standards of Quality of Xia Sang Ju Granule" was recognized as by Guangzhou Technology and Information Bureau as having "reached domestic advanced level". The key research and development project of "Therapeutic Double Plasmid HBV DNA Vaccine" undertaken by Guangzhou Bai Di completed the clinic research for IIb phase and was unbound. The research and development project obtained funding supports from the special funding for national key technology of "Prevention of Major Infectious Diseases such as AIDS and Virus Hepatitis" of the Ministry of Health and the Ministry of Science and Technology of China.

(iii) Intellectual property rights

During the Reporting Period, the subsidiaries of the Group had applied for 46 invention patents in total and obtained 17 authorizations for domestic invention patents. HWBYS was selected as one of the first batch of pilot enterprises for cultivation of abilities for application of industrial intellectual property rights in China organized by the Ministry of Industry and Information Technology and Application of Kou Yan Qing Granules" obtained the award of excellence in the fifteenth term of the Chinese patent. Among others, Zhong Yi became the first batch of enterprise of national level with advantages in intellectual property rights in the pharmaceutical industry. The successful case of "protection of the rights of Wang Lao Ji" obtained the third class prize of the Second Mayor Award of Protection of Intellectual Property Rights of Guangzhou. 13 subsidiaries of the Group were entitled the enterprises with advantages in intellectual property rights in the pharmaceutical industry in Guangzhou.

Report of the Board of Directors

(1) DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS *(Continued)*

Trading operations *(Continued)*

F. Cash flow

Items	For the Reporting Period (RMB'000)	For the corresponding period of 2012 (RMB'000) (restated)	Increase/ (Decrease) over the same period of 2012 (%)	Reason
Net cash flow generated from operating activities	1,339,140	999,230	34.02	This is due to the increase in the Group's sales revenue, raise in the capital return and growth in advances from customers received by the Group during in the Year.
Net cash flow generated from investing activities	(323,700)	(66,094)	(389.76)	Increase was mainly due to the increased investments in technical renovation and GMP transformation projects by the Group in the Year.
Net cash flow generated from financing activities	(211,689)	(446,427)	52.58	Increase was mainly due to the decrease in dividend payment, interests and foreign loans of the Group in the Year.

Report of the Board of Directors

(2) INDUSTRY, PRODUCT AND REGIONAL ANALYSIS OF THE OPERATION RESULT

A. Breakdown of the operational results of the overall and principal operations of the Group during the Reporting Period is set out as follows:

Principal Operations	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
	Income from principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2012 (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2012 (%)	Profit margin of principal operations (%)	Increase/ (Decrease) over the same period of 2012 (Percentage point)
Overall operations	17,463,016	46.57	11,768,412	43.67	32.61	An increase of 1.36percentage points
Include: Manufacturing	13,789,907	58.08	8,361,611	59.28	39.36	A decrease of 0.46percentage point
Trading	3,673,109	15.11	3,406,801	15.82	7.25	A decrease of 0.57percentage point

Gross profit margin of principal operations = (Income from principal operations - Cost of principal operations) / Income from principal operations x 100%

B. Analysis of sales of major products for the manufacturing operations during the Reporting Period is as follows:

Types of 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 2012 (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2012 (%)	Profit margin of principal operations (%)	Increase/ (Decrease) over the same period of 2012 (Percentage point)
Chinese patent medicine	3,895,394	0.59	2,276,184	3.68	41.57	A decrease of 1.74 percentage points
Western medicine	3,429,196	11.69	2,175,040	10.64	36.57	An increase of 0.60 percentage point
Other products	6,465,317	263.03	3,910,387	259.27	39.52	An increase of 0.63 percentage point

Gross profit margin = (Income from principal operations-Cost of principal operations) / Income from principal operations x 100%

Report of the Board of Directors

(2) INDUSTRY, PRODUCT AND REGIONAL ANALYSIS OF THE OPERATION RESULT *(Continued)*

C. Regional analysis of sales of the Group during the Reporting Period is set out as follows:

Regions	Income from principal operations (RMB'000)	Increase/ (Decrease) over the corresponding period of 2012 (%)
Southern China	9,457,011	32.36
Eastern China	3,159,358	70.62
Northern China	1,927,841	84.61
North-Eastern China	336,460	13.67
South-Western China	1,628,816	77.47
North-Western China	512,190	63.17
Exports	441,340	27.65
Total	17,463,016	46.57

(3) ANALYSIS OF FINANCIAL CONDITIONS

1. Liquidity

As at 31 December 2013, the current ratio of the Group was 1.45 (31 December 2012: 1.54), and its quick ratio was 1.00 (31 December 2012: 0.95). Accounts receivable turnover rate was 22.56 times, representing an increase of 24.65 % as compared with the corresponding period of 2012. Inventory turnover rate was 5.42 times, representing an increase of 20.95 % as compared with the corresponding period of 2012.

2. Financial resources

As at 31 December 2013, cash and cash equivalents of the Group amounted to RMB1,918,952,000, of which approximately 98.63% and 1.37% were denominated in Renminbi and foreign currencies, like Hong Kong dollars, respectively.

As at 31 December 2013, the Group had bank borrowing of RMB518,279,000 (31 December 2012: RMB681,218,000), including short-term borrowings of RMB509,652,000 (31 December 2012: RMB681,218,000) and long-term borrowings of RMB8,627,000 (31 December 2012: Nil).

Report of the Board of Directors

(3) ANALYSIS OF FINANCIAL CONDITIONS (Continued)

3. Capital structure

As at 31 December 2013, the Group's current liabilities amounted to RMB5,050,078,000 (31 December 2012: RMB3,474,351,000), representing an increase of 45.35% as compared with 2012, and its long-term liabilities was RMB176,808,000 (31 December 2012: RMB163,894,000), with an increase of 7.88% as compared with 2012. The shareholders' equity attributable to the shareholders of the Company amounted to RMB6,831,768,000 (31 December 2012: RMB5,566,352,000), with an increase of 22.73% as compared with the corresponding period of 2012.

4. Capital expenditure

The Group expects the capital expenditure for 2014 to be approximately RMB1,173 million (2013: RMB695 million), which will be mainly applied in the construction of factories and infrastructure, GMP authentication and innovation, purchases of machines, equipment, upgrading the information system, etc. The Group will raise funds to meet the capital requirements of capital expenditure by resorting to its internal funds, bank loans, etc..

5. Assets and liabilities

Items	As at 31 December 2013 (RMB'000)	Proportion of total assets (%)	As at 31 December 2012 (RMB'000) (restated)	% of the total assets (%)	Increase/ (Decrease) as compared with the end of 2012 (%)	Reason for change
Cash	1,935,682	15.80	1,135,435	12.09	70.48	The increase was mainly due to increase in the Group's sales revenue, improved capital return and the increase in advances from customers during the Year.
Notes receivable	1,326,354	10.83	844,429	8.99	57.07	In the Year, under the influence of tight liquidity of domestic monetary market, the Group received the bankers' acceptances settlement by selling products.

Report of the Board of Directors

(3) ANALYSIS OF FINANCIAL CONDITIONS (Continued)

5. Assets and liabilities (Continued)

Items	As at 31 December 2013 (RMB'000)	Proportion of total assets (%)	As at 31 December 2012 (RMB'000) (restated)	% of the total assets (%)	Increase/ (Decrease) as compared with the end of 2012 (%)	Reason for change
Receivables	973,185	7.94	734,069	7.81	32.57	During the Year, the Group actively carried out marketing, expanded sales channels and its sales revenue and receivables increased accordingly.
Advance to suppliers	613,882	5.01	446,668	4.75	37.44	The increase was mainly due to the increased prepayments by the Company's subsidiaries for the purchase of pharmaceutical raw materials and packaging in the Year.
Other receivables	181,146	1.48	120,692	1.28	50.09	As at 31 December 2013, the increase was mainly due to the increase in the borrow business dealings of the Group.
Other current assets	19,348	0.16	1,599	0.02	1,110.01	As at 31 December 2013, the Group's deductible input tax decreased.
Investment property	246,309	2.01	136,194	1.45	80.85	The Company purchased investment properties from GPL through issuing shares in the Year.

Report of the Board of Directors

(3) ANALYSIS OF FINANCIAL CONDITIONS (Continued)

5. Assets and liabilities (Continued)

Items	As at 31 December 2013 (RMB'000)	Proportion of total assets (%)	As at 31 December 2012 (RMB'000) (restated)	% of the total assets (%)	Increase/ (Decrease) as compared with the end of 2012 (%)	Reason for change
Construction in progress	335,423	2.74	140,078	1.49	139.45	Increase was mainly due to the increase in the investments in technology improvements and GMP reformation by the Group in the Year.
Deferred tax assets	266,950	2.18	119,690	1.27	123.03	Increase was mainly due to the increase in the temporary differences of employee benefits payable and accrued expenses in the Year.
Notes payable	130,774	1.07	75,970	0.81	72.14	The Company's trading subsidiaries adopted a bankers' acceptances settlement method for short term fund facilities to reduce finance costs in the Year.
Accounts payable	1,470,361	12.00	1,080,598	11.50	36.07	The increase was mainly due to the longer credit term granted by suppliers to the Company's subsidiaries in the Year.
Advance payable	875,580	7.15	608,782	6.48	43.82	In the Year, the increase was mainly due to the increase in the advance payment from the deals of the Company's subsidiaries

Report of the Board of Directors

(3) ANALYSIS OF FINANCIAL CONDITIONS (Continued)

5. Assets and liabilities (Continued)

Items	As at 31 December 2013 (RMB'000)	Proportion of total assets (%)	As at 31 December 2012 (RMB'000) (restated)	% of the total assets (%)	Increase/ (Decrease) as compared with the end of 2012 (%)	Reason for change
Employee benefits payable	334,428	2.73	192,467	2.05	73.76	As at 31 December 2013, the increase was mainly due to the increase in payable but unpaid year-end salary.
Taxes payable	403,384	3.29	154,532	1.64	161.04	As at 31 December 2013, the increase was mainly due to the increase in value-added tax and corporate income tax which had not been paid by the Group.
Interests payable	675	0.01	1,069	0.01	(36.86)	As at 31 December 2013, the decrease was mainly due to the decrease in the bank loans.
Dividends payable	113,513	0.93	25,444	0.27	346.13	Mainly due to the special dividend distribution of the Group as at the end of 2013.
Other payables	1,211,713	9.89	654,272	6.96	85.2	As at 31 December 2013, increase in other payables was mainly due to increase in the Group's advanced payment for advertising costs and transportation costs.
Deferred income tax liabilities	3,475	0.03	5,609	0.06	(38.05)	As at 31 December 2013, it is mainly due to the decrease in the difference of the income tax payable in the future.

Report of the Board of Directors

(3) ANALYSIS OF FINANCIAL CONDITIONS *(Continued)*

6. 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.

7. Main cash resources and applications

As at 31 December 2013, cash and cash equivalents of the Group amounted to RMB1,918,952,000 with an increase of RMB804,606,000 as compared with the beginning of 2013. The net cash inflow derived from operating activities amounted to RMB1,339,140,000 with an increase of RMB339,910,000 as compared with 2012, due to the increase in the Group's sales revenue, return of funds and customers' payments in advance during the Year.

8. Contingent liabilities

As at 31 December 2013, the Group had no significant contingent liabilities.

9. Charge on the Group's assets

As at 31 December 2013, Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited, a wholly-owned subsidiary of the Company, had a general banking facility of HK\$8,893,000, and a letter of credit and a letter of trust with total limit of HK\$6,616,000 granted by Bank of China (Hong Kong) Limited with a charge over its fixed assets, properties and buildings with original value of HK\$6,843,000 and net value of HK\$4,225,000 and investment properties with original value of HK\$300,000 and net value of HK\$100,000,000 and a letter of credit in the amount of US\$155,000 which has not yet expired has been issued.

10. Bank loans, overdraft and other borrowings

As at 31 December 2013, the borrowings of the Group amounted to RMB518,279,000 (31 December 2012: RMB681,218,000), with a decrease of RMB162,939,000 as compared with the beginning of 2013. The above bank loans included short-term loans of RMB509,652,000 and long-term loans of RMB8,627,000.

11. Gearing ratio

As at 31 December 2013, the Group's gearing ratio (total liabilities/total assets × 100%) was 42.67% (31 December 2012: 38.73 %).

12. Material investment

As at 31 December 2013, the Group did not have any other material additional investment.

Report of the Board of Directors

(4) ANALYSIS OF INVESTMENTS

1. Overall analysis of Foreign equity investment

At the end of the Reporting Period, the external equity investment of the Group amounted to RMB1,977,044,000, with a growth of RMB255,943,000 as compared with last year. This is mainly due to the increase in the long-term equity investment by investment revenue calculated using the joint venture equity method as adopted by the Company, and no significant change had occurred.

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

Report of the Board of Directors

(4) ANALYSIS OF INVESTMENTS (Continued)

1. Overall analysis of Foreign equity investment (Continued)

Invested Company	Principal business	Percentage in the investment Company (%)
Shanghai Jiu He Tang Chinese Medicine Co., Ltd	Wholesales of medicine	9.53
Beijing Imperial Court Cultural Development Company Ltd	Development of Chinese traditional cultural art	10.00
Qi Xing Ma Zhong Pharmaceutical Company Limited	Sales of medicine	40.00
Indonesia San You Industrial Co., Ltd	Sales of medicine	50.00
Guangzhou Pharmaceutical products Company Beijing Road Pharmaceutical products Market	Sales of medical apparatus, cosmetics, dry Aquatic animal products	20.00
South China Center for Innovative Pharmaceuticals	Research and development of new medicine, technology service, project investment	11.12
Guangzhou China-UK Cambridge Technology Venture Park Co., Ltd	Incubatory, advisory and intermediary services	9.97
Northeast Pharmaceutical General Factory	Production and sales of medicine	–
Wuhan Pharmaceutical Inc.	Sales of medicine	2.80
Securities of Corporate Events Centre	–	–
Guangzhou Dongning Pharmaceutical Co., Ltd	Production and sales of medicine	5.00
Guangzhou Nanxin Pharmaceutical Co., Ltd	Production and sales of medicine	13.00
Guangzhou Yufa Medical Devices Co., Ltd	Production of medical devices	10.00

Report of the Board of Directors

(4) ANALYSIS OF INVESTMENTS (Continued)

1. Overall analysis of Foreign equity investment (Continued)

Invested Company	Principal business	Percentage in the investment Company (%)
Baxter Healthcare	Production and sales of medicine	12.50
Bank of Guangzhou Co., Ltd	Financial service	—
China Associate (Group) Co., Ltd.	Production and sales of medicine and health care products	—

(1) Stock Investments

Number	Type of Stock	Stock Code	Stock name	The initial amount of investment (RMB'000)	Number of shares held for the Reporting Period (share)	Book value as at the end of the Reporting Period (RMB'000)	% of stock investment for the Reporting Period (%)	Gain/(Loss) during the Reporting Period (RMB'000)
1	A share of SSE	600038	Hafei	1,806	57,810	1,589	47.26	510
2	A share of SSE	600664	Harbin	3,705	289,310	1,774	52.74	(14)
Other stock investments held as at the end of the Reporting Period				—				
Gain/(Loss) of stock investments sold as at the end of the Reporting Period				—				
Total				5,511		3,363	100.00	496

Report of the Board of Directors

(4) ANALYSIS OF INVESTMENTS (Continued)

1. Overall analysis of Foreign equity investment (Continued)

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

Stock Code	Stock name	The initial investment amount (RMB'000)	% of share holding	Book value as at the end of the Reporting Period (RMB'000)	Gain/(Loss) during the Reporting Period (RMB'000)	Changes in equity during the Reporting Period (RMB'000)	Accounting item	Sources of shares
601328	Bank of Communications	525	-	1,515	91	(409)	Available-for-sale financial assets	Acquisition
601818	Everbright Bank	10,725	Approximately 0.02	16,093	351	(1,233)	Available-for-sale financial assets	Acquisition

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

Name	The initial Investment amount (RMB'000)	Number of sharesheld (share)	% of shareholding	Book value as at the end of the Reporting Period (RMB'000)	Gain/(Loss) during the Reporting Period (RMB'000)	Changes in equity during the Reporting Period (RMB'000)	Accounting item	Sources of shares
Golden Eagle Fund	50,000	-	20.00	28,565	(7,732)	-	Long-term equity investment	Acquisition
Bank of Guangzhou Co., Ltd	100	-	-	100	18	-	Long-term equity investment	Acquisition

2. During the Reporting Period, the Company did not have any entrusted investment activities.

Report of the Board of Directors

(4) ANALYSIS OF INVESTMENTS (Continued)

3. 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	Whether overdue	Whether the connect transactions	Relationship with the Company
Pharmaceutical Import & Export	45,000	one year	5.10%	No	No	Wholly-owned subsidiary
Cai Zhi Lin	278,000	one year	5.10%	No	No	Wholly-owned subsidiary
Total	323,000					

As at 31 December 2013, the Company provided its subsidiaries with entrusted loan the total amount of which was RMB323,000,000.

4. Use of Proceeds from the issue of A shares

applicable Not applicable

5. Details of the main subsidiaries and joint venture of the Company

Name of enterprises	Business nature	Major products or services	Registered capital (RMB'000)	Equity directly held by the Company (%)	Total assets (RMB'000)	Net assets (RMB'000)	Net profit (RMB'000)
Subsidiaries							
WLJ Great Health	Manufacturing	Production and sales of prepackaging food, dairy products, etc	10,000	100.00	2,122,702	243,589	227,397

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

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

Report of the Board of Directors

(5) DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT

1. The competitive patterns and development trend of the industry

In 2014, there are both opportunities and challenges in the pharmaceuticals industry.

The opportunities are mainly shown in the following: (1) with the continuous growth in the investments in medical reform, further aging of the population, persistent increase in the incidence rate of chronic diseases, the need for healthcare continued to grow. Factors such as the State's strong support for the health service industry have brought new opportunities in speeding up the overall development of the Group; (2) the State encouraged and supported the production of medicine, circulation enterprises to be strengthened and expanded through various approaches such as acquisition, merger, trusteeship, equity participation and holding and achieve scale, intensive and international operation. The continuous rise in the level of concentration of the industry has brought new opportunities for the group to expand the scale of the pharmaceutical business; (3) as 2015 is the deadline for new GMP, there will be a reshuffle in the pharmaceutical industry. This has brought new opportunities for the Group to develop its competitiveness across the pharmaceutical industry through merger and acquisition;

The major challenges include: (1) the condition of "two-downs-and-one-up" in the pharmaceuticals industry will continue. Under the current bidding system, the price of medicine will continue to experience a spiral decrease; (2) the pharmaceutical industry is currently at a key stage of merger and reorganization with competitors competing for resources, causing greater pressure in competition.

2. Development strategies and annual work plans for 2014

In the year 2014, the Group will carry out the resource scale project according to the development strategies of "building up the Grand Southern TCM, developing Grand Health, and promoting Grand Commerce".

In 2014, the key tasks of the Group will mainly include:

- (1) to continue to push on the "integration works" in an all-round manner, accelerate the implementation of strategy of centralized and integration of acquisition, and meanwhile, accelerate the injection of assets such as the trademark "Wang Lao Ji" and Guangzhou Pharmaceutical Industrial Research Institute, which the Group undertook to inject during the re-organization.
- (2) to actively respond to the bidding policies for basic medicine, seize the opportunities for investment in basic medicine and vigorously promote the rapid sales growth of basic medicine in medical institutions.
- (3) to fully utilize various opportunities, strive to explore the pharmacy trusteeship business, and construct the new situation of the grand commerce; and meanwhile, to vigorously create the e-commerce platform of medicine and health and expand new marketing channels.

Report of the Board of Directors

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

2. Development strategies and annual work plan for 2014 *(Continued)*

- (4) to exploit the power of resources of brands such as “Wang Lao Ji” by deepening the channels, enhancing the research and development of products, strengthening the propaganda of brands, strictly controlling the product quality and costs and improving the supervision etc., and accelerate the promotion of the development of the changing the Grand Health industry; and meanwhile, to make overall arrangements and planning for the resources of the sector of Grand Health inside the Group.
- (5) to increase input in innovation, focus on new research and development project; accelerate the research and development, technical innovation of new medicine and transfer of innovation achievements; promote the change of product structure from general medicine to high value-added innovative medicine; exploit the new functions of “old” medicine and actively promote the transformation of key special technology and variety of medicine; focus on conduct of research and formulation for standards of products of 2015 Pharmacopoeia; comprehensive implementation of strategies for pharmaceutical standards; actively explore the new mode of external scientific research and cooperation.
- (6) to constantly promote the progress of pillar varieties with value over RMB100 million, strive to cultivate product group and potential varieties and projects with high sales growth rate and high market share; and cultivate more general products with value over RMB100 million; to promote the market development of “cash cow” products such as “specially priced” varieties, exclusive varieties and varieties with high gross margin, which are less affected by policies or greatly supported by the policies.
- (7) relying on the opportunities of the authentication of new GMP, to enhance the construction of software and hardware, improve the production process, raise the technical levels, improve the quality management system, focus on the quality management, and ensure the quality security; and meanwhile, to seize the opportunities of new GMP modification to continue to accelerate the promotion of the mergers and investments of subordinate manufacturing enterprises and trading enterprises.
- (8) to promote the management innovation, research and explore the equity incentive mechanism, raise level of scientific management, refine the management with respect to risk control, budget and information and lower the operation risks of the enterprise.

Report of the Board of Directors

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

3. Potential challenges and risks

The potential challenges and risks of the Group mainly include: (1) the risk of the price of some medicines may fall; (2) the risk of price fluctuation in raw materials such as Chinese medicine; (3) the risk of asset integration not achieving its target; (4) the operation risk in the expansion of new businesses areas such as medicine and health, pharmacy trust and e-business.

4. Has the Company disclosed profit forecast or business plan: Yes

The Group disclosed consolidated profit forecast for 2013 and the consolidated profit forecast for 2013 in relation to the proposed asset acquisition through issuance of shares in the Audit Report on Profit Forecast and Consolidated Profit Forecast Statement for 2013 of Guangzhou Pharmaceutical Company Limited (廣州藥業股份有限公司2013年度盈利預測審核報告及合併盈利預測表) and the Audit Report on Profit Forecast and Consolidated Profit Forecast Statement for 2013 in relation to the Proposed Asset Acquisition through Issuance of Shares by Guangzhou Pharmaceutical Company Limited (廣州藥業股份有限公司擬發行股份購買資產之2013年度盈利預測審核報告及合併盈利預測表), and the net profit attributable to shareholders of the Company was forecasted to be RMB834,680,000 (please refer to the announcement published on the websites of the SSE on 27 August 2012 and the HKEx on 24 August 2012).

In 2013, consolidated net profit attributable to shareholders of the Company of RMB980,050,000, amounting to 117.42% of the forecast profit of RMB834,680,000. In June 2012, since the future development of Wang Lao Ji Great Health was uncertain when the Company prepared the profit forecast, its future results was not taken into account. In accordance with the approach of the profit forecast and after mainly excluding the operational results of Wang Lao Ji Great Health and the assumed applicable income tax rate, the adjusted net profit of the Company for 2013 was RMB765,600,000. Such profit is below the forecast primarily due to: (1) under the influence of the national health care policy and industry competition, the sales of the Company's subsidiaries slow down; (2) costs of raw materials and labor continued to rise and narrowed the Company's profit margin; (3) The actual profit level of Wang Lao Ji, the joint venture of the Company, was not exceeding the expectation due to the intense market competition of herbal tea; and (4) the operation result of the joint venture of the Company, Nuo Cheng, was affected and the actual profit was not exceeding the expectation due to the change of market competition situation.

5. Has the Company prepared and disclosed profit forecast for the new financial year: No

Report of the Board of Directors

(6) THE EXPLANATION OF THE BOARD ON THE “NON STANDARD AUDITOR’S REPORT” ISSUED BY THE AUDITORS

1. The explanation of the Board and Supervisory Committee on the “Non Standard Auditor’s Report” issued by the auditors

Applicable Not applicable

2. The analysis of the Board on reasons and effects on changes in accounting policies, accounting estimates or accounting methods

Applicable Not applicable

3. The explanation and analysis of the Board on reasons and effects on correction of errors in the previous period

Applicable Not applicable

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

1. Formulation of cash distribution policy and its implementation

During the Reporting Period, the Company implemented its distribution policy in accordance with the relevant provisions of Article 211 of the Articles of Association on distribution policy.

2. The Progress of the Implementations of the Resolutions Passed at Shareholders’ Meetings

With the approval of the shareholders at the annual general meeting in 2012 of the Company, the Company did not recommend the payment of interim dividends for year 2012 nor proposed any increase in share capital from the capitalization of capital reserve to avoid any impact to the Company’s major asset restructuring program process.

Since the Company had completed the implementation of the major asset restructuring plan and considering the situation of the Company, the Company held an extraordinary general meeting in 2013 on 30 December 2013 and approved the payment of a special dividend: a special dividend of RMB0.60 (including tax) for every 10 shares held in the total amounts of RMB77,480,439 approved and paid, in cash, to all shareholders of the Company based on the total share capital of 1,291,340,650 Shares.

After the Reporting Period, the special dividend of RMB0.06 (including tax) per share was paid to the Company’s H-share shareholders whose names appeared on the register of the Company as at 4 February 2014 and the dividend payment date was 28 February 2014.

According to the announcement for the special dividend published in Shanghai Securities News, Securities Time and China Securities News in the PRC on 17 January 2014, the registration date for A shares was 22 January 2014, the ex-dividend date was 23 January 2014 and the dividend payment date was 28 February 2014.

Report of the Board of Directors

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

3. Plan for profit distribution and increase in share capital from capital reserve for the year

As audited by BDO China Shu Lun Pan Certified Public Accountant LLP, net profit attributable to shareholders of the Company for year 2013 amounted to RMB980,045,077.10, as a cardinal number of net profit of 2013 amounted to RMB550,834,619.89, extract 10% of the statutory surplus reserve by RMB55,083,461.99, with the addition of the undistributed profit carried over of last year by RMB1,329,205,080.02, and reduced the cash dividends of last year by RMB77,480,439.00, the actual distributable profits amounted to RMB1,747,475,798.92.

According to the actual situation of the Company and considering that the Company is at the expansion stage and has a material capital expenditures, it is proposed that a dividend of RMB2.30 (including tax) for every 10 shares on the basis of 1,291,340,650 shares in issue as at the end of 2013 will be distributed. The total amount of dividend to be distributed will be RMB297,008,349.50, the remaining undistributed dividend would be preserved for the next distribution. There will be no increase in share capital by transferring from capital reserve.

The profit distribution will be submitted to the annual general meeting of the Company for year 2013 for consideration and approval.

4. Profit distribution of the Company for the last three years:

Bonus Year	Amount of profit distribution in cash (including tax) (RMB'000)	Net profit attributable to the shareholders of the listed Company for the distribution year as shown in the consolidated financial statements (RMB'000)	Proportion of payout distribution in the net profit as showed in the consolidated financial statements (%)
2013	297,008	980,045	30.31
2012	77,480	729,040	10.63
2011	106,888	542,763	19.69
Total	481,376	2,251,848	21.38

Report of the Board of Directors

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

4. Profit distribution of the Company for the last three years: *(Continued)*

Note: With the approval of the shareholders at the annual general meeting in 2012 of the Company, the Company did not recommend the payment of interim dividends for year 2012 nor proposed any increase in share capital from the capitalization of capital reserve to avoid any impact to the Company's major asset restructuring program process. Since the Company had completed the implementation of the major asset restructuring plan and considering with the situation of the Company, the Company held an extraordinary general meeting in 2013 on 30 December 2013 the Company deliberated on and approved the proposal to declare special dividend on the extraordinary general meeting of shareholders on 30 December 2013 as the dividends for 2012.

(8) PERFORMANCE OF WORKS ON SOCIAL RESPONSIBILITY

Social responsibility

The Company prepared the Social Responsibility Report of 2013 (full version is available on the website of the SSE) in accordance with the requirements of "Notice on Proper Preparation of the 2013 Annual Report by Listed Company" issued by the SSE.

(9) OTHER MATTERS

I. Accounts

The results of the Group for the year ended 31 December 2013 are set out in the consolidated income statement.

The financial conditions of the Group as at 31 December 2013 are set out in the consolidated balance sheet.

The cash flows of the Group for the year ended 31 December 2013 are set out in the consolidated cash flow statement.

The cash flows of the Company for the year ended 31 December 2013 are set out in the cash flow statement.

II. Financial Summary

A summary of the results and of the assets and liabilities of the Group are set out on pages 14 to 35 in the Directors' Report of this annual report.

III. Reserves

Details of movements in the reserves of the Group during the Year are set out on pages 227 to 230 of this annual report.

IV. Distributable Reserves

The distributable reserves of the Group as at 31 December 2013 amounted to RMB1,747,476,000 calculated in accordance with the PRC Accounting Standards for Business Enterprises.

Report of the Board of Directors

(9) OTHER MATTERS *(Continued)*

V. Fixed Assets

Details of the movements of fixed assets for the year ended 31 December 2013 are set out on pages 202 to 204 of this annual report.

VI. Connected Transactions

Details of connected transactions were set out in Major Events on pages 47 to 49 of this annual report.

VII. Management Contracts

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

VIII. Corporate Governance

During the Reporting Period, the Company had fully complied with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules provided below in Chapter VIII of the Corporate Governance except for the deviations from code provision A.5.6 and A.6.7.

IX. Tax Exemption

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

X. Retirement Scheme

Details of the retirement scheme and amounts of contributions of the Group charged to the profit and loss account for the year are set out on pages 159 and 218 of this annual report respectively.

XI. Changes in the Newspapers Designated by the Company for Information Disclosure

During the Reporting Period, the newspaper named "China Securities Times." was added for the purpose of the Company's disclosure.

(1) MATERIAL LITIGATION, ARBITRATION OR MATTERS COMMONLY QUESTIONED BY MEDIA

1. The Economic Journal (信報), other medias and internet reported that Mr. Zhu Xinlin, chairman of China Huiyuan Juice Group Limited (“Huiyuan”), intended to sell approximately 42% of the equity interest he held in Huiyuan at approximately RMB2.5 billion, and the potential buyers included the Company. The Company had made an announcement to clarify media’s report on the Company’s intention to acquire the equity in Huiyuan. For more details, please refer to the announcement published in Shanghai Securities News, Securities Times and on the website of the SSE (www.sse.com.cn) on 26 March 2013 and on the website of the HKEx (www.hkex.com.hk) on 25 March 2013.
2. The news reports reported that Guangdong Bao Shan Tang Pharmaceutical Company Limited (廣東寶山堂製藥有限公司) supplied dry paste extract by the brand and leaves on flos Lonicra Confusa (山銀花) pharmaceutical companies, include Guangxi Ying Kang, a holding subsidiary of the Company. The details, please refer to the announcement published in Shanghai Securities News, the Securities Times and on the website of the SSE (www.sse.com.cn) on 29 March 2013, and on the website of the HKEx (www.hkex.com.hk) on 28 March 2013, and announcement published in Shanghai Securities News, the Securities Times and on the website of the SSE (www.sse.com.cn) on 11 April 2013 and on the website of the HKEx (www.hkex.com.hk) on 10 April 2013.
3. On 15 May 2013, People’s High Court of Guangdong Province commenced the trial on the case in relation to the allegation of unauthorized use of the specific name, packaging and decoration of the well-known products by Wang Lao Ji Great Health, which was brought by Guangdong Jia Duo Bao Beverage and Food Company Limited. Currently, no court decision regarding the above case has been made. Details regarding the above case has been disclosed in the announcement published on Shanghai Securities News, Securities Times and the website of SSE on 15 August 2012 and the announcement published on the website of HKEx on 14 August 2012.
4. The People’s Medium Court of Guangzhou, Guangdong Province (“Guangzhou Intermediate Court”) held a hearing on the case of disputes that the plaintiff GPL (the controlling shareholder of the Company) sued the defendants Guangdong Jia Duo Bao Beverage and Food Company Limited and Peng Bijuan for false propaganda (Case No.: [2012] SZFZMCZ No. 263) in the third court of Guangzhou Intermediate Court at 9:30 a.m. on 20 December 2013. For more details please refer to the announcement published in Shanghai Securities News, the Securities Times and China Securities News and the website of the SSE on 21 December 2013 and the announcement released on the website of HKEx on 20 December 2013.
5. On 24 December 2013, Chongqing First Intermediate People’s Court made a public judgment on the case of improper competition that the plaintiff Guangdong Jia Duo Bao Beverage and Food Company Limited sued the defendants He X and WLJ Great Health, the wholly-owned subsidiary of the Company. For more details please refer to the announcement published in Shanghai Securities News, the Securities Times and China Securities News and the website of the SSE on 25 December 2013 and the announcement released on the website of HKEx on 24 December 2013.

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

Major Events

(2) MISAPPROPRIATION OF FUNDS AND PROGRESS OF REPAYMENT THEREOF DURING THE REPORTING PERIOD

Applicable Not applicable

(3) ACQUISITION AND DISPOSAL OF ASSETS OR BUSINESS COMBINATION, CONNECTED TRANSACTIONS AND OTHER TRANSACTIONS DURING THE REPORTING PERIOD

1. On 26 April 2013, WLJ Great Health, a wholly-owned subsidiary of the Company, entered into a new Trademark License Agreement with GPLH. The Board had approved the Trademark License Agreement and the transactions contemplated thereunder.

For details, please refer to the announcements published in Shanghai Securities News, the Securities Times and on the website of the SSE (www.sse.com.cn) on 27 April 2013 and on the website of the HKEx (www.hkex.com.hk) on 26 April 2013.

2. The Company implemented the Major Assets Reorganization involving the absorption and merger of Baiyunshan and issuance of shares to GPLH for acquisition of assets in accordance with the "Approval of the Asset Acquisition through Issuance of Shares to GPLH and the Absorption and Merger of Baiyunshan by the Company" (Zhengjianxuke[2012] No.1695) as issued by the CSRC. The Company absorbed and merged Baiyunshan through share swap of additional A shares.

The relevant conversion prices for the absorption and merger of Baiyunshan by the Company was determined at RMB12.10 per share and RMB11.50 per share (ex-rights and ex-dividend) based on the average trading price of A shares during the 20 trading days prior to the publication date of the announcement of the first meeting of the Board of both parties in relation to the resolutions to approve the Proposed Major Assets Reorganization. Based on these prices, the exchange ratio was determined at 1:0.95, whereby one Baiyunshan share could exchange for 0.95 A Share of the Company. The Company had issued an aggregate of 445,601,005 A Shares under this proposal of absorption and merger of Baiyunshan. After the completion of this proposal, the legal person registration of Baiyunshan had been cancelled and all of its assets, liabilities, equity, operations and personnel had been incorporated into the continuing entity.

Please refer to the detailed information published in Shanghai Securities News, the Securities Times, China Securities News and on the website of the SSE (www.sse.com.cn) on 18 May 2013 and on the website of the HKEx (www.hkex.com.hk) on 19 May 2013. (The relevant contents involved please refer to the Major Event (part XV) the Major Assets Reorganization of this annual report).

3. According to Agreement on Assets Acquisition through Issuing Shares and its supplemental agreement, the Company had signed the Assets Settlement Agreement with the GPLH on 30 June 2013. (The relevant contents involved please refer to the Major Event (part XV) the Major Assets Reorganization of this annual report).

Major Events

(3) ACQUISITION AND DISPOSAL OF ASSETS OR BUSINESS COMBINATION, CONNECTED TRANSACTIONS AND OTHER TRANSACTIONS DURING THE REPORTING PERIOD *(Continued)*

4. According to the “Agreement on Assets Acquisition through Issuing Shares” and its supplemental agreement, the Company has issued 34,839,645 ordinary shares of nominal value of RMB1 to GPL. These 34,839,645 A shares are non publicly issued shares of the Company, the circulation of which are conditional and the newly contributed capital represented 100% of the newly increase in the registered capital.

Please refer to the detailed information published in Shanghai Securities News, the Securities Times, China Securities News and on the website of the SSE (www.sse.com.cn) on 3 July 2013 and on the website of the HKEx (www.hkex.com.hk) on 2 July 2013.

5. It was approved at the 23rd Board meeting of the fifth session of the Board that, WLJ Great Health, the wholly-owned subsidiary of the Company, intended to set up production bases for Wang Lao Ji in Ya’an of Sichuan Province in a “blood generating” construction aiding modes. The total investment is estimated in the amount of RMB298,000,000. The above transaction is in progress.

Please refer to the detailed information published in Shanghai Securities News, the Securities Times, China Securities News and on the website of the SSE (www.sse.com.cn) on 17 July 2013 and on the website of the HKEx (www.hkex.com.hk) on 16 July 2013.

6. In order for the Chinese traditional medicine extraction business of the subordinated enterprises, to enhance the supervision over the pre-processing and extraction of Chinese traditional medicine, improve the production and process levels, realize scale production, improve the production efficiency and promote the market competitive power, and approved at the twenty third Board meeting of the fifth session of the Board, the Company and Guangzhou Xingzhou Pharmaceutical Co., Ltd. (“Xing Zhou”) jointly set up Guangzhou Baiyunshan Xingzhou Pharmaceutical Co., Ltd. with a registered capital of RMB86.48 million, among which the Company contributed RMB64.86 million in cash, accounting for 75% of equities; Xing Zhou contributed RMB4.366 million in cash and equipment with evaluated value of RMB17.254 million, accounting for 25% of equities. The transaction above was completed in February 2014.

Please refer to the detailed information published in Shanghai Securities News, the Securities Times, China Securities News and on the website of the SSE (www.sse.com.cn) on 17 July 2013 and on the website of the HKEx (www.hkex.com.hk) on 16 July 2013.

7. It was approved by the Strategic Development and Investment Committee of the Company at its third meeting in 2013 that the Company increased its capital contribution in the amount of RMB6 million by way of cash in proportion to the Company’s interest in the equity of Guang Yao Gan to Guangzhou Guang Yao Yi Gan and Biological Products Co., Ltd (“Guang Yao Yi Gan”). After the increase, the registered capital of Guang Yao Yi Gan increased from RMB11 million to RMB21 million. The Company held 60% of the equity interest in Guang Yao Yi Gan. The transaction above was completed at November 2013.

Major Events

(3) ACQUISITION AND DISPOSAL OF ASSETS OR BUSINESS COMBINATION, CONNECTED TRANSACTIONS AND OTHER TRANSACTIONS DURING THE REPORTING PERIOD *(Continued)*

8. It was approved by the Strategic Development and Investment Committee of the Company at its fourth meeting in 2013 that, WLJ Great Health, a wholly-owned subsidiary of the Company, to solely contribute capital for setting up “Wang Lao Ji Great Health Industry (Meizhou Dapu) Co., Ltd.”, which would be the entity in Dama Town, Dapu County, Meizhou to establish the Wang Lao Ji herbal tea concentrated solution extraction base. The base has an area of about 450 mu and may extract 40 tons of herbal tea concentrated solution after completion of the construction. It is expected that the total investment of the project is about RMB367 million. Currently, the project is under process.
9. It was approved by the Strategic Development and Investment Committee of the Company at its fourth meeting in 2013 that, WLJ Great Health, a wholly-owned subsidiary of the Company, would set up a production base for Wang Lao Ji herbal tea in Xinxiang City, Henan Province. The project has a total area of 1,000 mu. The construction site for the first phase is about 500 mu, on which two canning production lines will be built with an annual production capability of 20 million cartons. It is expected that the investment for the first phase is about RMB320 million. At present, the project is under process.
10. According to the arrangements of the Retreating from the Secondary Industry to Enter the Tertiary Industry, 11 subsidiaries of the Company are scheduled to move into the Baiyun Base of GPC Biological Medicine City (the “Baiyun Base”). The Baiyun Base has a total area of approximately 2,460 mu of which approximately 2,000 mu in compliance with land planning). The government of Baiyun District will provide grouped site of constructible land for industrial purpose within the GPC Industrial City in four phases. The total area of the first phase is 474.41 mu, of which 303.09 mu is permissible for construction.

Currently, four enterprises under the Company, namely, Ming Xing (98.8 mu), Hejigong (36 mu), HWBYS (99.7 mu) and GP Corp. (68.5 mu) have obtained the land use rights regarding 303 mu of land in the first phase which is permissible for construction at the auction of price of RMB221.290 million in total, Hejigong and Ming Xing have already completed all the applications for approvals in relation to the use of lands at the approval stage and are in the course of planning for the submission of the construction plan. Other preparation works before the commencement of the construction are also in progress. The projects of HYBYS and GP Corp. have already obtained the approval on construction site and the permit on planning of construction site.

Major Events

(3) ACQUISITION AND DISPOSAL OF ASSETS OR BUSINESS COMBINATION, CONNECTED TRANSACTIONS AND OTHER TRANSACTIONS DURING THE REPORTING PERIOD (Continued)

11. Disposal of assets

Counterparty	Assets disposal	Date of disposal	Selling price (RMB'000)	Net profits from the beginning of the year to the date of disposal attributable to the asset sold (RMB'000)	Gains or losses on disposal (RMB'000)	Whether a connected transaction	Principles for disposal of assets	Pricing of the assets involved have been	Whether creditor's rights and debts involved have been	Percentage of the net profit attributable to the disposal of the assets in the Company's profit (%)	Connected relationship
HWBYS	Bozhou Baiyunshan	May 2013	0.001	(1,186)	3,050	Yes	Agreement price	Yes	Yes	0.25	Joint venture

Other than those listed above, the Group did not engage in any material acquisition or disposal.

12. Daily connected transactions

In compliance with the regulations of the CSRC and SSE, the daily connected transactions were as follows:

Connected parties	Relationship with the Company	Type of connected transactions	Connected of connected transactions	Pricing principle of connected transactions	Amount of connected transactions (RMB'000)	% of similar balance (%)	Settlement method of connected transactions
HWBYS	Joint venture	Purchase of products	Medicine or Pharmaceutical products	Market price	71,529	0.82	Cash
GP Corp.	Joint venture	Purchase of products	Medicine or Pharmaceutical products	Market price	134,866	1.55	Cash
Wang Lao Ji	Joint venture	Purchase of products	Medicine or Pharmaceutical products	Market price	11,152	0.13	Cash
Sub-total					217,547	2.50	

Major Events

(3) ACQUISITION AND DISPOSAL OF ASSETS OR BUSINESS COMBINATION, CONNECTED TRANSACTIONS AND OTHER TRANSACTIONS DURING THE REPORTING PERIOD *(Continued)*

12. Daily connected transactions *(Continued)*

Connected parties	Relationship with the Company	Type of connected transactions	Connected of connected transactions	Pricing principle of connected transactions	Amount of connected transactions (RMB'000)	% of similar balance (%)	Settlement method of connected transactions
GPHL	Parent company	Sales of products	Medicine or Pharmaceutical products	Market price	119	0.00	Cash
Guangzhou General Institute	Fellow parent company	Sales of products	Medicine or Pharmaceutical products	Market price	2,671	0.02	Cash
HWBYS	Joint venture	Sales of products	Medicine or Pharmaceutical products	Market price	171,534	0.98	Cash
GP Corp.	Joint venture	Sales of products	Medicine or Pharmaceutical products	Market price	438,298	2.51	Cash
Wang Lao Ji	Joint venture	Sales of products	Medicine or Pharmaceutical products	Market price	167,406	0.96	Cash
Nuo Cheng	Joint venture	Sales of products	Medicine or Pharmaceutical products	Market price	243	0.00	Cash
Baxter Qiao Guang	Joint venture	Sales of products	Medicine or Pharmaceutical products	Market price	596	0.00	Cash
Sub-total					780,867	4.47	

Major Events

(3) ACQUISITION AND DISPOSAL OF ASSETS OR BUSINESS COMBINATION, CONNECTED TRANSACTIONS AND OTHER TRANSACTIONS DURING THE REPORTING PERIOD (Continued)

12. Daily connected transactions (Continued)

Connected parties	Relationship with the Company	Type of connected transactions	Connected of connected transactions	Pricing principle of connected transactions	Amount of connected transactions (RMB'000)	% of similar balance (%)	Settlement method of connected transactions
GPHL	Parent company	Acceptance of Patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	75,386	92.87	Cash
Wang Lao Ji	Joint venture	Provision of patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	21,164	100.00	Cash
GPHL	Parent company	Others	Rental assets	Agreement price	1,225	3.02	Cash
GPHL	Parent company	Others	leased assets	Agreement price	255	0.29	Cash
GP Corp.	Joint venture	Others	leased assets	Agreement price	1,577	1.79	Cash
Guangzhou Baxter	Joint venture	Others	leased assets	Agreement price	4,800	5.45	Cash
Nuo Cheng	Joint venture	Others	leased assets	Agreement price	1,836	2.08	Cash
GPHL	Parent company	Others	Accommodation fees of employees	Agreement price	353	100.00	Cash
Guangzhou General Institute	Fellow parent company	Sales of product	Medicine or Pharmaceutical product	Agreement price	566	0.20	Cash
Total					1,105,576		

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

Major Events

(3) ACQUISITION AND DISPOSAL OF ASSETS OR BUSINESS COMBINATION, CONNECTED TRANSACTIONS AND OTHER TRANSACTIONS DURING THE REPORTING PERIOD *(Continued)*

12. Daily connected transactions *(Continued)*

Pursuant to the Listing rules of HKEx, details of such connected transactions were set out as follows:

	2013 (RMB'000)
Ultimate holding company	
License fee expenses of 38 trademarks of GPLH	4,004
License fee expenses of Wang Lao Ji trademark	71,354
Service fee expenses	353
Rental expense	1,225
Rental income	255
Ultimate Holding Company and its subsidiaries	
Sales of finished goods and raw materials	2,790

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

The Board considered the above-mentioned connected transactions were conducted in accordance with the terms of relevant agreements and contracts. The Board acknowledged exchange limit for the year ended 31 December 2013 of the announced "Wang Lao Ji License Agreement" entered into by WLJ Great Health and GPLH on 26 April 2013 amounted to RMB200,000,000 (Calculated by net amount paid to GPLH).

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

The Company's auditor was appointed to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Listing Rules of HKEx" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its conclusions in respect of the sales and purchase of finished product and raw material and the license fee for Wang Lao Ji trademarks as disclosed in the continuing connected transactions above in accordance with the rule 14A.38 of the Listing Rules.

Major Events

(4) THE SITUATION AND INFLUENCE OF THE EQUITY INCENTIVE SCHEME OF THE COMPANY

Applicable Not applicable

(5) DEBTS OF RELATED PARTIES

Related Party	Relationship to related parties	Funds provided to related parties			Funds provided by related parties to listed company		
		Balance at the beginning of the Reporting Period (RMB'000)	Amount (RMB'000)	Ending balance (RMB'000)	Balance (RMB'000)	Amount (RMB'000)	Ending balance (RMB'000)
Bozhou Baiyunshan Pharmaceutical	Subsidiary of Joint venture	17,528	1,166	18,694	-	-	-
Total		17,528	1,166	18,694	-	-	-
Amount of funds provided by the Company to its controlling shareholder and its subsidiaries during the Reporting Period (RMB'000)					-		
Balance of funds provided by the Company to its controlling shareholder and its subsidiaries during the Reporting Period (RMB'000)					-		
Reasons for the funds provided to / from related parties		The Company's other receivables from HWBYS for the Reporting Period included receivables of RMB18,694,000 from its 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.					
Repayment of the funds provided to / from related parties		Because the absorption and merger of Baiyunshan by the Company was completed in May 2013, HWBYS is a joint venture as well as a related party of the Company. The receivables emerged after share transfer of Bozhou Baiyunshan was completed.					
Undertaking in relation to the funds provided to / from related parties		During the Year, the Company has actively communicated and consulted with the relevant parties in respect of the foregoing issues regarding debts and creditor's rights and has reached preliminary solutions. The Company will continue to maintain active communication with the relevant parties in order to reach agreement on final solutions in the first half of 2014.					
Impact of the funds provided to/from related parties on the Company's operating results and financial position		No significant impact					

Major Events

- (6) **ACCORDING TO THE REQUIREMENTS OF RULE 23 OF APPENDIX 16 TO THE LISTING RULES OF HKEX, THE COMPANY DID NOT HAVE ANY INVESTMENT PROPERTIES WHOSE ASSET RATIO, CONSIDERATION RATIO, EARNING RATIO AND INCOME RATIO EXCEED 5% DURING THE REPORTING PERIOD.**
- (7) **DURING THE REPORTING PERIOD, THE COMPANY DID NOT HAVE ANY SPECIAL TRANSACTION WITH ITS CONNECTED PARTIES INCLUDING DIRECT DONATIONS IN CASH OR ASSETS IN KIND, DIRECT EXEMPTION OR REPAYMENT, ETC.**
- (8) **MATERIAL CONTRACTS AND THEIR PERFORMANCE**

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

Save as the aforementioned, the Company was not involved in other major contracts during the Reporting Period.

Major Events

(9) GUARANTEES

Guarantees provided to parties other than the Group's subsidiaries

Guaranteed parties	Date of signing of agreements	Amount of the guarantee (RMB'000)	Type of guarantees	Term of guarantees	Executed or not	Guarantees for connected parties (yes or no)
Nuo Cheng	7 November 2012	59,088	Joint and several liability guarantee	One year	No	Yes
Accumulated amount of guarantees provided during the Reporting Period (RMB'000)						–
Balance of guarantees as at the end of the Reporting Period (RMB'000)						59,088

The Company's guarantees provided to its subsidiaries

Accumulated amount of guarantees provided to the Company's holding subsidiaries during the Reporting Period (RMB'000)	180,000
Balance of guarantees provided to the Company's holding subsidiaries as at the end of the Reporting Period (RMB'000)	180,000

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

Total amount of guarantees provided (RMB'000)	239,088
Total amount of guarantees provided amount the net assets of the Group (%)	3.40

Including:

Amount of guarantees provided to the Company's controlling shareholder and other connected parties (RMB'000)	–
Direct or indirect guarantees provided to entities with a gearing ratio of over 70% (RMB'000)	170,000
Amount of guarantees provided which exceeds 50% of the total net assets of the Company (RMB'000)	–
Total amount of the above three types of guarantees (RMB'000)	170,000

Major Events

(10) 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
Undertaking entity	Controlling shareholder
Details of undertaking	In order to improve the value of the listed company, after the reform, the controlling shareholder of the Company, GPLH will, to the extent permitted by laws and regulations and subject to the approval of the supervision authority, support Guangzhou Pharmaceutical Company Limited ("GPC", i.e. the Company) to set up an equity incentive mechanism whereby the growth in profits of the Company shall be the perquisite for management to implement the equity incentive mechanism.
Time and period of undertaking	The undertaking was given in March 2006 and shall remain effective for a long term.
Any period for performance	N/A
Whether strictly and timely performed	Being performed
Solution	N/A
Remark	Up to now, the Company has not yet proposed any plan to implement the equity incentive mechanism.

Major Events

(10) 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
Undertaking entity	Controlling shareholder
Undertakings	<ol style="list-style-type: none"> 1. After completion of the Major Assets Reorganization, GPLH, controlling shareholder of the Company, will comply with requirements of relevant laws and regulations, regulatory documents and the Articles of Association of the Company, and exercise shareholder's right according to laws and will not affect the independence of the Company by exerting its influence as a controlling shareholder and will maintain the integrity and independence of the Company in respect of assets, employees, finance, organisation and business. 2. The undertaking letter will remain effective so long as the Company legally and validly exists and GPLH owns controlling interest in the Company.
Time and period of undertaking	The undertaking was given on 29 February 2012 and shall remain effective for a long term.
Any period for performance	N/A
Whether timely and strictly performed	Being performed
Solution	N/A

Major Events

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

(3) Avoiding competition

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

(10) PERFORMANCE OF UNDERTAKINGS BY THE COMPANY, ITS SHAREHOLDERS AND ACTUAL CONTROLLERS *(Continued)*(3) Avoiding competition *(Continued)*

Item	Content
Background of undertakings	Undertakings related to Major Assets Reorganization
Undertaking entity	Controlling shareholder
Undertakings	For resolving potential competition completely, GPLH undertakes that it will transfer 100% equity interest of Guangzhou General Institute to the Company within two years from the date Guangzhou Pharmaceutical Research Institute completes the ownership reform (公司改制) and its shares become transferable in accordance with requirements of the laws and regulations then in force.
Time and period of undertaking	The undertaking was given on 29 February 2012 and shall remain effective for a long term
Any period for performance	Guangzhou General Institute Co., Ltd. established in 27 June 2013 and performance period ended 27 June 2015
Whether timely and strictly performed	Being performed
Solution	N/A

Major Events

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

(4) Regulating connected transactions

Item	Content
Background of undertakings	Undertakings related to Major Assets Reorganization
Undertaking entity	Controlling shareholder
Undertakings	<ol style="list-style-type: none"> After completion of the Major Assets Reorganization, GPLH and its controlled subsidiaries ("subsidiaries", excluding the Company and its subsidiaries) should minimize and regulate connected transactions with GYBYS. If there is any unavoidable connected transaction, GPLH and its controlled subsidiaries will sign agreement with GYBYS in accordance with laws and perform legal procedures. They will also fulfill the information disclosure obligations and pursue the reporting and approval procedures according to the requirements of relevant laws and regulations, the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, the Listing Rules of Hong Kong Stock Exchange 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 the Company after completion of the Major Assets Reorganization and its other shareholders. The undertaking letter will remain effective so long as the Company legally and validly exists and GPLH owns controlling interest in the Company.
Time and period of undertaking	The undertaking was given on 29 February 2012 and shall remain effective for a long term
Any period for performance	N/A
Whether timely and strictly performed	Being performed
Solution	N/A

Major Events

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

(5) Restricting the sale of shares

Item	Content
Background of undertakings	Undertakings related to Major Assets Reorganization
Undertaking entity	Controlling shareholder
Undertakings	Within 36 months from the registration date of such shares, GPLH and its associate 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 undertaking	The undertaking was given on 29 February 2012 and shall remain effective for a long term
Any period for performance	The Company completed the registration of its newly issued shares on 5 July 2013 and the period of undertaking will be on 5 July 2016.
Whether timely and strictly performed	Being performed
Solution	N/A

Major Events

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

(6) Undertakings related to trademarks

Item	Content
Background of undertakings	Undertakings related to Major Assets Reorganization
Undertaking entity	Controlling shareholder
Undertakings	<p>1. GPLH undertakes that, within two years from the date of satisfying any 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 requirements of laws and regulations then in force:</p> <p>(1). 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</p> <p>(2). Hung To (Holdings) Company Limited (鴻道(集團)有限公司) legally ceases to own the right of pre-emption.</p>

(10) PERFORMANCE OF UNDERTAKINGS BY THE COMPANY, ITS SHAREHOLDERS AND ACTUAL CONTROLLERS *(Continued)*(6) Undertakings related to trademarks *(Continued)*

Item	Content
	<p>2. On the basis of the original promise made, Guangzhou Pharmaceutical Holdings Limited 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, Guangzhou Pharmaceutical Holdings Limited 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 Guangzhou Pharmaceutical Holdings Limited 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.</p>
Time and period of undertaking	The undertaking was given on 29 February 2012. GPLH has given supplementary undertakings in respect of the relevant content on 15 June 2012 whereas the effective period shall continue until the undertaking is fully performed the performance of the promise is completed.
Any period for performance	Considering the legal disputes regarding the trademark of "Wang Lao Ji" (「王老吉」), the term of contract performance shall continue until 20 January 2015.

Major Events

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

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

Item	Content
Whether timely and strictly performed	Being performed
Solution	N/A
Item	Content
Background of undertakings	Undertakings related to Major Assets Reorganization
Undertaking entity	Controlling shareholder, the Company
Undertakings	<p>GPHL and the Company mutually undertake as follows in relation to transactions under the Trademark Custody Agreement between Guangzhou Pharmaceutical Company Limited and Guangzhou Pharmaceutical Holdings Limited (the "Agreement"):</p> <ol style="list-style-type: none"> 1. Both parties will enter into a supplemental agreement ("Supplemental Agreement") to the Agreement as soon as possible after the Agreement becoming effective and before they enter into the first new or renewal licensing agreement relating to the licensing of Wang Lao Ji trademarks in custody under the Agreement, with the specific arrangement for new/renewal trademark license to be negotiated by the parties separately. Both parties also agreed that the Supplemental Agreement shall <ol style="list-style-type: none"> (i) embody the requirement for GPHL to pay the Company a basic custody fee of RMB1 million per year as set out in the Agreement; and (ii) specify that 20% of the new licenses fees will be the custody income for the Company and the remaining 80% will be retained by GPHL.

Major Events

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

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

Item	Content
	2. Both parties further undertake that the Supplemental Agreement they entered into in the future under the above arrangement will comply with applicable provisions of the listing rules of HKEx and SSE (including but not limited to the requirements of Chapter 14A of the Listing Rules of HKEx and Chapter 10 of the Listing Rules of SSE relating to continuing connected transactions/connected transactions in the ordinary course of business, including that the Supplemental Agreement must specify its validity term, the estimated annual cap of custody income, other terms that must be set out, and etc.).
Time and period of undertaking	The undertaking was given on 26 March 2012 and shall remain effective for a long term
Any period for performance	N/A
Whether timely and strictly performed	Being performed
Solution	N/A

Major Events

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

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

Item	Content
Background of undertakings	Undertakings related to Major Assets Reorganization
Undertaking entity	Controlling shareholder
Undertakings	<p data-bbox="734 728 1447 1121">As of 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 data-bbox="734 1153 1447 1261">With respect to the trademarks being acquired under the Major Assets Reorganization but still pending for registration of transfer, GPLH undertook to:</p> <ol data-bbox="734 1293 1447 1946" style="list-style-type: none"> <li data-bbox="734 1293 1447 1379">1. process the transfer of those trademarks to the Company as soon as possible; <li data-bbox="734 1412 1447 1519">2. ensure that the Company can use these trademarks without having to pay consideration before the transfer of those assets; <li data-bbox="734 1552 1447 1946">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.

(10) PERFORMANCE OF UNDERTAKINGS BY THE COMPANY, ITS SHAREHOLDERS AND ACTUAL CONTROLLERS *(Continued)*(6) Undertakings related to trademarks *(Continued)*

Item	Content
Time and period of undertaking	The undertaking was given on 28 June 2012 and the effective period shall continue until the undertaking is fully performed
Any period for performance	N/A
Whether timely and strictly performed	Has been basically performed
Solution	N/A
Remark	The term of contract performance as undertaken by GPLH in respect of “processing the procedures for transferring the ownership of such assets to the Company is “as soon as possible”, such is not in compliance with the requirements of the regulatory guidelines.

As of the date of this report, among 331 domestic trademarks involved in such undertaking, all procedures for transferring the ownership of 325 trademarks (including 54 major trademarks) have been completed; as for the overseas trademarks, GPLH has submitted the application materials for such transfer in November 2013 and the specific time for processing depends on the examination and approval procedures of the relevant country/countries out of the territory. Since the undertaking has been basically performed, the non-standard term of contract performance regarding such undertaking will not impair the interests of the Company and the medium-size and small-size investors.

Major Events

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

- (7) Undertakings related to properties with legal defects

Item	Content
Background of undertakings	Undertakings related to Major Assets Reorganization
Undertaking entity	Controlling shareholder
Undertakings	<ol style="list-style-type: none"> 1. GPLH will promote the development of the subsisting listed company, protect the interests of minority investors, and proactively take measures to solve the issue of Baiyunshan properties with legal defects in titles to ensure that the interests of the subsisting listed company and investors are not jeopardised. 2. Guaranteeing that the subsisting listed company will be able to continue occupying and using such properties after completion of the merger and that it will not incur any additional cost nor suffer any material adverse impact due to such issue. 3. After completion of the merger, GPLH will fully compensate the Company within 2 months from the date of incurring of the actual losses (not including the tax normally incurred in respect of changing the registration name and transfer in relation to the properties and the land premium in relation to the changes from non-granted landuse 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.

Major Events

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

(7) Undertakings related to properties with legal defects *(Continued)*

Item	Content
Time and period of undertaking	The undertaking was given on 29 February 2012 and shall remain effective for a long term
Any period for performance	N/A
Whether timely and strictly performed	Being performed
Solution	N/A

Save as disclosed above, there is no outstanding undertaking that requires specific disclosure.

The Company has made profit forecast on its assets or projects, and the profit forecast period is within the reporting period, and the Company will give explanation on whether its assets or projects reach its profit forecast.

Assets or projects under the profit forecast	Beginning of the forecast period	End of the forecast period	Forecasted results for the current period (RMB'000)	Actual results for the current period (RMB'000)	Reasons for not reaching the forecast (if applicable)	Date of disclosing the forecast	Date of disclosing the forecast
Asset Acquisition through Issuance of Shares under Major Assets Reorganization	1 January 2013	31 December 2013	1,798.23	1,724	N/A	27 August 2012	http://www.sse.com.cn

Major Events

(11) APPOINTMENT AND RESIGNATION OF AUDITORS

Whether to change of accounting firm which was appointed: yes

Certified Public Accountants name in domestic	Ex-appointed PricewaterhouseCoopers Zhong Tian CPAs Limited Company	Appointed BDO China Shu Lun Pan CPAs LLP
The remuneration of Certified Public Accountants in domestic (RMB'000)	2,104	1934
Including: Expenses on audit financial report (RMB'000)	2,104	1554
Expenses on review financial report (RMB'000)	–	380
Fixed number of years of Certified Public Accountants in domestic	14	1
Foreign Certified Public Accountants name	–	–
The remuneration of foreign Certified Public Accountants (RMB'000)	–	–
Fixed number of years of foreign Certified Public Accountants	–	–

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

	Name	Report (RMB'000)
Internal auditing CPAs	BDO China Shu Lun Pan CPAs LLP	350

Major Events

(11) APPOINTMENT AND RESIGNATION OF AUDITORS *(Continued)*

Explain of appointment of auditors

1. As approved at the second meeting of the Audit Committee in 2013, PricewaterhouseCoopers Zhong Tian CPAs Limited Company was not appointed as the auditor of the Company for year 2013, and BDO China Shu Lun Pan CPAs LLP was appointed as the auditor of the Company for year 2013.
2. The 22nd meeting of the fifth 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 2013, and proposed the general meeting of shareholders to authorize the Board to determine their remuneration.
3. Pursuant to the approval given in the annual general meeting of 2012, BDO China Shu Lun Pan CPAS LLP was appointed as the auditor of the Company for year 2013.

(12) NO PENALTY OR CORRECTION WAS IMPOSED BY CSRC, STOCK EXCHANGES OR RELEVANT REGULATORY AUTHORITIES WERE MADE AGAINST THE LISTED COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS HOLDING MORE THAN 5% OF THE SHARES OF THE COMPANY, ACTUAL CONTROLLER OR THE ACQUIRER.

(13) AS AT THE END OF THE REPORTING PERIOD, THE CONSTRUCTION AND EQUIPMENT COMMITMENTS THAT WERE CONTRACTED BY THE GROUP BUT NOT PROVIDED FOR WAS RMB53,593,000. THE LEASE COMMITMENTS WHICH WERE CONTRACTED BUT NOT PROVIDED FOR AMOUNTED TO RMB83,552,000.

(14) DURING THE REPORTING PERIOD, THERE WAS NO CONVERTIBLE BONDS OF THE COMPANY.

(15) MAJOR ASSETS REORGANIZATION

1. On 21 December 2012, the Company received the "Approval of the Asset Acquisition through Issuance of Shares to Guangzhou Pharmaceutical Holdings Limited and the Absorption and Merger of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. by Guangzhou Pharmaceutical Company Limited" (the "Approval") (Zhengjianxuke[2012] No.1695)* (證監許可[2012]1695號 [2012]1695) from the CSRC. The announcement was published in Shanghai Securities News, the Securities Times and on the website of the SSE (www.sse.com.cn) on 22 December 2012 and on the website of the HKEx (www.hkex.com.hk) on 21 December 2012. The Company carried out various works in relation to the implementation of Major Assets Reorganization Proposal in a timely manner according to the Approvals.

Major Events

(15) MAJOR ASSETS REORGANIZATION *(Continued)*

2. On 7 March 2013, the Company published “The Implementation of the Claim for Stock – acquisition of Dissent Shareholders” in Shanghai Securities News, the Securities Times and on the website of the SSE (www.sse.com.cn). “The Registration and Exercise of Put Option for H Shares”, “Overseas Regulatory Announcement” were published on the website of the HKEx (www.hkex.com.hk) on 6 March 2013.
3. On 19 March 2013, the Company published “The Result of Claim for Stock – Acquisition of Dissent Shareholders” and “The Announcement of H Shares” in Shanghai Securities News, the Securities Times and on the website of the SSE (www.sse.com.cn). “The Result of The Registration and Exercise of Put Option For H Shares” and “Overseas Regulatory Announcement” were published on the website of the HKEx(www.hkex.com.hk) on 18 March 2013.

During the declaration period, the Company did not receive any declaration of exercise of options by dissenting A shareholders and H shareholders.

4. On 29 March 2013, Baiyunshan published the “Announcement of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. on Results of Registered Exercise of Cash Option under the Absorption and Merger Proposal by Guangzhou Baiyunshan Pharmaceutical Co., Ltd.” (廣州白雲山製藥股份有限公司關於廣州藥業股份有限公司換股吸收合併本公司現金選擇權申報結果公告), which stated that during the period for registration of exercise of cash option by the Baiyunshan shareholders, it received a total of 84,779 valid registration of exercise of cash option, and the concerned transfer and fund settlement for those validly registered shares were completed on 10 April 2013.
5. The Shenzhen Stock Exchange approved the application of de-listing of RMB ordinary shares of Baiyunshan, effective from 26 April 2013 (Shen Zhen Shang [2013] No. 138). On 26 April 2013, Baiyunshan published the “Announcement of the Delisting of Shares of Guangzhou Baiyunshan Pharmaceutical Co., Ltd.”* (廣州白雲山製藥股份有限公司關於股票終止上市的公告).
6. On 16 May 2013, the Company went through the registration procedures of additional A shares involved in the absorption and merger through share swap with the Depository Corporation. In addition, “Announcement of Results of the Completion of Absorption and Merger of Baiyunshan by Guangzhou Pharmaceutical Company Limited through Share Swap, and Changes in Shareholding and Listing of Additional Shares” (廣州藥業股份有限公司關於換股吸收合併廣州白雲山製藥股份有限公司完成結果、股份變動暨新增股份上市公告) were published in the Shanghai Securities News, the Securities Times and the China Securities News and on the website of the SSE (www.sse.com.cn) on 18 May 2013, and published on the website of HKEx (www.hkex.com.hk) on 19 May 2013 respectively.

(15) MAJOR ASSETS REORGANIZATION (Continued)

7. According to the Agreement on Assets Acquisition through Issuing Shares and its supplemental agreement, the Company had signed the Assets Settlement Agreement with the GPLH on 30 June 2013.
8. "Announcement of the issue of shares of the Completion of Absorption and Merger of Baiyunshan of the completion of delivery by Guangzhou Pharmaceutical Company (廣州藥業股份有限公司關於發行股份購買資產相關資產交割完成的公告) was published in the Shanghai Securities News, the Securities Times and the China Securities News and on the website of the SSE (www.sse.com.cn) on 3 July 2013 and published on the website of HKEx (www.hkex.com.hk) on 2 July 2013.
9. The Company registered the 34,839,645 shares of newly issued A shares with the Depository Corporation on 5 July 2013. "The Announcement of the Result of Non-public Issuance of Shares and the Change in Share Capital" was published in Shanghai Securities News, the Securities Times, China Securities News and the website of the SSE (www.sse.com.cn) on 9 July 2013 and on the website of the HKEx (www.hkex.com.hk) on 8 July 2013.
10. The Company published the "The Announcement of the Change of Company Name, Stock Short Name and Other Business of Guangzhou Pharmaceutical Company Limited" and "Change of Company Name, Trademark and Stock Short Name", the Company's name changed to Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited, stock short name of A share changes to BYS and H share changes to BAIYUNSHAN PH. The specific content of the matter was published in Shanghai Securities News, the Securities Times, China Securities News and on the website of the SSE (www.sse.com.cn) on 26 August 2013 and on the website of the HKEx (www.hkex.com.hk) on 23 August 2013.
11. After the Reporting Period, the Company published the "The implementation report of the absorption and merger through share swap, the asset acquisition through issuance of Shares and connected transactions of Guangzhou Pharmaceutical Company Limited", "Progress of Major Assets Reorganization" and "Overseas Regulatory Announcement", the Major Assets Reorganization of the Company has been fully implemented and completed. The specific content of the announcements was published in Shanghai Securities News, the Securities Times, China Securities News and on the website of the SSE (www.sse.com.cn) on 27 August 2013 and on the website of the HKEx (www.hkex.com.hk) on 26 August 2013.

Changes in Share Capital and Shareholders

I. CHANGES IN SHARE CAPITAL

1. The changes in share capital of the Company are set out as follows:

	Before movement		Increase/Decrease (+, -)					After movement	
	Number of shares (share)	Percentage (%)	New issue (share)	Bonus issue (share)	Transfer of the capital reserve (share)	Others (share)	Sub-total (share)	Number of shares (share)	Percentage (%)
I. Shares with selling restrictions									
1.State-owned shares	-	-	-	-	-	-	-	-	-
2.Shares held by state-owned legal entities	-	-	34,839,645	-	-	-	34,839,645	34,839,645	2.70
3.Other domestic shares	-	-	-	-	-	-	-	-	-
Including:									
Shares held by domestic legal entities	-	-	-	-	-	-	-	-	-
Shares held by domestic natural persons	-	-	-	-	-	-	-	-	-
4.Shares held by foreign capital	-	-	-	-	-	-	-	-	-
Including:									
Shares held by overseas legal entities	-	-	-	-	-	-	-	-	-
Shares held by overseas natural persons	-	-	-	-	-	-	-	-	-
II. Shares without selling restrictions									
1.Renminbi-denominated ordinary shares	591,000,000	72.88	-	-	-	445,601,005	445,601,005	1,036,601,005	80.27
2.Domestically listed foreign capital shares	-	-	-	-	-	-	-	-	-
3.Overseas listed foreign capital shares	219,900,000	27.12	-	-	-	-	-	219,900,000	17.03
4.Others	-	-	-	-	-	-	-	-	-
III. Total number of shares	810,900,000	100.00	34,839,645	0	0	445,601,005	480,440,650	1,291,340,650	100.00

Changes in Share Capital and Shareholders

I. CHANGES IN SHARE CAPITAL *(Continued)*

2. Explanation for the changes in share capital

The Company absorbed and merged Baiyunshan through share swap of additional A shares. Each share of Baiyunshan could be exchanged for 0.95 A share of the Company. During the Reporting Period, the Company has already issued an aggregate of 445,601,005 A shares of the Company to the Baiyunshan Shareholders, all of which are not subject to any selling restrictions and listed on the SSE on 23 May 2013.

The Company has issued 34,839,645 ordinary shares of nominal value of RMB1 to GPLH according to Agreement on Assets Acquisition through Issuing Shares and its supplementary agreement. These 34,839,645 A shares are non-publicly issued shares of the Company, the circulation of which are conditional. The date on which these newly issued A shares were listed and circulated was 5 July 2013.

3. Change of shares subject to selling restrictions

Name of holder	The initial number of shares subject to selling restrictions at the beginning of the Reporting Period (share)	The number of listed shares subject to selling restrictions for the Reporting Period (share)	The number of additional shares subject to selling restrictions for the Reporting Period (share)	The number of shares subject to selling restrictions at the end of the Reporting Period (share)	Reasons for selling restrictions	Listing date for share with selling restrictions
GPHL	0	0	34,839,645	34,839,645	Note	5 July 2016

Note: According to the Agreement on Assets Acquisition through Issuing Shares and the relevant supplemental agreement, the 34,839,645 A shares held by GPLH shall not be listed for trading or transferred within the 36 months from 5 July 2013, being the date on which those shares were listed for circulation.

4. Securities issuance in the last three years during the Reporting Period

Save as disclosed above, the Company did not issue or list any securities in the past three years.

5. Internal staff shares

The Company did not have any internal staff shares.

Changes in Share Capital and Shareholders

II. INFORMATION ON SHAREHOLDERS

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

As at 31 December 2013, there were 79,494 shareholders in total, out of which 79,456 were holders of domestically listed Renminbi-denominated ordinary shares (A shares) and 38 were holders of overseas listed foreign capital share (H shares).

As at the fifth trading day before the publication of this 2013 annual report, there were 81,168 shareholders in total, out of which 81,141 were holders of domestically listed Renminbi-denominated ordinary shares (A shares) and were 27 holders of overseas listed foreign capital share (H shares).

2. Shareholders' interests and short positions in the shares and underlying shares of the Company

As at 31 December 2013, 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 notified to the Company and the HKEx pursuant to Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be maintained by the Company under Section 336 of the SFO were as follows:

Shareholder	Type of shares	Long Positions		Approximately % of the total issued domestic shares	Approximate % of the total issued H shares
		Number of shares held (share)	Capacity		
GPHL	Domestic shares	584,228,036	Beneficial owner	Approximately 54.53	—

Other than those listed above, as far as the Directors are aware, there was no other person or company holding the interests and short positions in the shares and underlying shares of the Company which were notifiable to the Company and the HKEx pursuant to Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be maintained by the Company under Section 336 of the SFO.

Changes in Share Capital and Shareholders

II. INFORMATION ON SHAREHOLDERS (Continued)

3. The top ten shareholders of the Company

The top ten shareholders of the Company as at 31 December 2013 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 % of the total issued share capital (%)	Number of shares with selling restrictions held (share)	Number of pledged or locked shares (share)	Nature of shares
GPHL	193,394,645	584,228,036	45.24	34,839,645	Nil	Domestic shares
HKSCC Nominees Limited	136,090	219,591,479	17.00	Nil	Unknown	H shares
Zhao Xuguang	6,560,000	6,560,000	0.51	Nil	5,747,500	Domestic shares
China Construction Bank Co., Ltd. – Morgan Stanley Huaxin Quality of Life Featured Securities Investment Fund	4,900,000	4,900,000	0.38	Nil	Unknown	Domestic shares
Tibet Danhong Investment Consulting Co., Ltd.	4,662,328	4,662,328	0.36	Nil	Unknown	Domestic shares
Zhao Zhihong	4,493,732	4,493,732	0.35	Nil	Unknown	Domestic shares
Bank of China – Easy Positive Growth Securities Investment Fund	3,600,192	4,400,000	0.34	Nil	Unknown	Domestic shares
Huaxia Bank Co., Ltd. – RCM Equity Securities Investment Fund	3,900,000	3,900,000	0.30	Nil	Unknown	Domestic shares
Shenzhen Chongde Television Media Co., Ltd.	3,695,800	3,695,800	0.29	Nil	Unknown	Domestic shares
Industrial and Commercial Bank of China – Shanghai 50 Index Securities Investment Fund	3,541,656	3,541,656	0.27	Nil	Unknown	Domestic shares

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

- (1) According to the information provided by HKSCC Nominees Limited, the H shares held by it were held on behalf of several clients.
- (2) The Company was not aware of any connection among the aforesaid 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

II. INFORMATION ON SHAREHOLDERS (Continued)

3. The top ten shareholders of the Company (Continued)

The top ten shareholders of the Company subject to selling restrictions

Name of holder subject to selling restrictions	Number of shares subject to selling restrictions (share)	Information on the listing and trading of shares which are subject to selling restrictions		Undertakings on selling restrictions
		Permissible listing time	Number of new shares permissible for listing and trading	
GPHL	34,839,645	5 July 2016	34,839,645	Note

Note: According to the Agreement on Assets Acquisition through Issuing Shares and the relevant supplemental agreement, the 34,839,645 A shares held by GPHL shall not be listed for trading or transferred within the 36 months from 5 July 2013, being the date on which those shares were listed for circulation.

4. Information on the Company's controlling shareholder and its beneficial owner

Name of shareholder	Guangzhou Pharmaceutical Holdings Limited
Legal representative	Li Chuyuan
Date of establishment	7 August 1996
Organization code	23124735-0
Registered capital	RMB1,252.8 million
Business scope	To invest in and manage State-owned assets, to sell and manufacture Chinese and western medicine, Chinese raw medicine, bio-tech products, medical apparatus, packing materials for pharmaceutical products, health drinks and food, hygienic materials and pharmaceutical related merchandise; to undertake medicine related import and export affairs and to develop real estate.
Operating results	The Company recorded an income from sales (unaudited) of RMB43.816 billion and net profit (unaudited) of 1.164 billion in 2013.
Financial position	As at 31 December 2013, the unaudited total assets was RMB23.695 billion and net assets was RMB9.264 billion.

Changes in Share Capital and Shareholders

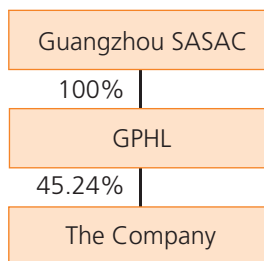
II. INFORMATION ON SHAREHOLDERS *(Continued)*

4. Information of the Company's controlling shareholder and its beneficial owner *(Continued)*

Cash flow and future development strategy	Upon the completion of listing, 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 among the peers, 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.
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Shareholding information of other domestic and overseas listed companies during the Reporting Period	N/A
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As at the end of the Reporting Period, the controlling shareholder of the Company was GPLH, the beneficial owner of which was the State-owned Assets and Administration Commission of Guangzhou Municipal Government ("Guangzhou SASAC").



5. Other shareholders holding 10% or more of the Company's total issued shares

As at the end of the Reporting Period, 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 repurchased, 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.

Changes in Share Capital and Shareholders

III. 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.

IV. 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.

Directors, Supervisors, Senior Management and Staff

I. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Profiles of existing directors, supervisors and senior management

1. Executive directors

Mr. Li Chuyuan, aged 48, chairman and secretary of the Party Committee of the Company, holds a master degree, senior economist and is a senior engineer of professor grade. Mr. Li started his career since July 1988 and had been deputy director of operation department of Baiyunshan General Factory, assistant to general manager and deputy general manager of Baiyunshan and general manager, vice chairman, deputy secretary of the Party Committee of GPL, and vice chairman of the Company. Mr. Li has been a director of the Company since 28 June 2010 and is also a national labour model and enjoys special government allowances from the State Council, the deputy chairman of the Science and Education, Sanitation and Sport Committee of Guangdong Political Consultative Conference, committee member of Guangdong Province Political Consultative Conference, a member of Guangzhou Municipal People's Congress and a representative of Guangzhou party congress and Outstanding City Management Expert of Guangzhou City. Mr. Li has served as secretary of the Party Committee of GPL since June 2013, served as chairman of GPL since July 2013, served as chairman of the Company since August 2013, served as secretary of the Party Committee of the Company since October 2013, and is the general manager of HWBYS, vice chairman of GP Corp. Mr. Li has extensive experience in the fields of corporate management and marketing.

Mr. Chen Mao, aged 50, has been the vice-chairman of the Company since 28 January 2014. He holds a bachelor degree in Medicine and is a pharmaceutical engineer. Mr. Chen started his career since November 1985, and served as the chairman of Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd., general manager of Baiyunshan, chairman of Guang Hua and deputy general manager of GPL. Mr. Chen is the general manager, vice-chairman and deputy secretary of the party committee of GPL, deputy secretary of the party committee of the Company, factory manager of Baiyunshan General Factory, chairman of Baxter Qiao Guang and chairman of WLJ Great Health. Mr. Chen has extensive experience in corporate management and marketing.

Directors, Supervisors, Senior Management and Staff

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

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

1. Executive directors *(Continued)*

Ms. Liu Juyan, aged 49, has served as a Director since 28 January 2014. She holds a master degree and a doctorate degree in medicine and is a senior engineer of professor grade. Ms. Liu started her career since July 1990 and served as director and general manager of Guangzhou Baiyunshan Han Fang Contemporary Pharmaceutical Co., Ltd. and director of technology and quality department of GPL. Ms. Liu has served as chief engineer of GPL since May 2010 and as deputy general manager of GPL since January 2011. Ms. Liu has served as chairman of Guangzhou Guang Yao Yi Gan Biological Product Co., Ltd. since January 2012 and served as chairman of Guangzhou Pharmaceutical Research Institute since May 2013. She is also the member of the National Pharmacopoeia Committee, the responsibility expert of the National Science major new drug, the evaluation expert of the National Science and Technology Progress Award, the Price evaluation expert of the National Development and Reform Commission, the title review expert of Guangdong grade title, the member of the thirteenth session of the People's Congress of Guangzhou City, Outstanding City Management Experts of Guangzhou City and a Guangzhou "121" reserved talent. Ms. Liu has extensive experience in scientific research and development, technological management and co-ordination management.

Ms. Cheng Ning, aged 48, has served as a Director since 19 September 2012. Ms. Cheng is of tertiary education, is a PRC certified public accountant and PRC certified tax consultant. Ms. Cheng started her career in August 1986 and has served as an officer of the finance section of Guangzhou Baiyunshan Pharmaceutical General Factory, a deputy section chief of the finance section of Guangzhou Baiyunshan Bao De Pharmaceutical Factory, and a chief of the finance section of Guangzhou Baiyunshan Veterinary Medicines Factory, a accounting and cashier of the settlement center of Baiyunshan, a deputy manager of the finance department of Baiyunshan, a member and secretary of the Supervision Committee of Baiyunshan, a deputy manager, and a director of the financial resources department and a director of the finance department of Guangzhou Baiyunshan Enterprise Group and a deputy manager of finance department of GPL. Ms. Cheng has been a financial controller and manager of the finance department of GPL since May 2010. Ms. Cheng has been a vice general manager of GPL since July 2012 and served as convenor of the board of directors of Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited since December 2013. Ms. Cheng has extensive experiences in finance management and internal control of enterprises.

Directors, Supervisors, Senior Management and Staff

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

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

1. Executive directors *(Continued)*

Mr. Ni Yidong, aged 42, has served as a Director since 28 January 2014. He holds a master degree and a doctorate degree in medicine and is a senior engineer. Mr. Ni started his career since July 1994 and served as the director of market planning department of GPL, the chairman of Zhong Yi and secretary of the party committee. He is the deputy general manager and director of the grand health office of GPL and standing vice-chairman of WLJ Great Health. Mr. Ni has extensive experience in corporate management and marketing.

Mr. Wu Changhai, aged 48, has served as a Director since 28 June 2010. Mr. Wu holds a master's degree, and is an economist. He graduated from Tongji University in July 1989 and started his career in the same year, and studied as graduate student in world economics at Sun Yat-sen University from September 1997 to October 1999 and received a master's degree of EMBA from Sun Yat-sen University in December 2012. He served as deputy general manager, acting general manager, general manager, chairman and secretary of the Party Committee of Zhong Yi, chairman of Xing Qun, chairman of WLJ Great Health. Mr. Wu is currently a member of Guangzhou Municipal People's Congress, chairman of Qi Xing, vice chairman of WLJ Great Health and director of Chen Li Ji, Xing Qun and Zhong Yi. Mr. Wu has served as the general manager of the Company from 21 May 2010 to 28 January 2014, and has extensive experience in operational management, marketing and scientific research.

Mr. Wang Wenchu, aged 47, has served as a Director since 28 January 2014. He holds a bachelor degree and is an assistant engineer and economist. Mr. Wang started his career since July 1988 and served as deputy factory manager of Baiyunshan General Factory and general manager of Baiyunshan. He is currently the standing deputy factory manager of Guangzhou Baiyunshan Pharmaceutical General Factory, chairman of Guang Hua, chairman of Baiyunshan Pharmaceutical Technology Development and chairman of Jing Xiu Tang. Mr. Wang has extensive experience in corporate management and marketing.

Directors, Supervisors, Senior Management and Staff

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

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

2. Independent non-executive directors

Professor Patrick Wong Lung Tak, B.B.S., JP, aged 66, 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 30 years experience in the accountancy profession. Prof. Wong obtained a Doctor of Philosophy Degree in Business and was awarded a Badge of Honour by the Queen of England. He has been appointed as a Justice of the Peace and was awarded a Bronze Bauhinia Star (B.B.S.) by the Government of the Hong Kong Special Administrative Region. He was appointed as Adjunct Professor, School of Accounting and Finance of the Hong Kong Polytechnic University from 2002 to 2013. Professor Wong participates in many types of community services and is holding posts in various organisations and committees in government and voluntary agencies. Professor Wong is an independent non-executive director of China Precious Metal Resources Holdings Co., Ltd., C C Land Holdings Limited, Galaxy Entertainment Group Limited, Water Oasis Group Limited, Real Nutriceutical Group Limited, Sino Oil and Gas Holdings Limited, National Arts Entertainment and Culture Group Limited, Winox Holdings Limited and Excel Development (Holdings) Limited, all being listed on the HKEx.

Mr. Qiu Hongzhong, aged 57, a master degree postgraduate and professor, has served as an independent non-executive Director since 28 June 2010. He graduated in 1981 with a degree in clinical medicine and was a master degree postgraduate in 1988. He was a senior visiting scholar of anthropology of the Sun Yat-sen University and completed courses of strategic management training class in Party School of the Central Committee of the Chinese Communist Party. Mr. Qiu had been the head of the Medical Department of the Eighth Engineering Bureau, ministry of Water Conservancy of DongJiang Hospital, deputy director of Department of Social Science of Guangzhou University of Traditional Chinese Medicine, deputy head of Huodao Town, Gaoyao County of Guangdong Province, standing vice president, president and the secretary of the Communist Party Committee of School of Economic and Management of Guangzhou University of Traditional Chinese Medicine. Mr. Qiu is currently the president, tutor of Ph.D. students, professor and chief physician of School of Economic and Management of Guangzhou University of Traditional Chinese Medicine, and is also a member of the Medicine Teaching and Guidance Committee of Higher Education Institution under the Ministry of Education of China, deputy director of Psychology of TCM in Chinese Medical Association of Guangdong Province, editor of the national core journal – Journal of Medicine and Philosophy, standing director of the Society of Chinese Medicine and Health Economics, deputy officer of the hygiene policy committee, Society of Hygiene Economics of Guangdong Province, standing vice-chairman of School of Management of Hospital of Traditional Chinese Medicine of Guangdong Provincial Association of Chinese Medicine. Mr. Qiu has extensive experience in economic management and pharmaceutical industry.

Directors, Supervisors, Senior Management and Staff

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

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

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

Mr. Fang Shuting, aged 66, has been an independent non-executive Director since 28 January 2014. He graduated from Beijing traditional Chinese Medication Institute majoring in traditional Chinese medicine. He was a cadre of the party propaganda department and deputy chief of academic affairs division of Beijing Traditional Chinese Medication Institute, a deputy director level member of the discipline inspection group and head of the inspection and review division of the Ministry of Health, and deputy head of the quality control department of State Administration of Traditional Chinese Medicine. He had been the deputy party secretary and party secretary of the Institute of Traditional Chinese Medicine, and the vice-president and a member of the party group of State Administration of Traditional Chinese Medicine. Mr. Fang is currently the chairman of the China Association of Traditional Chinese Medicine and the independent director of Shandong Wohua Pharmaceutical Co., Ltd. and China Traditional Chinese Medicine Co. Limited (listed on the HKEx). Mr. Fang has extensive experience in traditional Chinese medicine management and pharmaceutical industry.

Mr. Chu Xiaoping, aged 58, has been an independent non-executive Director since 28 January 2014. He holds a PhD in management and is a professor and a tutor of doctorate candidate. Mr. Chu graduated from Xi'an Jiaotong University. He was a lecturer, associate professor, professor, associate dean and dean of Business School, Shantou University, Guangdong, and a visiting scholar of the University of Hong Kong. He was an independent director of Guangdong Shengyi Technology Co., Ltd. (廣東生益科技有限公司) for 6 years. He is currently a professor and a tutor of doctorate candidate of Lingnan College of Sun Yatsen University. Mr. Chu has extensive experience in organisation, leadership, innovation and sustainable development of enterprises.

Directors, Supervisors, Senior Management and Staff

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

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

3. Supervisors

Mr. Xian Jiaxiong, aged 54, has been the chairman of the Supervisory Committee since 28 January 2014. He holds a bachelor degree and a master degree in Business Administration, economist and senior political engineer. Mr. Xian started his career since September 1976 and served as general secretary of the party committee of Guangzhou Grandbuy Co., Ltd. and assistant to the deputy manager and the secretary of the disciplinary committee of Guangzhou Department Store Enterprises Group Co., Ltd.. He is the secretary of the party committee and the secretary of the disciplinary committee of GPLH, and the secretary of disciplinary Committee and deputy secretary of the Party Committee of the Company and a member of Guangzhou Municipal People's Congress. Mr. Xian has extensive experience in economic management and party affairs.

Mr. Wu Quan, aged 57, is an undergraduate, senior political engineer, and has served as a Supervisor of the Company since 15 June 2007. Mr. Wu started his career in February 1976. Mr. Wu acted as chief officer of Cannon Camp and vice company commander of Guangdong Independent Division, advisor at deputy company commander level and advisor at company commander level for military equipment section under the command of Guangdong Zhangjiang Military Sub-area, advisor at a deputy battalion level, advisor at a battalion level, deputy section chief and section chief for military equipment section under the command of Guangdong Military Area, deputy secretary of the Party Committee, secretary of the Discipline Commission and secretary of the Party Committee of Cai Zhi Lin and Minister of the Ministry of Personnel (Organization Department) between June 2006 to March 2011. Mr. Wu is currently secretary of the Discipline Commission of the Company, director and secretary of the Party Committee of Guang Hua.

Ms. Wu Yan, aged 44, has been a supervisor of the Company since 28 January 2014. She graduated from Murdoch University in Australia with a master degree in business administration. Ms. Wu is currently the assistant to president and editorial director of the Guangdong University of Foreign Studies Audiovisual Press, and office director, party branch committee member and labour union president of the Institute for International Education, Guangdong University of Foreign Studies.

4. Senior management

Mr. Chen Jing, aged 30, has served the secretary to the Board since 28 January 2014. He graduated from the School of Management of Huazhong University of Science and Technology in July 2008 with a master degree of accounting. He had served in the Investment Banking Department of Guotai Junan Securities Co., Ltd and joined the Company in January 2014.

Directors, Supervisors, Senior Management and Staff

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

Profiles of retired directors, supervisors and senior management

1. Executive directors

Mr. Yang Rongming, aged 60, was the chairman of the Company during 28, June 2010 to August 2013, is a Party School postgraduate and senior economist, currently the chairman and secretary of the Party Committee of GPL. Mr. Yang started his career in October 1970 and served as vice factory manager of Guangzhou Monosodium Glutamate and Food Factory, deputy general manager of Guangzhou Ao Sang Monosodium Glutamate & Food Co., Ltd., director and general manager of Guangzhou Eagle Coin Enterprises Group Corporation, chairman and general manager of Guangzhou Zhujiang Brewery Group Co., Ltd. and chairman of Guangzhou Zhujiang Brewery Co., Ltd.. Mr. Yang has served as the chairman of GPL since July 2004, secretary of the Party Committee of GPL since June 2010 and as director of the Company during 1 November 2004 to August 2013. He is also a national labour model, the representative of Guangzhou party congress and a committee member of Guangzhou Political Consultative Conference, director of GP Corp., director of Xing Qun, Zhong Yi, Jing Xiu Tang, Ming Xing and Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited, and a member of Management Committee of Hejigong. Mr. Yang has extensive experience in business management and sales and marketing.

2. Independent non-executive directors

Mr. Liu Jinxiang, aged 73, served as an independent non-executive director of the Company during 15 June 2007 to 28 January 2014. Mr. Liu graduated from Xi'an Construction Technology University in 1964. He was an independent non-executive director of the Company from August 2000 to March 2004, chairman of Yue Xiu Enterprises (Holdings) Limited and Yue Xiu Investment Company Limited, chairman of Yue Xiu Transportation Company Limited, head of Guangzhou Economic Committee and vice-mayor of Guangzhou City. Mr. Liu is also an independent non-executive director of Guangzhou Development Industry (Holdings) Co., Ltd. and Guangdong China Sunshine Media Co., Ltd. Mr. Liu has more than 40 years of experience in industrial technology, enterprise and economic affairs management.

Mr. Li Shanmin, aged 51, served as an independent non-executive director of the Company during 15 June 2007 to 28 January 2014. Mr. Li graduated from Nanjing Agricultural University with a doctorate degree in management science in 1990. He is currently a professor of the School of Management of Sun Yat-sen University, the mentor of Ph. D. students whose majors are in finance and investment, the assistant to the president, section chief for finance and state-owned asset section of Sun Yat-sen University. Mr. Li is also acting as an independent director of Guangdong Haida Group Co., Ltd., Dongguan Development (Holdings) Co., Ltd., and SUNWODA Electronics Co., Ltd., and director of Guangzhou Zhujiang Industrial Co., Ltd.

Directors, Supervisors, Senior Management and Staff

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

Profiles of retired directors, supervisors and senior management *(Continued)*

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

Mr. Zhang Yonghua, aged 55, has served as an independent non-executive director during 15 June 2007 to 28 January 2014. Mr. Zhang graduated from Huazhong Normal University with a bachelor degree in Law in 1982 and received a Master degree in Law in 1989. He is currently the director of Education and Legal System Institute under the School of Law of Guangdong University of Foreign Studies. Mr. Zhang acted as deputy director of Publicity Department and vice-professor of School of Political Science & Law of Huazhong Normal University, deputy director of Minor Department of Guangzhou University of Foreign Studies and deputy director of Guangdong University of Foreign Studies. Mr. Zhang is currently director of Guangdong Law Society, member of expert of emergency management of Guangdong Government, consultancy expert of the decision-making of Guangzhou Municipal Government and arbitrator of Guangzhou Arbitration Commission.

3. Supervisors

Ms. Yang Xiuwei, aged 55, Assistant Engineer, senior political engineer, served as chairlady of the Supervisory Committee of the Company during 15 June 2007 to 28 January 2014. Ms. Yang started her career in July 1974. She graduated as a part-time graduate student from the Party School of the Central Committee of the C.P.C and majored in economic management in July 2003. Ms. Yang has been the clerk at vice-director Level for Complaint Letter and Visit Office, inspector at Vice-Section Level, inspector at Section Level and deputy director at Vice Department Level, deputy director at Department Level for Guangzhou Municipal Commission for Discipline Inspection and Supervision Bureau, deputy director at Department Level and the branch secretary for the Third Discipline Inspection and Supervision Room of the Guangzhou Municipal Commission for Discipline Inspection and supervision bureau. Ms. Yang has served as secretary of the Discipline Committee of GPHL since September 2004 to November 2012, deputy secretary of the Party Committee of GPHL since February 2011 to November 2012. Ms. Yang has been transferred to the Guangzhou Port Group as deputy party secretary and the Discipline Committee secretary since November 2012.

Mr. Zhong Yugan, aged 58, served as Supervisor of the Company during March 2004 to 28 January 2014. Mr. Zhong graduated from the Business Economics Department of Beijing Business College in 1982 and was awarded a Bachelor of Arts in economics. He studied abroad in the University of 契裏爾•麥托蒂 in the former Yugoslavia from 1985 to 1987. Mr. Zhong had consecutively been head of Business Management Department, head of Business Administration Faculty, Professor of management studies and tutor of Master degree postgraduates in the Guangdong Business College from 1997 to June 2008. He is currently a professor in School of Business of Guangdong University of Foreign Studies. Mr. Zhong is also vice chairman of the Association of Marketing Research of China Higher Institutes, committee member of academic work of the Association of China International and Public Relations. Mr. Zhong has extensive experience in the fields of marketing and sales, strategic decision-making and corporate management.

Directors, Supervisors, Senior Management and Staff

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

Profiles of retired directors, supervisors and senior management *(Continued)*

4. Senior management

Mr. Su Guangfeng, aged 49, an engineer with a bachelor degree in Industrial Studies, a committee member of Guangzhou Haizhu District People's Congress, has served as deputy general manager of the Company during June 2005 to 28 January 2014. Mr. Su joined Baiyunshan in July 1987 and served as the deputy chief of the operations department of Baiyunshan and deputy plant head of Guangzhou Baiyunshan Chinese Medicine Factory, manager of Ying Bang Branch Company of Guangzhou Pharmaceutical Company Limited, chairman and general manager of Xing Qun and chairman of Pan Gao Shou. Mr. Su has extensive experience in enterprise management, sales and marketing.

Mr. Pang Jianhui, aged 41, a senior engineer with a bachelor of Science degree in Pharmaceutical Science. Mr. Pang joined GPL in July 1996, and served as the business head of Investment Department of GPL, officer of Pharmaceutical Import & Export Co. Ltd., department manager of the business department of Hong Kong subsidiary of GPL and deputy director of investment department of GPL and director of Wang Lao Ji. Mr. Pang is also director of Pan Gao Shao, Guangzhou Han Fang and Guangxi Ying Kang, chairman of the Supervisory Committee of Guangzhou Guang Yao Yi Gan and Biological Products Co., Ltd. Mr. Pang was the secretary to the Board during July 2008 to 28 January 2014, has been a joint company secretary during 29 September 2010 to 28 January 2014. He has extensive experience in pharmaceutical manufacturing and management.

Directors, Supervisors, Senior Management and Staff

II. INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN SHARES (A SHARES) OF THE COMPANY AS AT THE END OF THE REPORTING PERIOD

Name	Position	Shares held as at the beginning of the Reporting Period (share)	Shares held as at the end of the Reporting Period (share)	Reason for change
Li Chuyuan	Chairman	Nil	Nil	–
Cheng Ning	Executive director	Nil	Nil	–
Wu Changhai	Executive director, general manager	Nil	Nil	–
Yang Rongming	Chairman (resigned on 8 August 2013)	Nil	Nil	–
Wong Lung Tak Patrick	Independent non-executive director	Nil	Nil	–
Qiu Hongzhong	Independent non-executive director	Nil	Nil	–
Liu Jinxiang	Independent non-executive director (resigned on 28 January 2014)	Nil	Nil	–
Li Shanmin	Independent non-executive director (resigned on 28 January 2014)	Nil	Nil	–
Zhang Yonghua	Independent non-executive director (resigned on 28 January 2014)	Nil	Nil	–
Yang Xiuwei	Chairlady of the Supervisory Committee (resigned on 28 January 2014)	Nil	Nil	–
Wu Quan	Supervisor	Nil	Nil	–
Zhong Yugan	Supervisor (resigned on 28 January 2014)	Nil	Nil	–
Su Guangfeng	Deputy general manager (resigned on 28 January 2014)	Nil	Nil	–
Chen Binghua	Financial controller (resigned on 15 January 2013)	6,240	6,240	–
Pang Jianhui	Secretary to the Board (resigned on 28 January 2014)	Nil	Nil	–

Directors, Supervisors, Senior Management and Staff

III. INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2013, none of the directors, supervisors, senior management and their associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which were required, pursuant to the Model Code of the Listing Rules, to be notified to the Company and the HKEx.

IV. EMOLUMENTS FOR THE YEAR

1. Procedures on determination of emoluments

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 amounts of emoluments and method of payment for services of the Company's directors and supervisors. The amount of emoluments and payment method for the senior management were determined by the Board after taking into account of the Company's operating results and individual performance.

Directors, Supervisors, Senior Management and Staff

IV. EMOLUMENTS FOR THE YEAR (Continued)

2. Emoluments for the Year

During the Year, the total emoluments of the directors, supervisors and senior management of the Company who received emoluments from the Group amounted to RMB8,687,000, details of which are set out as follows:

Name	Emoluments received from the Group		Emoluments received the Company's shareholder from the Group or connected parties		
	Whether emoluments were received from the Group	Total emoluments for the Year (RMB'000)	Whether emoluments were received from the Company's shareholder or connected parties	Total emoluments for the Year remuneration of the year (RMB'000)	special rewards granted by the government department (RMB'000)
Directors					
Li Chuyuan	No	–	Yes	1,040	679
Yang Rongming	No	–	Yes	805	376
Cheng Ning	No	–	Yes	842	528
Wu Changhai	Yes	1,087	No	–	–
Wong Lung Tak Patrick	Yes	80	No	–	–
Qiu Hongzhong	Yes	80	No	–	–
Liu Jinxiang	Yes	80	No	–	–
Li Shanmin	Yes	80	No	–	–
Zhang Yonghua	Yes	80	No	–	–
Supervisors					
Yang Xiuwei	No	–	Yes	320	–
Wu Quan	Yes	709	No	–	–
Zhong Yugan	Yes	30	No	–	–
Senior management					
Su Guangfeng	Yes	851	No	–	–
Chen Binghua	Yes	307	No	–	–
Pang Jianhui	Yes	713	No	–	–
Total		4,097		3,007	1,583

Directors, Supervisors, Senior Management and Staff

IV. EMOLUMENTS FOR THE YEAR *(Continued)*

2. Emoluments for the Year *(Continued)*

Notes:

- A The emoluments of Mr. Li Chuyuan and Ms. Cheng Ning for the year were the emoluments they received from the Company's shareholder included the remuneration for 2013, clearing amounts of annual salaries in previous years and special rewards granted by the government department.
- B Mr. Yang Rongming has resigned the chairman of the Company on 8 August 2013, the emoluments he received by shareholders of the Company in the Year included the remuneration for 2013, clearing amounts of annual salaries in previous years and special rewards granted by the government department.
- C Ms. Yang Xiuwei has transferred to Guangzhou Port Group from November 2012, the emoluments she received by shareholders of the Company in the Year were the clearing amounts of annual salaries in previous years.
- D The emolument of Mr. Wu Changhui for the Year was the total emolument be received from the Company and subsidiaries of the Company.
- E The emoluments of Mr. Liu Jinxiang, Mr. Wong Lung Tak Patrick, Mr. Li Shanmin, Mr. Zhang Yonghua, Mr. Qiu Hongzhong, Mr. Zhong Yugan, Mr Su Guangfeng and Mr. Pang Jianhui for the Year were the emoluments they received from the Company.
- F The emolument of Mr. Wu Quan for the Year was the emolument he received from the Company and a subsidiary of the Company.
- G Mr. Chen Binghua has resigned the financial controller of the Company on 15 January 2013, and the remuneration of him for the year were the emoluments included the remuneration for January 2013, clearing amounts of annual salaries in previous years.

V. APPOINTMENT OR RESIGNATIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE REPORTING PERIOD AND AFTER THE REPORTING PERIOD

1. The Board resolved to approve Mr. Chen Binghua's resignation as financial controller of the Company because of his personal reason in the fifth session of the Board on 15 January 2013, and Mr. Chen Binghua's resignation became effective on the same date.
2. The Board resolved to approve Mr. Yang Rongming's resignation as an executive director, chairman of the Company and the chairman of the Strategic Development and Investment Committee with effect from 8 August 2013 as he has reached the age of statutory retirement and Mr. Yang Rongming's resignation became effective on the same date.
3. The Board resolved to elected Mr. Li Chuyuan as the chairman of the Company with effect from 8 August 2013, with a term of office from the date of election to the date of election of members of the new session of the Board.

Directors, Supervisors, Senior Management and Staff

V. THE APPOINTMENT OR RESIGNATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE REPORTING PERIOD AND AFTER THE REPORTING PERIOD. *(Continued)*

4. Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong, Mr. Wu Changhai and Mr. Wang Wenchu were elected as the executive directors of the sixth session of the Board and Mr. Wong Lung Tak Patrick, Mr. Qiu Hongzhong, Mr. Fang Shuting and Mr. Chu Xiaoping were elected as independent non-executive directors of the sixth session of the Board and Mr. Xian Jiaxiong and Ms. Wu Yan were elected as supervisors representing the shareholders of the sixth session of the Supervisory Committee at the first extraordinary general meeting in 2014 which held on 28 January 2014 and Mr. Wu Quan was elected as the supervisor representing the employees at the meeting of employees' meeting.

The term of office of the directors and supervisor appointed above was from the date of their elections to the date of elections of members of the new session of the Board or the new session of the Supervisory Committee.

Mr. Liu Jinxiang, Mr. Li Shanmin and Mr. Zhang Yonghua, who were the former members of the fifth session of the Board, ceased to be directors from 28 January 2014. Ms Yang Xiuwei and Mr. Zhong Yugan, who were former members of the fifth session of Supervisory Committee, ceased to be supervisors of the Company from 28 January 2014.

5. The first meeting of sixth session of the Board resolved to elect Mr. Li Chuyuan as the chairman of the Company and Mr. Chen Mao as vice chairman on 28 January 2014.

As at the same meeting, Mr. Chen Jing was appointed as secretary to the Board.

The term of office of each person appointed above was from the date of their elections to the date of the elections of members of the new session of the Board.

6. The Board resolved to approve Mr. Pang Jianhui's resignation as the joint company secretary with effect from 28 January 2014 in the first meeting of the sixth session of the Board on 28 January 2014. Ms. Lee Mei Yi (the company secretary of the company retained externally), the other joint company secretary of the Company, will act as the sole company secretary of the Company. Ms. Lee Mei Yi meets the requirement to be the sole company secretary (the Company's external secretary). Mr. Chen Jing is the main internal contact person.
7. The first meeting of sixth session of the Board resolved to elect Mr. Xian Jiaxiong as the chairman of the sixth session of the Supervisory Committee. His term of office was from the date of his election to the date of the election of members of the new session of the Supervisory Committee.

Directors, Supervisors, Senior Management and Staff

VI. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the present directors and supervisors of the fifth session has entered into a service contract with the Company. The contract term commenced from 28 June 2010 up to the date of election of the sixth session of the Board.

The term of the service contract of Ms. Cheng Ning, a director, was commenced from 19 September 2012 up to the date of the election of the sixth session of the Board.

Each of the directors and supervisors of the sixth session has entered into a service contract with the Company. The contract term commenced from 28 January 2014 up to the date of the election of the seventh session of the Board.

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

The above-mentioned service contracts with the directors and supervisors do not contain any provisions for compensation for early termination of contract or for them not being re-elected after expiration of their term of office.

VII. INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS

There was no contract of significance in relation to the business of the Group to which the Company, its subsidiaries or its holding company was a party and in which a director or supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

VIII. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company adopted Appendix 10 to 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 codes and criteria for securities transactions by the directors and supervisors of the Company. After making specific enquiries to all the directors and supervisors, the Company confirmed that its directors and supervisors had fully complied with the standards relating to directors’ and supervisors’ dealing in securities as set out in the above codes and criteria during the Reporting Period.

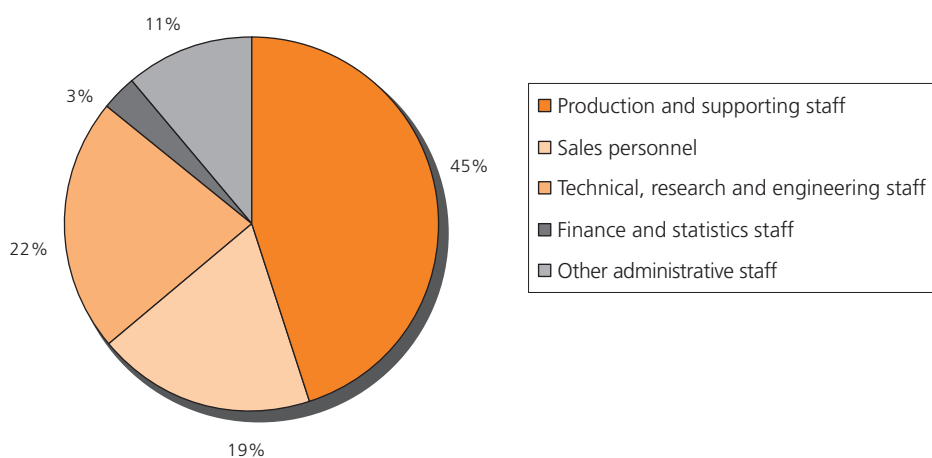
Directors, Supervisors, Senior Management and Staff

IX. EMPLOYEES OF THE GROUP

As at 31 December 2013, the number of employees on the payroll register of the Group was 11,284 included:

Production and supporting staff	5,083
Sales personnel	2,159
Technical, research and engineering staff	2,465
Finance and statistics staff	357
Other administrative staff	1,220

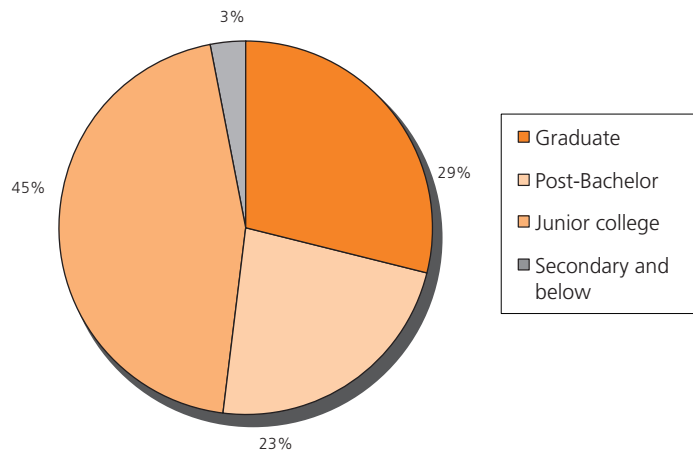
Statistics on the number of employees (according to their professional skills)



Directors, Supervisors, Senior Management and Staff

IX. EMPLOYEES OF THE GROUP (Continued)

Statistics on the number of employees (according to their educational level)



A total of 293 of the employees were holders of master degree and a total of 3,321 were holders of a bachelor degree. The number of retirees was 9,562. The total salary payment for the Year was approximately RMB980 million.

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, experience, position and other factors.

The Group emphasizes on enhancing the overall quality of its employees and formulating trainings for different talents to constantly improve management standard and competitiveness. During 2013, the Group provided relevant trainings based on the actual situation of management systems in order to ensure that the operation of the various systems is suitable.

The training plan of the Group for 2014 is set out below, which aims at upgrading professional and technical expertise, enhancing corporate management and raising the overall quality of employees in order to satisfy the needs in the development and growth of the Group. We further improve the management of CEO EMBA training of ShenNong College, and cultivate high-level inter-disciplinary talents with capacity of solving practical problems by strengthening cooperation with universities and institutions. We continue to conduct management and examination of its internal trainers in a better way, and recruit those staffs that devote to engaging in internal training to the team of internal trainers. We organize trainings for all staffs in our department, setting up a harmonious and efficient team; to continue to do well in college students' entry and trainings towards various kinds of persons such as cadres, secretary of party branch, probationary party member and activist of party application, fostering a good atmosphere filled with enthusiasm for learning and constantly improvement within the Group.

I. 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 HKEx to continuously improve the management structure and regulate the operations of the Company.

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

For the Reporting Period, the Company complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (“CG Code”) except that a deviation from code provision A.5.6 and A.6.7.

Code provision A.5.6 stipulate that, the Nomination Committee (or the Board) should formulate a policy concerning diversity of board members and disclose that policy or its summary in the corporate governance report. Notwithstanding that the written policy had not been officially adopted before the amended Listing Rules came into effect (1 September 2013), the Board believes that the Company had achieved diversity in its membership. The Board Diversity Policy of the Company had been formulated on 26 September 2013.

On the other hand, independent non-executive Directors, namely Mr. Liu Jinxiang, Mr. Li Shanmin and Mr. Zhang Yonghua were unable to attend the general meetings due to other important matters which constituted a deviation from code provision A.6.7.

The Board keep monitoring and reviewing 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 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 2013 is set out in the section headed “Report of the Board of Directors” in this annual report.

I. CORPORATE GOVERNANCE AND INSIDERS REGISTRATION MANAGEMENT *(Continued)***2. 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.

3. Establishment and enhancement of the management system regarding the users of external information of the Company

The Company had formulated the Management System Regarding the Users of External Information in 2010. The above system was put into force to strictly regulate the external disclosure of information by the Company and the use of external information on the Company, prevent information from leaking out and procure fair disclosure of information.

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

2. SHAREHOLDERS AND GENERAL MEETINGS OF SHAREHOLDERS

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

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

- (1) 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.
- (2) 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.
- (3) 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.

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

- (4) Where the Company convenes an annual general meeting of the shareholders, the shareholders with 5% or more of the total voting rights of the Company shall be entitled to put forth a new proposal in writing to the Company. The Company shall dispatch supplemental notice of the general meeting within two days after receiving such proposal to announce the contents of such provisional proposal. Any matters contained in such proposal which are within the terms of reference of the general meeting of the shareholders shall be listed in the agenda of the meeting.

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

- (1) 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);
- (2) 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;
- (3) The Company shall provide to the shareholders and investors community with the designated contact person, e-mail address and enquiry channels of the Company, so as to facilitate them to make reasonable enquires of the Company.

Contact:	Mr. Chen Jing, Ms. Huang Xuezheng
E-mail:	sec@gybys.com.cn/ chenj@gybys.com.cn/ huangxz@gybys.com.cn
Company's website:	http://www.gybys.com.cn

2. SHAREHOLDERS AND GENERAL MEETINGS OF SHAREHOLDERS (Continued)

The general meetings of shareholders will be convened and held in strict compliance with the Rules for Shareholders' General Meetings of Listed Companies issued by CSRC and Rules and 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. The 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.

During the Reporting Period, the situation is convening a general meeting of the Company is as follows:

Session and number of meeting	Meeting date	Resolutions	Resolutions Situation	Newspapers for publication of the resolutions	Disclosure date
2012 annual general meeting	26 June 2013	Report of the Board for year 2012; Report of the supervisory committee of the Company for year 2012; Financial reports of the Company for year 2012; Auditors' reports of the Company for year 2012; Proposal for profit distribution and dividend payment of the Company for year 2012; Financial budget report of the Company for year 2013; Total service emoluments to be paid to the directors of the Company for year 2013; Total service emoluments to be paid to the supervisors of the Company for year 2013; Provision of guarantees by the Company to secure bank loans for its subsidiaries; Provision of guarantees by Guangzhou Baiyunshan Bai Di Bio-technology Co., Ltd., a subsidiary of the Company, to secure bank loans for Guangzhou Nuo Cheng Bio-technology Co., Ltd.; Appointment of BDO CHINA SHU LUN PAN CPAS LLP as auditors of the Company for year 2013, and the proposal to the shareholders' meeting to authorize the Board to determine their remuneration; Appointment of BDO CHINA SHU LUN PAN CPAS LLP as auditors for the internal control of the Company for year 2013, and the proposal to the shareholders' meeting to authorize the Board to determine their remuneration; Change of company name and amendment to the relevant provisions of the Articles of Association of the Company; Change of business scope and amendment to the relevant provisions of the Articles of Association of the Company; Change of registered capital and amendment to the relevant provisions of the Articles of Association of the Company	Passed	Shanghai Securities News, Securities Times, China Securities News	27 June 2013

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

Session and number of meeting	Meeting date	Resolutions	Resolutions Situation	Newspapers for publication of the resolutions	Disclosure date
the extraordinary general meeting of 2013	30 December 2013	The resolution on adjustment to the financial budget report of the Company for year 2013; The resolution in relation to the Purchase and Sale Connected Transactions Agreement entered into between the Company, Guangzhou Pharmaceuticals Corporation and Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited; The resolution in relation to the distribution of special dividend; The resolution in relation to the amendments to the Rules of Procedures for the General Meeting of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited; The resolution in relation to the amendments to the Rules of Procedures for the Board Meeting of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited; Resolution in relation to amendments to the Article of Association of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited	Passed	Shanghai Securities News, Securities Times, China Securities News	31 December 2013

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. there are no financial, business, family or other material relationships among members of the Board.

3. BOARD OF DIRECTORS *(Continued)*

(1) Composition *(Continued)*

The present Board is the sixth session since the establishment of the Company, including Mr. Li Chuyuan (chairman), Mr. Chen Mao (vice chairman), Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong, Mr. Wu Changhai and Mr. Wang Wenchu as executive directors, and Mr. Wong Lung Tak Patrick, Mr. Qiu Hongzhong, Mr. Fang Shuting and Mr. Chu Xiaoping as independent non-executive directors. Each director has a term of office commencing from 28 January 2014 to the date of election of the new session of the Board.

The Board shall exercise the following powers:

- (1) convention of general meetings of shareholders, and report to the general meetings;
- (2) implementation of the resolutions of the general meeting;
- (3) formulation of the business plan and investment scheme of the Company;
- (4) formulation of the annual financial budget and financial accounting policy of the Company;
- (5) formulation of the profit distribution policy and loss recovery policy of the Company;
- (6) formulation of the policy of increase or reduction of registered capital and the policy of issue of corporate bonds of the Company;
- (7) drafting of the policies of material corporate acquisition, acquisition of shares of the Company, or the merger, separation, dissolution and liquidation of the Company;
- (8) making decision on the establishment of internal management system in the Company;
- (9) employment or dismissal of the general managers of the Company; based on the recommendations of the general manager, employ or dismiss the vice general managers, financial controller, other senior management personnel and secretary to the Board of the Company; and decide on their remuneration;
- (10) formulation of the basic management system of the Company;
- (11) formulation of the proposal on amendment of the Articles of Association of the Company;
- (12) making decision on external guarantee which involves an amount of 10% or more of the net assets as shown in the consolidated financial statements of the most recent fiscal year of the Company;

3. BOARD OF DIRECTORS *(Continued)***(1) Composition** *(Continued)*

- (13) 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;
- (14) management of disclosure of information of the Company;
- (15) proposing to the general meeting of shareholders on appointment or replacement of accounting firm responsible for auditing for the Company;
- (16) receiving the work report of the managers of the Company and checking the work of the managers;
- (17) other powers granted by these Articles of Association and the general meeting of shareholders.

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

The role of chairman and general manager of the Company are performed by separate persons with clear division of responsibilities. The Board is presided over by the chairman, who is in charge of the routines of the Board and the examination of the implementation of the resolutions passed at Board meetings. The general manager works under the leadership of the Board. The principal responsibilities of the general manager include management of the Company's daily operations and implementation of the resolutions passed at the Board. The chairman of the Board is Mr. Li Chuyuan and the general manager is Mr. Wu Changhai. Mr. Wu Changhai has resigned as the general manager on 28 January 2014. No one occupied the post of general manager of the Company currently. The daily production and operation management of the Company was supervised by the 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, pharmaceutical, law and investment planning.

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

3. BOARD OF DIRECTORS *(Continued)*

(1) Composition *(Continued)*

All the Directors can obtain from the secretary to the Board and the secretariat office of 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 is responsible for performing the following corporate governance duties:

- (a) to formulate and review the Company's policies and practices on corporate governance;
- (b) to review and monitor the training and continuous professional development of Directors and senior management;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- (e) to review the Company's compliance with the Listing Rules and disclosure of Corporate Governance Report.

In the Year, the Board has reviewed the Company's practices on corporate governance, including the newly formulated terms of reference for the Nomination and Remuneration Committee.

Corporate Governance

3. BOARD OF DIRECTORS (Continued)

(2) Board Meetings

In 2013, eleven Board meetings were convened (of which there were four physical meetings and seven meetings by way of written resolutions) at which the investment projects, connected transactions and financial matters of the Group were discussed. Effective discussions and prudent decisions were made at such meetings.

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

Directors	The attendance of directors at Board meetings						The attendance of directors at general meetings		Explanation on whether the relevant proposals of Company were accepted by the independent non-executive directors	
	Independent non-executive directors or not	No. of board meetings that should be attended	No. of attendance in person	Attendance by means of communication	Attendance by proxy	Absent from two meetings	Absence	No. of board meetings that should be attended		No. of attendance in person
Li Chuyuan	No	11	11	0	0	0	No	2	2	-
Yang Rongming	No	4	3	0	1	0	No	1	1	-
Cheng Ning	No	11	10	0	1	0	No	2	2	-
Wu Changhai	No	11	11	0	0	0	No	2	2	-
Liu Jingxiang	Yes	11	10	1	1	0	No	2	1	-
Li Shanmin	Yes	11	11	0	0	0	No	2	1	-
Zhang Yonghua	Yes	11	10	0	1	0	No	2	1	-
Wong Lung Tak Patrick	Yes	11	11	2	0	0	No	2	2	-
Qiu Hongzhong	Yes	11	11	1	0	0	No	2	2	-

Note: Communication attend deemed attend.

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 are familiar with the rights and obligations of directors and independent non-executive directors of listed companies. During the Reporting Period, the independent non-executive directors strictly complied with the provisions in the Company's Articles of Association, "rules of procedure of the Board", "independent director 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 gave full play to their experience and strengths. They had done a lot of work on improving the Company's corporate governance and material decision-making, and had expressed impartial and objective opinions on relevant matters, thus effectively safeguarding the interests of the majority shareholders. All of the 4 independent non-executive directors of the Company were members of the special committees formed under the Board.

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

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

The Board confirmed 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 Proper Preparation of the 2013 Annual Report by Listed Company" issued by SSE on 31 December 2013, 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 related to the preparation of the 2013 annual report and auditing works and relevant information. After completion of the preliminary auditing works by the Company's accountants, the independent non-executive directors communicated with the auditors of the Company regarding problems 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, quantity 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 fifth session of the Board comprised Mr. Wong Lung Tak Patrick (chairman of the Audit Committee), Mr. Liu Jinxiang, Mr. Li Shanmin, Mr. Zhang Yonghua and Mr. Qiu Hongzhong. All five of them were independent non-executive Directors and were qualified under the relevant requirements. The term of office of the members of the Audit Committee commenced from 28 June 2010 to the date of election of the new session of the Board. Major tasks accomplished by the Audit Committee in 2013 including:

- (1) held three meetings in 2013 to review the 2012 Annual Report and 2013 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;
- (2) reviewed the accounting policies adopted by the Group and the relevant issues regarding accounting practice;
- (3) advised the Board on the re-appointment of auditing firm for the year;
- (4) advised the Company on major events of the Company or reminding the management of relevant risks.

The term of office of the Audit Committee under the fifth session of the Board expired on 28 January 2014, the Audit Committee under the sixth session of the Board was established on the same date. Mr. Wong Lung Tak Patrick (chairman of the Committee), Mr. Qiu Hongzhong, Mr. Fang Shuting and Mr. Chu Xiaoping were appointed as members of the Audit Committee. Each of the above members is an independent non-executive Director and complied with the relevant requirements. The term of office is from the date of appointment to the date of election of members of the new session of the Board.

4. COMMITTEES OF THE BOARD *(Continued)*

(1) Audit Committee *(Continued)*

The works on the annual audit for 2013 and relevant jobs regarding the preparation of the annual report are as follows:

Following the issue of "Notice on Proper Preparation of the 2013 Annual Report by Listed Company" by SSE on 31 December 2013, all members of the Audit Committee studied the relevant requirements seriously. The Committee worked in accordance with the Audit Commission's annual report Guidelines in launching the auditing work for 2013 and preparatory work for the annual report of the Company, which included the following:

- (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 "Framework for the Preparation of 2013 Annual Report" and reviewed the audit plan submitted by the auditors.
- (2) The Audit Committee reviewed the draft of the financial reports prepared by the Company on 3 March 2014 and issued written recommendations thereon.
- (3) After completion of the preliminary auditing work the issuance of auditors' initial opinions by the auditor of the Company, the Audit Committee reviewed the financial reports again and issued written recommendations regarding the audit work. The Audit Committee believed the 2013 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 10 March 2014, the Audit Committee convened the first meeting in 2014 and considered and passed the 2013 Annual Report of the Company and the Company's 2013 Financial Report and the re-appointments of auditor for year 2013 and the auditor on internal control for 2013. At the same time, the Audit Committee summed up its evaluation on the audit work of the auditor and believes that the auditor has carried out the audit work for the Company with cautious, independent and objective standards, and managed to abide by their professional work ethics, followed closely the auditing regulations, fulfilled their auditing responsibilities and submitted the auditors' report in time, as well as having issued fair and unbiased management recommendations to the management of the Company, and completed the audit work with satisfactory performance.

4. COMMITTEES OF THE BOARD *(Continued)*

(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 fifth session of the Board comprised Mr. Yang Rongming (chairman of the committee, resigned on 8 August 2013), Mr. Li Chuyuan, as well as Mr. Liu Jinxiang and Mr. Li Shanmin, both independent non-executive Directors. The term of office of the aforementioned committee members commenced from the date of their appointments on 28 June 2010 to the date of election of the new session of the Board. During the Year, the Strategic Development and Investment Committee held four meetings. All of the committee members attended the meetings.

The term of office of the Strategic Development and Investment Committee under the fifth session of the Board term of office expired on 28 January 2014, the sixth session member of the Strategic Development and Investment Committee was established on the same date. Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Mr. Qiu Hongzhong and Mr. Chu Xiaoping were appointed as members of the Strategic Development and Investment Committee of the Company, with Mr. Li Chuyuan as the chairman. Each of the above members have a term of office from the date of appointment to the date of election of members of the new session of the Board.

(3) Nomination and Remuneration Committee

In February 2002, the Company established the Remuneration & Evaluation Committee, which was renamed as the 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 fifth session of the Board comprised Mr. Li Chuyuan and Mr. Wu Changhai, executive directors, and Mr. Li Shanmin (chairman of the Committee), Mr. Zhang Yonghua and Mr. Qiu Hongzhong, the independent non-executive directors. The term of office of the aforementioned committee members commenced from the date of their appointments on 28 June 2010 to the date of election of the new session of the Board.

4. COMMITTEES OF THE BOARD *(Continued)*

(3) Nomination and Remuneration Committee *(Continued)*

During the Reporting Period, the Nomination and Remuneration Committee held two meetings as follows:

- (1) On 28 February 2013, the Nomination and Remuneration Committee convened the first meeting in 2013 at which examinations and approvals were made to the disclosure of the emoluments of the directors, supervisors and senior management in the 2012 Annual Report. The Committee believed the disclosure of emoluments of the directors, supervisors and senior management in the 2012 Annual Report was reasonable and complied with the relevant assessment requirements of the Board, the resolutions of shareholders' meetings and their respective posts. At the same time, the amount of emoluments of the directors, supervisors and senior management for 2013 was considered and approved at the Board meeting and general shareholders' meeting.
- (2) On 6 December 2013, the Nomination and Remuneration Committee held its 2nd meeting in 2013. The meeting reviewed and approved the proposal to recommend candidates for the new session of the Board.

The term of office of the Nomination and Remuneration Committee under the fifth session of the Board term of office expired on 28 January 2014, the Nomination and Remuneration Committee under the sixth session of the Board was established on the same date. Mr. Chu Xiaoping (chairman of the committee), Mr. Ni Yidong, Mr. Wu Changhai, Mr. Wong Lung Tak Patrick and Mr. Fang Shuting were appointed as members of the Nomination and Remuneration Committee. Each of the above members have a term of office from the date of appointment to the date of election of members of the new session of the Board.

The Company has adopted the Code and has designated the Nomination and Remuneration Committee to make recommendations to the Board of Directors regarding the remunerations of executive directors and senior management.

The Company has formulated the Board Membership Diversity Policy (the "Policy"), which was approved in the Board meeting held on 26 September 2013 and was implemented. Pursuant to the Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, race, 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. The Company believes that the current composition of the Board of Directors is a balanced and diversified combination that suits the business development of the Company.

As at the end of the Reporting 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. COMMITTEES OF THE BOARD *(Continued)***(4) Budget Committee**

In October 2007, the Company established the Budget Committee as approved at the fourth Board 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 fifth session of the Board comprised Mr. Shi Shaobin and Mr. Wu Changhai, executive Directors, and Mr. Liu Jinxiang (chairman of the Committee), Mr. Li Shanmin and Mr. Wong Lung Tak Patrick, independent non-executive Directors. The term of office of the aforementioned committee members commenced from the date of their appointments on 28 June 2010 to the date of the election of the new session of the Board. On 28 February 2013, the Committee held its first meeting in 2013 at which business objectives, the budget proposal for 2013 and the working plan on the 2013 budget were approved. All of the committee members attended the meeting.

The term of office of the Budget Committee under the fifth session of the Board term of office expired on 28 January 2014, the Budget Committee was established under the sixth session of the Board on the same date. Mr. Qiu Hongzhong (chairman of the Committee), Ms. Cheng Ning, Mr. Wang Wenchu, Mr. Wong Lung Tak Patrick and Mr. Fang Shuting were appointed as members of the Budget Committee of the Company. Each of the above members have a term of office from the date of appointment to the date of the election of members of the new session of the Board.

- (5) The special committees established by the Board have not raised any important comments or suggestions 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.

(5) SUPERVISORY COMMITTEE (Continued)

2. During the reporting period, the Supervisory Committee held five meetings, all the supervisors attended the meetings, details of which are as follows:

Session and number of meeting	Meeting date	Resolutions	Newspapers for publication of the resolutions	Disclosure date
The 16 th meeting of the fifth session of the Supervisory Committee	28 February 2013	The full text and summary of the 2012 annual report of the Company; The report of the Supervisory Committee of the Company for the year 2012; Financial reports of the Company for the year 2012; Provision of guarantees by Guangzhou Baiyunshan Bai Di Bio-technology Co., Ltd, a subsidiary of the Company, to secure bank loans for Guangzhou Nuo Cheng Bio-technology Co., Ltd.; The written opinions of the Supervisory Committee upon reviewing the 2012 annual report of the Company; The opinions of the Supervisory Committee upon reviewing the 2012 self-evaluation report on the internal control of the Company.		1 March 2013
The 17 th meeting of the fifth session of the Supervisory Committee	26 April 2013	The 2013 First Quarterly Report of the Company; the resolution in relation to the Trademark License Agreement entered into between Guangzhou Wang Lao Ji Great Health Industry Company Limited, a wholly-owned subsidiary of the Company, and Guangzhou Pharmaceutical Holdings Limited; the written opinions of the Supervisory Committee upon reviewing the 2013 First Quarterly Report of the Company.	Shanghai Securities News, Securities Times,	27 April 2013
The 18 th meeting of the fifth session of the Supervisory Committee	30 August 2013	The 2013 interim report of the Company; the financial interim report of 2013 of the Company; the written opinions of the Supervisory Committee upon reviewing the 2013 interim report of the Company	China Securities News	31 August 2013
The 19 th meeting of the fifth session of the Supervisory Committee	30 October 2013	the 2013 third quarterly report of the Company; the resolution in relation to the Purchase and Sale Agreement in relation to Connected Transactions entered into between the Company, Guangzhou Pharmaceuticals Corporation and Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited; the written opinions of the Supervisory Committee upon reviewing the 2013 third quarterly report of the Company.		31 October 2013
The 20 th meeting of the fifth session of the Supervisory Committee	6 December 2013	the nomination of Mr. Xian Jiexiong and Ms. Wu Yan as candidates of supervisors representing shareholders of the new session of the Supervisory Committee of the Company and Mr. Wu Quan as a candidate supervisor representing employees of the new session of the Supervisory Committee of the Company		7 December 2013

(5) SUPERVISORY COMMITTEE *(Continued)*

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 2013, which reflected an objective, true and fair view of the financial status of the Company as at 31 December 2013 and the operations results of the Group for the year.
4. The Supervisory Committee expressed no dissent to the matters subject to their supervision during the Reporting Period.

(6) SEPARATION OF BUSINESS, HUMAN RESOURCES, ASSETS, ORGANIZATION AND FINANCIAL ARRANGEMENT FROM THE CONTROLLING SHAREHOLDER

1. Separation of business: the Company operates with its own autonomy and integrated business structure and is independent from its controlling shareholder.
2. Human resources: The Company maintains independence in the areas of staffing, personnel and payroll management. The senior executives 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 939 registered trademarks which are all within validity periods.
4. Organization: There was no combination of operation between the Company and its controlling shareholder. The Company has its own independent and comprehensive organizational structure. The Board, the Supervisory Committee and other departments operate independently and autonomously. Further, the Company has independent decision-making mechanisms and integrated production units. No supervisory or reporting relationships existed between the functional departments of the Company and the controlling shareholder of the Company.
5. Finance: The Company has established an independent finance department, an independent accounting system and an independent financial management policy. The Company has maintained separate bank accounts and paid tax independently.

Corporate Governance

(7) The establishment and implementation of such assessment mechanism and incentive mechanism for the senior management officers during the Reporting Period. The Company has established the performance assessment mechanism in respect of the senior management officers and thus can assess the performance of the senior management officers according to the formulated assessment scheme on an annual basis. At present, the Company is actively exploring relevant proposals regarding the incentive mechanisms, and will facilitate share incentive plans at the appropriate time so as to improve and complete the mechanism and to mobilize the enthusiasm and initiatives of the management officers at the medium and senior levels and business backbones to the greatest extent, and to arouse their creativity for purposes of generating greater return to the Company and its shareholders.

(8) 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 endeavoured to mutually promote the sustainable and sound development of the Company in economic activities.

2. Information 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 News and Securities Daily 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.

Internal Control Systems

1. THE GENERAL SCHEME OF ESTABLISHMENT OF THE INTERNAL CONTROL SYSTEMS

The Company has been committed to reinforcing the promotion of internal control and establishment of internal control system. According to the requirements of the “Basic Norms of Corporate Internal Control” and “Application Guideline for Corporate Internal Control” and taking into account the Company’s operational characteristics and management needs, the Company has established a series of management systems in areas such as capital, procurement, sales, production, research and development, assets, quality, fund raising, investment, budget, human resources, financial management, external guarantee and information disclosure. These systems cover various aspects of daily operation and management to ensure that there are relevant rules to follow, putting in place a more standardised internal management system.

According to the requirements of relevant laws and regulations such as “Accounting Law” and “Corporate Accounting Standards” and taking into account of the operation and management characteristics of the Company, the Company formulated uniform accounting policies and accounting system, and internal control systems covering the management of budget, capital, costs and expenses, assets, inventory taking, financial report preparation and accounting files. Accounting divisions at all levels of the Company strictly follow and implement the accounting system and fundamental management systems, and regulate accounting works and financial report preparation. Positions are rationally established in the accounting divisions at all levels of the Company, which have clearly defined job duties and management authorities, and the concurrent undertaking of incompatible positions is strictly prohibited in order to control financial risks.

2. DURING THE REPORTING PERIOD, THE INTERNAL CONTROL ACTIVITIES CARRIED OUT BY THE COMPANY INCLUDED:

- a. Pursuant to the requirements of the Notice on Preparation of the 2013 Annual Report in an orderly manner by Listing Companies issued by SSE, the Company performed a self-assessment on internal control and performance of fulfilling the social responsibility as at the date on 31 December 2012, and formulated the Self-assessment Report on internal control of the Board and Report of Social Responsibility in 2012, which were disclosed after approval by the Board meeting held on 28 February 2013.
- b. In the Year, details of internal control are as follows:
 - (1) In 2013, the Company and its subsidiaries made supplements and amendments to the internal control systems and the business processes according to the changes in the business environment taking into account the business features and management requirements of the Company. More than 50 new systems were supplemented and more than 170 systems were amended, and relevant business processes were updated simultaneously.
 - (2) Issues identified by the Company and its subsidiaries during assessment on internal control in 2012 had been corrected, and specific checks on the actual implementations of the corrections and its effects had been made to ensure the implementation of the rectification measures.

Internal Control Systems

2. DURING THE REPORTING PERIOD, THE INTERNAL CONTROL ACTIVITIES CARRIED OUT BY THE COMPANY INCLUDED: *(Continued)*

- (3) The Company conducted the assessment on semi-annual and annual internal controls in 2013 in accordance with the Basic Rules of Corporate Internal Control, Assessment Guideline for Corporate Internal Control and the management measures for the internal control of the Company, and conducted reviews and assessment for business and transactions included in the scope of assessment through tests and questionnaire, formulated rectification plans for the defects identified and implemented the rectifications.
 - (4) The Company's audit departments at all levels carried out independent audit covering internal control, economic responsibilities, economic benefits and efficiencies supervision, which were beneficial to ensure the implementation of the rules and regulations of the Company, lower the operating risks, enhance internal control, improved the allocation of resources and improve the operation and management.
 - c. The CSRC had approved the Company's implementation of the Major Assets Reorganization, and approved the Company's issue of A-shares to GPLH to acquire assets and increase A-shares to absorb and merge the shares of Baiyunshan. Relevant articles in the Articles of Association were amended according to the needs of the Major Assets Reorganization and the actual circumstances of the Company. Amendments to relevant articles in the Articles of Association were carried out after the approvals were granted at the annual general meeting of Shareholders in 2012 held on 26 June 2013. Please refer to the circular of the Company dated 10 May 2013 for details of such amendments.
 - d. According to the requirements as a result of HKEx's amendments to the Listing Rules of HKEx, the Company formulated the Guidelines for Disclosure of Inside Information and amended the Implementing Rules for the Nomination and Remuneration Committee of the Board of Guangdong Baiyunshan Pharmaceutical Holdings Company Limited. The systems mentioned above were adopted after consideration at the Board meeting held on 16 July 2013.
 - e. In order to further improve the level of corporate governance, the Company made amendments to relevant articles of the Rules of Procedures of the Board Meeting of Guangdong Baiyunshan Pharmaceutical Holdings Company Limited, the System of Independent Directors of Guangdong Baiyunshan Pharmaceutical Holdings Company Limited, the Rules of Procedures of the General Meeting of Shareholders of Guangdong Baiyunshan Pharmaceutical Holdings Company Limited and the Articles of Association. The amendments to the systems above were carried out after approvals were granted at the Board meeting held on 30 October 2013 and the extraordinary general meeting of shareholders for 2013 held on 30 December 2013, respectively. Please refer to the circular of the Company dated 11 November 2013 for details of the amendments.
 - f. In order to further improve the level of corporate governance, the Company made amendments to relevant articles of the Rules of Procedures of the Board Meeting of Guangdong Baiyunshan Pharmaceutical Holdings Company Limited and the Articles of Association. The amendments to the systems above were carried out upon approval at the Board meeting held on 6 December 2013 and the first extraordinary general meeting of shareholders for 2014 held on 28 January 2014, respectively. Please refer to the circular of the Company dated 11 December 2013 for details of the amendments.

Internal Control Systems

(III) STATEMENT ON RESPONSIBILITIES FOR INTERNAL CONTROL

1. Statement of the Board on responsibilities for internal control

The objectives for internal control of the Company are to reasonably ensure that the operation and management of the Company are legal and in compliance with the law and regulations, the assets are secured, financial reports and related information are true and complete, to enhance the operation efficiency and efficacy is enhanced, and promote the launching of development strategies of the Company. The Board is responsible for the establishment, improvement and effective implementation of the internal control system. The Board is of the view that the Group has established a relatively complete internal control system according to the requirements of the relevant documents such as the “Basic Rules on Corporate Internal Control” and after taking the actual operation into account. During the Reporting Period, the Group operated in accordance with the internal control system to avert operational risks and reasonably ensure the safety of assets and the truthfulness and completeness of the financial reports and related information. The internal control is subject to ongoing revision and improvement in line with the operation and development of the Group as well as the change of internal and external environment.

2. Self-assessment Report on the Company’s Internal Control and the related Recommendations from the Audit Firm

- (1) 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 Proper Preparation of the 2013 Annual Report by Listed Company” issued by SSE on 31 December 2013. In the Year, the headquarter of the Company and 14 of its subsidiaries were included in the scope of assessment of internal control. According to relevant provisions on exemption in the Solutions to Issues Concerning Supervision over Implementation of Internal Control by Listed Companies (First Issue of 2011, total 1 issue), Baiyunshan, its branches and subsidiaries and Guangzhou Pharmaceutical Baiyunshan Hong Kong Company which were merged in the Year were not included in the scope of assessment of internal control. The Group has established a reasonable internal control for the business and transactions, and internal control for the assessment was obtained effectively. According to the determination standard of defects of internal control of the Company, no material defects were found in the financial statements or in the internal control of the non-financial reports on the base day of the report concerning assessment of internal control.
- (2) The recommendation from the audit firm: BDO China Shu Lun Pan CPAs LLP considered that as at 31 December 2013, 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.
- (3) The Company has appointed BDO China Shu Lun Pan CPAs LLP to review and assess the Group’s internal control for the Year (full version is available on the website of the SSE).

Internal Control Systems

(IV) ESTABLISHMENT OF THE COMPANY'S ACCOUNTABILITY SYSTEM FOR MATERIAL MISTAKES IN ANNUAL REPORT

Pursuant to the 'Accountability System in relation to the Mistakes on Material Defaults in the Disclosure of Information in Annual Report', any person who has caused defaults in the Company's disclosures or caused material impact or losses on the Company as a result of that person's default in performing his duties or in breach of that system will, according to the investigation results, be held responsible based on the degree of the seriousness of the breaches.

1. During the Reporting Period, there were no material mistakes in the information disclosure of the annual report.
2. There were no material provision of additional information as a result of omission during the Reporting Period.
3. During the Reporting Period, there was no correction of results forecast.

Independent Auditor's Report



立信会计师事务所(特殊普通合伙)
BDO CHINA SHU LUN PAN CERTIFIED PUBLIC ACCOUNTANTS LLP

Our ref.: XinKuaiShiYueBaoZi[2014]No.410090

Date: 17 March 2014

To Shareholders of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.:

We have audited the attached financial statements of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (hereinafter referred to as "the Company"), which comprise the balance sheet and consolidated balance sheet as at December 31, 2013, the income statement and consolidated income statement for the year then ended, the cash flow statement and consolidated cash flow statement for the year then ended, the statement of changes in equity and consolidated statement of changes in equity as well as the notes to the financial statements.

I. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Accounting Standards for Business Enterprises and related accounting standards for business enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

II. AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conduct our audit in accordance with China Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Independent Auditor's Report



立信会计师事务所(特殊普通合伙)
BDO CHINA SHU LUN PAN CERTIFIED PUBLIC ACCOUNTANTS LLP

Our ref.: XinKuaiShiYueBaoZi[2014]No.410090

Date: 17 March 2014

III. OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2013, and the results of its operation and its cash flows for the year then ended in accordance with requirements of the Accounting Standards for Business Enterprises.

BDO CHINA SHU LUN PAN
Certified Public Accountants LLP

Shanghai, China

Chinese Certified Public Accountant
Zhang Ning

Chinese Certified Public Accountant
Zhang Xi

Consolidated Balance Sheet

As at 31 December 2013

(All amounts in renminbi yuan unless otherwise stated)

Assets	Note	31 December 2013	31 December 2012 (restated)
Current assets			
Cash at bank and on hand	5(1)	1,935,681,740.06	1,135,435,400.94
Financial assets held for trading	5(2)	3,362,667.20	2,875,920.00
Notes receivable	5(3)	1,326,353,755.90	844,429,241.87
Accounts receivable	5(5)	973,184,749.11	734,068,939.45
Advances to suppliers	5(7)	613,882,321.78	446,667,535.38
Interest receivable		–	–
Dividends receivable	5(4)	–	–
Other receivables	5(6)	181,145,718.26	120,692,089.05
Inventories	5(8)	2,245,829,748.05	2,065,898,134.19
Current portion of non-current assets		–	–
Other current assets	5(9)	19,347,581.15	1,598,620.43
Total current assets		7,298,788,281.51	5,351,665,881.31
Non-current assets			
Available-for-sale financial assets	5(10)	17,608,107.28	20,401,660.98
Held-to-maturity investments		–	–
Long-term receivables		–	–
Long-term equity investments	5(12)	1,972,490,292.04	1,716,546,921.55
Investment properties	5(13)	246,309,245.37	136,194,437.45
Fixed assets	5(14)	1,731,881,945.85	1,591,996,126.73
Construction in progress	5(15)	335,422,694.18	140,077,689.32
Construction materials		–	–
Fixed assets pending for disposal		–	–
Intangible assets	5(16)	368,856,694.63	305,600,782.57
Development costs	5(17)	3,716,517.68	4,112,051.69
Goodwill		–	–
Long-term prepaid expenses	5(18)	7,099,055.93	7,922,664.10
Deferred tax assets	5(19)	266,950,316.92	119,689,836.85
Other non-current assets		–	–
Total non-current assets		4,950,334,869.88	4,042,542,171.24
TOTAL ASSETS		12,249,123,151.39	9,394,208,052.55

Consolidated Balance Sheet

As at 31 December 2013

(All amounts in renminbi yuan unless otherwise stated)

Assets	Note	31 December 2013	31 December 2012 (restated)
Current liabilities			
Short-term borrowings	5(21)	509,651,500.77	681,217,807.78
Financial liabilities held for trading		–	–
Notes payable	5(22)	130,773,655.25	75,970,070.30
Accounts payable	5(23)	1,470,360,537.61	1,080,597,534.53
Advances from customers	5(24)	875,579,547.32	608,781,707.72
Employee benefits payable	5(25)	334,427,927.83	192,466,940.29
Taxes payable	5(26)	403,383,688.38	154,532,046.97
Interest payable	5(27)	675,414.98	1,069,051.16
Dividends payable	5(28)	113,513,301.13	25,443,653.91
Other payables	5(29)	1,211,712,507.04	654,271,815.63
Current portion of non-current liabilities		–	–
Other current liabilities		–	–
Total current liabilities		5,050,078,080.31	3,474,350,628.29
Non-current liabilities			
Long-term borrowings	5(30)	8,627,419.10	–
Debentures payable		–	–
Long-term payables	5(31)	22,215,752.40	24,413,469.62
Payables for specific projects	5(32)	19,058,160.00	–
Provisions	5(33)	500,191.19	500,191.19
Deferred tax liabilities	5(19)	3,475,327.44	5,609,484.82
Other non-current liabilities	5(34)	122,931,526.01	133,370,723.47
Total non-current liabilities		176,808,376.14	163,893,869.10
Total liabilities		5,226,886,456.45	3,638,244,497.39

Consolidated Balance Sheet

As at 31 December 2013

(All amounts in renminbi yuan unless otherwise stated)

Assets	Note	31 December 2013	31 December 2012 (restated)
Shareholders' equity			
Share capital	5(35)	1,291,340,650.00	810,900,000.00
Capital surplus	5(36)	2,493,788,078.69	1,702,773,872.77
Less: Treasury share		—	—
Surplus reserve	5(37)	723,819,753.76	787,731,574.82
Undistributed profits	5(38)	2,330,514,583.35	2,271,551,430.93
Difference on translation of foreign currency financial statements		(7,695,173.92)	(6,604,552.46)
Total equity attributable to shareholders of the Company		6,831,767,891.88	5,566,352,326.06
Minority interest	5(39)	190,468,803.06	189,611,229.10
Total shareholders' equity		7,022,236,694.94	5,755,963,555.16
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		12,249,123,151.39	9,394,208,052.55

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 2013

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	The year ended 31 December 2013	The year ended 31 December 2012 (restated)
1. Revenue	5(40)	17,608,193,312.31	12,062,641,788.39
Less: Cost of sales	5(40)	11,806,294,800.38	8,231,937,806.17
Taxes and surcharges	5(41)	148,250,638.48	108,192,297.58
Selling and distribution expenses	5(42)	3,485,311,357.52	1,971,897,959.52
General and administrative expenses	5(43)	1,227,255,352.75	1,086,927,622.51
Financial expenses	5(44)	28,305,296.93	49,503,646.95
Asset impairment losses	5(45)	12,914,064.93	8,153,034.67
Add: Profit arising from the changes in fair value	5(46)	486,747.20	(251,772.50)
Investment income	5(47)	219,725,064.77	249,538,034.02
Including: Share of profit of associates and jointly controlled entities		208,182,816.04	249,407,725.45
2. Operating profit		1,120,073,613.29	855,315,682.51
Add: Non-operating income	5(48)	125,847,060.45	45,798,507.80
Less: Non-operating expenses	5(49)	16,730,234.49	20,051,622.09
Including: Losses on disposal of non-current assets		3,776,158.49	1,370,583.51
3. Total profit		1,229,190,439.25	881,062,568.22
Less: Income tax expenses	5(50)	222,243,432.31	114,365,354.31
4. Net profit		1,006,947,006.94	766,697,213.91
Including: Net profit made by the entities being absorbed before the combination		242,018,569.90	228,260,377.05
– Attributable to shareholders of the Company		980,045,077.10	729,039,715.80
– Minority interest		26,901,929.84	37,657,498.11
5. Earnings per share			
– Basic earnings per share	5(51)(a)	0.768	0.578
– Diluted earnings per share	5(51)(b)	0.768	0.578

Consolidated Income Statement

For the year ended 31 December 2013

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	The year ended 31 December 2013	The year ended 31 December 2012 (restated)
6. Other comprehensive income	5(52)	(1,517,010.51)	403,652.73
– Items will be classified into profit or loss when satisfied with certain conditions at following accounting period		(2,777,554.51)	403,652.73
– Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period		1,260,544.00	–
7. Total comprehensive income		1,005,429,996.43	767,100,866.64
– Attributable to shareholders of the Company		978,516,199.79	729,440,139.95
– Minority interest		26,913,796.64	37,660,726.69

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 2013

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	The year ended 31 December 2013	The year ended 31 December 2012 (restated)
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		16,271,441,218.47	10,139,462,058.77
Refund of taxes and surcharges		52,794,028.43	31,258,742.57
Cash received relating to other operating activities	5(53)(a)	299,465,582.00	261,698,855.18
Sub-total of cash inflows		16,623,700,828.90	10,432,419,656.52
Cash paid for goods and services		9,357,283,231.90	5,366,169,585.73
Cash paid to and on behalf of employees		2,414,203,686.86	1,795,820,992.85
Payments of taxes and surcharges		1,438,360,526.89	1,017,427,750.26
Cash paid relating to other operating activities	5(53)(b)	2,074,713,244.43	1,253,773,903.08
Sub-total of cash outflows		15,284,560,690.08	9,433,189,231.92
Net cash flows from operating activities	5(54)(a)	1,339,140,138.82	999,230,424.60
2. Cash flows from investing activities			
Cash received from disposal of investments		-	-
Net cash received from disposal of subsidiaries		-	-
Cash received from returns on investments		29,374,916.98	78,518,033.48
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		4,003,512.62	2,579,369.65
Cash received relating to other investing activities	5(53)(c)	257,916.74	31,271,635.97
Sub-total of cash inflows		33,636,346.34	112,369,039.10
Cash paid to acquire fixed assets, intangible assets and other long-term assets		350,345,602.25	170,002,387.75
Cash paid to acquire investments		4,050,000.00	2,620,000.00
Net cash paid to acquire subsidiaries		-	-
Cash paid relating to other investing activities	5(53)(d)	2,940,358.55	5,840,450.25
Sub-total of cash outflows		357,335,960.80	178,462,838.00
Net cash flows from investing activities		(323,699,614.46)	(66,093,798.90)

Consolidated Cash Flow Statement

For the year ended 31 December 2013

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	The year ended 31 December 2013	The year ended 31 December 2012 (restated)
3. Cash flows from financing activities			
Cash received from capital contributions		7,151,685.03	9,025,000.00
Including: Cash received from capital contributions by minority shareholders of subsidiaries		5,800,000.00	9,025,000.00
Cash received from borrowings		587,332,488.38	959,437,807.78
Cash received relating to other financing activities		—	—
Sub-total of cash inflows		594,484,173.41	968,462,807.78
Cash repayments of borrowings		750,271,376.29	1,228,948,849.42
Cash payments for interest expenses and distribution of dividends or profits		55,901,780.51	185,941,320.78
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		19,102,518.85	22,032,423.59
Cash payments relating to other financing activities		—	—
Sub-total of cash outflows		806,173,156.80	1,414,890,170.20
Net cash flows from financing activities		(211,688,983.39)	(446,427,362.42)
4. Effect of foreign exchange rate changes on cash and cash equivalents		854,221.14	1,347,828.78
5. Net increase/(decrease) in cash and cash equivalents			
	5(54)(a)	804,605,762.11	488,057,092.06
Add: Cash and cash equivalents at beginning of year	5(54)(b)	1,114,346,524.75	626,289,432.69
6. Cash and cash equivalent at end of year	5(54)(b)	1,918,952,286.86	1,114,346,524.75

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 2013

(All amounts in Renminbi yuan unless otherwise stated)

	Attributable to shareholders of the Company									
	Less: Treasury share			Less: Treasury share			Minority Shareholders' equity			Total shareholders' equity
	Share capital	Capital surplus	share	Share capital	Capital surplus	share	Share capital	Capital surplus	equity	Less: Treasury share
1. Balance at 31 December 2012										
(restated)	810,900,000.00	1,702,773,872.77	-	787,731,574.82	-	2,271,551,430.93	(6,604,552.46)	189,611,229.10	5,755,963,555.16	
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2013	810,900,000.00	1,702,773,872.77	-	787,731,574.82	-	2,271,551,430.93	(6,604,552.46)	189,611,229.10	5,755,963,555.16	
3. Movements for the year ended 2013	480,440,650.00	791,014,205.92	-	(63,911,821.06)	-	58,963,152.42	(1,090,621.46)	857,573.96	1,266,273,139.78	
(1) Net profit	-	-	-	-	-	980,045,077.10	-	26,901,929.84	1,006,947,006.94	
(2) Other comprehensive income	-	(438,255.85)	-	-	-	-	(1,090,621.46)	11,866.80	(1,517,010.51)	
Subtotal of items (1) and (2)	-	(438,255.85)	-	-	-	980,045,077.10	(1,090,621.46)	26,913,796.64	1,005,429,996.43	
(3) Capital contribution and withdrawal by shareholders	480,440,650.00	795,936,263.43	-	(118,558,621.34)	-	(793,598,292.09)	-	5,800,000.00	370,020,000.00	
Capital contribution by the shareholders	480,440,650.00	795,936,263.43	-	(118,558,621.34)	-	(793,598,292.09)	-	5,800,000.00	370,020,000.00	
Share-based payment charged to equity	-	-	-	-	-	-	-	-	-	
Others	-	-	-	-	-	-	-	-	-	
(4) Profit distribution	-	-	-	55,083,461.99	-	(132,563,900.99)	-	(31,156,411.76)	(108,636,850.76)	
Appropriation to surplus reserves	-	-	-	55,083,461.99	-	(55,083,461.99)	-	-	-	
Appropriation to general risk provision	-	-	-	-	-	-	-	-	-	
Profit distribution to shareholders	-	-	-	-	-	(77,480,439.00)	-	(31,156,411.76)	(108,636,850.76)	
Others	-	-	-	-	-	-	-	-	-	
(5) Transfer within shareholders' equity	-	(4,643,606.69)	-	(436,661.71)	-	5,080,268.40	-	-	-	
Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-	
Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-	
Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-	
Others	-	(4,643,606.69)	-	(436,661.71)	-	5,080,268.40	-	-	-	
(6) Others	-	159,805.03	-	-	-	-	-	(699,810.92)	(540,005.89)	
4. Balance at 31 December 2013	1,291,340,650.00	2,493,788,078.69	-	723,819,753.76	-	2,330,514,583.35	(7,695,173.92)	190,468,803.06	7,022,236,694.94	

Consolidated Statement of Changes in Equity

For the year ended 2013

(All amounts in Renminbi yuan unless otherwise stated)

	Attributable to shareholders of the Company							Minority Shareholders' equity	Total shareholders' equity		
	2012			2011			Share capital			Capital surplus	Less: Treasury share
	Share capital	Capital surplus	Less: Treasury share	Share capital	Capital surplus	Less: Treasury share					
1. Balance at 31 December 2011	810,900,000.00	1,148,016,718.97	-	602,895,675.46	-	1,219,839,567.46	-	113,520,055.68	3,895,172,017.57		
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-		
Corrections of prior year errors	-	-	-	-	-	-	-	-	-		
Business combination involving entities under common control	-	554,522,598.83	-	125,952,027.55	-	488,443,972.37	(6,610,910.76)	59,272,663.32	1,221,580,351.31		
2. Balance at 1 January 2012	810,900,000.00	1,702,539,317.80	-	728,847,703.01	-	1,708,283,539.83	(6,610,910.76)	172,792,719.00	5,116,752,368.88		
3. Movements for the year ended 2012											
(1) Net profit	-	234,554.97	-	58,883,871.81	-	563,267,891.10	6,358.30	16,818,510.10	639,211,186.28		
(2) Other comprehensive income	-	-	-	-	-	729,039,715.80	-	37,657,498.11	766,697,213.91		
Subtotal of items (1) and (2)	-	394,065.85	-	-	-	729,039,715.80	6,358.30	3,228.58	403,652.73		
(3) Capital contribution and withdrawal by shareholders	-	(271,792.21)	-	-	-	-	-	9,296,792.21	9,025,000.00		
Capital contribution by the shareholders	-	-	-	-	-	-	-	9,025,000.00	9,025,000.00		
Share-based payment charged to equity	-	-	-	-	-	-	-	-	-		
Others	-	(271,792.21)	-	-	-	-	-	271,792.21	-		
(4) Profit distribution	-	-	-	58,883,871.81	-	(165,771,824.70)	-	(30,176,435.91)	(137,064,388.80)		
Appropriation to surplus reserves	-	-	-	58,883,871.81	-	(58,883,871.81)	-	-	-		
Appropriation to general risk provision	-	-	-	-	-	-	-	-	-		
Profit distribution to shareholders	-	-	-	-	-	(106,887,952.89)	-	(30,176,435.91)	(137,064,388.80)		
Others	-	-	-	-	-	-	-	-	-		
(5) 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	-	-	-	-	-	-	-	-	-		
(6) Others	-	112,281.33	-	-	-	-	-	37,427.11	149,708.44		
4. Balance at 31 December 2012 (restated)	810,900,000.00	1,702,773,872.77	-	787,731,574.82	-	2,271,551,430.93	(6,604,552.46)	189,611,229.10	5,755,963,555.16		

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 2013

(All amounts in Renminbi yuan unless otherwise stated)

Assets	Note	31 December 2013	31 December 2012
Current assets			
Cash at bank and on hand		462,902,261.84	141,232,654.49
Financial assets held for trading		3,362,667.20	2,875,920.00
Notes receivable		491,846,637.36	–
Accounts receivable	15(1)	134,987,242.57	–
Advances to suppliers		35,096,096.56	–
Interest receivable		–	–
Dividends receivable		213,565,667.45	102,098,616.47
Other receivables	15(2)	943,517,098.26	806,021,195.77
Inventories		372,106,673.49	553,530.28
Current portion of non-current assets		–	–
Other current assets		1,666,244.75	84,871.03
Total current assets		2,659,050,589.48	1,052,866,788.04
Non-current assets			
Available-for-sale financial assets		16,093,000.00	18,452,500.00
Held-to-maturity investments		–	–
Long-term receivables		–	–
Long-term equity investments	15(3)	3,382,596,132.60	2,642,423,792.52
Investment properties		228,088,909.74	34,778,855.83
Fixed assets		458,451,623.08	13,990,379.68
Construction in progress		61,761,556.59	–
Construction materials		–	–
Fixed assets pending for disposal		–	–
Intangible assets		266,747,080.35	–
Development costs		2,200,000.00	–
Goodwill		–	–
Long-term prepaid expenses		448,929.68	–
Deferred tax assets		36,608,854.15	6,703,617.32
Other non-current assets		–	–
Total non-current assets		4,452,996,086.19	2,716,349,145.35
TOTAL ASSETS		7,112,046,675.67	3,769,215,933.39

Balance Sheet

As at 31 December 2013

(All amounts in Renminbi yuan unless otherwise stated)

Assets	Note	31 December 2013	31 December 2012
Current liabilities			
Short-term borrowings		250,000,000.00	–
Financial liabilities held for trading		–	–
Notes payable		–	–
Accounts payable		210,276,551.36	853,283.35
Advances from customers		73,149,096.14	32,584.69
Employee benefits payable		60,386,689.87	5,877,718.22
Taxes payable		59,481,082.89	7,456,266.36
Interest payable		675,414.98	–
Dividends payable		77,540,856.01	588.16
Other payables		475,829,440.43	219,985,169.21
Current portion of non-current liabilities		–	–
Other current liabilities		–	–
Total current liabilities		1,207,339,131.68	234,205,609.99
Non-current liabilities			
Long-term borrowings		8,627,419.10	–
Debentures payable		–	–
Long-term payables		7,802,224.39	–
Payables for specific projects		–	–
Provisions		500,191.19	–
Deferred tax liabilities		3,301,646.15	3,361,888.01
Other non-current liabilities		37,507,212.17	–
Total non-current liabilities		57,738,693.00	3,361,888.01
Total liabilities		1,265,077,824.68	237,567,498.00

Balance Sheet

As at 31 December 2013

(All amounts in Renminbi yuan unless otherwise stated)

Assets	Note	31 December 2013	31 December 2012
Shareholders' equity			
Share capital		1,291,340,650.00	810,900,000.00
Capital surplus		2,456,941,082.91	1,095,415,498.20
Less: Treasury share		–	–
Surplus reserve		351,211,319.16	296,127,857.17
Undistributed profits		1,747,475,798.92	1,329,205,080.02
Difference on translation of foreign currency financial statements		–	–
Total shareholders' equity		5,846,968,850.99	3,531,648,435.39
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		7,112,046,675.67	3,769,215,933.39

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

Legal
representative: **Li Chuyuan**

Legal
representative: **Wu Changhai**

Person in charge of
accounting department: **Yao Zhizhi**

Income Statement

For the year ended 2013

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	The year ended 2013	The year ended 2012
1. Revenue	15(4)	1,691,217,530.23	70,671,111.00
Less: Cost of sales	15 (4)	1,022,989,924.63	4,049,254.37
Taxes and surcharges		19,029,456.08	4,651,091.13
Selling and distribution expenses		179,575,086.16	218,887.43
General and administrative expenses		236,171,957.63	44,517,403.18
Financial expenses		19,032,419.65	4,659,582.92
Asset impairment losses		506,256.18	(580,072.85)
Add: Profit arising from changes in fair value		486,747.20	(251,772.50)
Investment income	15 (5)	413,437,475.35	259,671,885.87
Including: Share of profit of associates and jointly controlled entities	15 (5)(c)	140,571,475.14	152,183,110.63
2. Operating profit		627,836,652.45	272,575,078.19
Add: Non-operating income		6,363,731.17	1,300,485.83
Less: Non-operating expenses		2,144,771.94	4,418,159.62
Including: Losses on disposal of non-current assets		753,924.80	15,577.32
3. Total profit		632,055,611.68	269,457,404.40
Less: Income tax expenses		81,220,991.79	5,790,948.97
4. Net Profit		550,834,619.89	263,666,455.43
5. Other comprehensive income		(1,296,968.03)	777,590.56
– Items will be classified into profit or loss when satisfied with certain conditions at following accounting period		(1,296,968.03)	777,590.56
– Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period		–	–
6. Total comprehensive income		549,537,651.86	264,444,045.99

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 2013

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	The year ended 2013	The year ended 2012
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		1,957,266,099.53	7,026,444.68
Refund of taxes and surcharges		–	–
Cash received relating to other operating activities		315,478,444.29	40,502,272.65
Sub-total of cash inflows		2,272,744,543.82	47,528,717.33
Cash paid for goods and services		1,530,056,761.01	3,018,702.76
Cash paid to and on behalf of employees		334,865,661.47	14,253,973.23
Payments of taxes and surcharges		163,462,947.12	7,618,783.51
Cash paid relating to other operating activities		136,638,818.07	23,154,648.42
Sub-total of cash outflows		2,165,024,187.67	48,046,107.92
Net cash flows from operating activities	15(6)	107,720,356.15	(517,390.59)
2. Cash flows from investing activities			
Cash received from disposal of investments		–	–
Net cash received from disposal of subsidiaries		–	–
Cash received from returns on investments		162,998,723.12	162,155,773.74
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		3,742,258.11	1,040.00
Cash received relating to other investing activities		714,516,256.41	424,513,849.68
Sub-total of cash inflows		881,257,237.64	586,670,663.42
Cash paid to acquire fixed assets, intangible assets and other long-term assets		61,710,117.51	653,288.00
Cash paid to acquire investments		6,000,000.00	93,900,000.00
Net cash paid to acquire subsidiaries		–	–
Cash paid relating to other investing activities		445,801,896.91	470,432,299.04
Sub-total of cash outflows		513,512,014.42	564,985,587.04
Net cash flows from investing activities		367,745,223.22	21,685,076.38

Cash Flow Statement

For the year ended 2013

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	The year ended 2013	The year ended 2012
3. Cash flows from financing activities			
Cash received from capital contributions		1,351,685.03	–
Including: Cash received from capital contributions by minority shareholders of subsidiaries		–	–
Cash received from borrowings		8,033,905.10	–
Cash received relating to other financing activities		105,373,400.60	200,000,000.00
Sub-total of cash inflows		114,758,990.73	200,000,000.00
Cash repayments of borrowings		242,000,000.00	–
Cash payments for interest expenses and distribution of dividends or profits		12,519,467.78	81,472,780.30
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		–	–
Cash payments relating to other financing activities		14,014,288.88	106,153,388.84
Sub-total of cash outflows		268,533,756.66	187,626,169.14
Net cash flows from financing activities		(153,774,765.93)	12,373,830.86
4. Effect of foreign exchange rate changes on cash and cash equivalents		(21,206.09)	121.57
5. Net increase/(decrease) in cash and cash equivalents		321,669,607.35	33,541,638.22
Add: Cash and cash equivalents at beginning of year	15(6)	141,232,654.49	107,691,016.27
6. Cash and cash equivalent at end of period		462,902,261.84	141,232,654.49

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 2013

(All amounts in Renminbi yuan unless otherwise stated)

	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	Undistributed profits	Total shareholders' equity
1. Balance at 31 December 2012	810,900,000.00	1,095,415,498.20	-	296,127,857.17	1,329,205,080.02	3,531,648,435.39
Add: Changes in accounting period	-	-	-	-	-	-
Corrections of prior period errors	-	-	-	-	-	-
2. Balance at 1 January 2013	810,900,000.00	1,095,415,498.20	-	296,127,857.17	1,329,205,080.02	3,531,648,435.39
3. Movements for the year ended 2013	480,440,650.00	1,361,525,584.71	-	55,083,461.99	418,270,718.90	2,315,320,415.60
(1) Net profit	-	-	-	-	550,834,619.89	550,834,619.89
(2) Other comprehensive income	-	(1,296,968.03)	-	-	-	(1,296,968.03)
Subtotal of items (1) and (2)	-	(1,296,968.03)	-	-	550,834,619.89	549,537,651.86
(3) Capital contribution and withdrawal by shareholders	480,440,650.00	1,362,822,552.74	-	-	-	1,843,263,202.74
Capital contribution by the shareholders	480,440,650.00	1,362,822,552.74	-	-	-	1,843,263,202.74
Share-based payment charged to equity	-	-	-	-	-	-
Others	-	-	-	-	-	-
(4) Profit distribution	-	-	-	55,083,461.99	(132,563,900.99)	(77,480,439.00)
Appropriation to surplus reserves	-	-	-	55,083,461.99	(55,083,461.99)	-
Appropriation to general risk provision	-	-	-	-	-	-
Profit distribution to shareholders	-	-	-	-	(77,480,439.00)	(77,480,439.00)
Others	-	-	-	-	-	-
(5) 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	-	-	-	-	-	-
(6) Others	-	-	-	-	-	-
4. Balance at 31 December 2013	1,291,340,650.00	2,456,941,082.91	-	351,211,319.16	1,747,475,798.92	5,846,968,850.99

Statement of Changes in Equity

For the year ended 2013

(All amounts in Renminbi yuan unless otherwise stated)

	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	Undistributed profits	Total shareholders' equity
1. Balance at 31 December 2011	810,900,000.00	1,094,637,907.64	-	269,761,211.63	1,172,995,270.13	3,348,294,389.40
Add: Changes in accounting policies	-	-	-	-	-	-
Corrections of prior period errors	-	-	-	-	-	-
2. Balance at 1 January 2012	810,900,000.00	1,094,637,907.64	-	269,761,211.63	1,172,995,270.13	3,348,294,389.40
3. Movements for the year ended 2012	-	777,590.56	-	26,366,645.54	156,209,809.89	183,354,045.99
(1) Net profit	-	-	-	-	263,666,455.43	263,666,455.43
(2) Other comprehensive income	-	777,590.56	-	-	-	777,590.56
Subtotal of items (1) and (2)	-	777,590.56	-	-	263,666,455.43	264,444,045.99
(3) Capital contribution and withdrawal by shareholders	-	-	-	-	-	-
Capital contribution by the shareholders	-	-	-	-	-	-
Share-based payment charged to equity	-	-	-	-	-	-
Others	-	-	-	-	-	-
(4) Profit distribution	-	-	-	26,366,645.54	(107,456,645.54)	(81,090,000.00)
Appropriation to surplus reserves	-	-	-	26,366,645.54	(26,366,645.54)	-
Appropriation to general risk provision	-	-	-	-	-	-
Profit distribution to shareholders	-	-	-	-	(81,090,000.00)	(81,090,000.00)
Others	-	-	-	-	-	-
(5) 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	-	-	-	-	-	-
(6) Others	-	-	-	-	-	-
4. Balance at 31 December 2012	810,900,000.00	1,095,415,498.20	-	296,127,857.17	1,329,205,080.02	3,531,648,435.39

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 Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

1 GENERAL INFORMATION

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 210,990,000 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 GYBYS, and stock code is 600332.

The Company executed and completed the material assets reorganization transaction, which include: (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, Guangyao Baiyunshan (Hong Kong) Co., Ltd. (“Guangyao Baiyunshan (Hong Kong)”) (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 parent company is GPHL, and the ultimate holding company is Guangzhou State-owned Assets Supervision and Administration Commission.

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.

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”), Qi Kai Ling Tonic (“清開靈口服液”), Xiao Chai Hu Chong Ji (“小柴胡冲”) etc. The major western medicine products of the Group include cefathiamidine, amoxicillin and ceftriaxone sodium. The major pre-packaged food of the Group are Wang Lao Ji Herbal Tea (“王老吉凉茶”), etc.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

1 GENERAL INFORMATION *(Continued)*

The Group's current structure mainly include 10 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 and 4 pharmaceutical trading companies.

These financial statements were approved for issue by the Board of Directors on 17 March 2014.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Basis of preparation

The Ministry of Finance were prepared in accordance with the Basic Standard and 38 specific standards of the Accounting Standards for Business Enterprises issued by the Ministry of Finance on 15 February 2006, and the Application Guidance for Accounting Standard for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (hereafter referred to as "the Accounting Standards for Business Enterprises" or "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 (revised 2010) issued by the China Securities Regulatory Commission.

The Ministry of Finance issued 5 new and revised standards in January and February 2014, which include <Accounting Standards for Business Enterprises No.9 – Employee Compensation> (revised), <Accounting Standards for Business Enterprises No.30 – The Presentation of Financial Statements> (revised), <Accounting Standards for Business Enterprises No.33 – Consolidated Financial Statements> (revised), <Accounting Standards for Business Enterprises No.39 – Fair Value Measurement>, <Accounting Standards for Business Enterprises No.40 – The Joint Venture Arrangements>, such standards are required to perform from 1 July 2014 and the listed overseas enterprises are encouraged to perform these standards in advance. As a company listed in Hong Kong and domestic, the Group have performed above standards as at the year 2013.

(2) Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company for the year ended 31 December 2013 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position as of 31 December 2013 and the operating results, cash flows and other information for the year then ended of the Group and the Company.

(3) Accounting period

Accounting year starts on 1 January and ends on 31 December. The financial statements cover the period from 1 January 2013 to 31 December 2013.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(4) Recording currency

The recording currency is Renminbi (“RMB”).

Guangyao Baiyunshan (Hong Kong), a subsidiary of the Company, an overseas operating company, which uses Hong Kong Dollar as its recording currency.

(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 recognised 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 recognised 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 recognised in profit or loss for the current year.

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 recognised amount of equity securities or debt securities.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(6) Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases. For a subsidiary that is acquired in a business combination involving enterprises under common control, it is included in the Consolidated financial statements from the date when it, together with the Company under common control of the ultimate controlling party. The portion of the net profits realised before the combination date is presented separately in the consolidated income statement.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Company and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Company. For subsidiaries acquired from a business combination involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant inter-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not attributable to Company are recognised as minority interests and presented separately in the consolidated financial statements within equity and net profits respectively.

(7) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with bank and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(8) Foreign currency translation

(a) Foreign currency transactions

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 recognised 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 capitalised 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 recognised in profit or loss or capital surplus in the current year.

(b) Translation of foreign currency financial statements

The assets and liabilities items among the balance sheet of foreign operation shall be translated using the spot exchange rate at the balance sheet date. Other items other than the undistributed profits among shareholder's equity shall be translated using the spot exchange rate at the transaction date. The income and expenses among the income statement shall be translated using the average on translation of foreign currency financial statements exchange rate during the reporting period. Differences are individually listed in shareholder's equity. The cash flow items of overseas operation shall be translated using average exchange rate during the reporting period. The effect of exchange rate changes on cash is presented individually in the cash flow statement.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(9) Financial Instruments

(a) Financial assets

(i) Classification

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through 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 at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for the purpose of selling in the short term. They are presented as financial assets held for trading on the balance sheet.

2) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

3) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated to be available for sale upon initial recognition and financial assets not classified in any other categories. Available-for-sale financial assets are included in other current assets on the balance sheet if management intends to dispose of them within 12 months of the balance sheet date.

4) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that management has the positive intention and ability to hold to maturity. Held-to-maturity investments with maturities over 12 months when the investments were made but are due within 12 months (including 12 months) at the balance sheet date are included in the current portion of non-current assets; held-to maturity investments with maturities no more than 12 months (including 12 months) when the investments were made are included in other current assets.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(9) Financial Instruments *(Continued)*

(a) Financial assets *(Continued)*

(ii) *Recognition and measurement*

Financial assets are recognised 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 at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognised 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 at fair value through 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 amortised cost using the effective interest method.

Gain or loss arising from change in the fair value of financial assets at fair value through profit or loss is recognised 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 recognised 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 recognised 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 derecognised, the cumulative gain or loss previously recognised 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 recognised as investment income, which is recognised in profit or loss for the period.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(9) 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 asset is impaired, the Group shall determine the amount of impairment loss.

At the ending of the period, if the fair value of the available-for-sale financial assets declined dramatically, or it is expected the downturn is not temporary after considers all relevant factors, the impairment has occurred. Transfer the accumulated loss which is occurred by the fair value included in the owner equity decreased and verify that the impairment losses.

The standard of the fair value of the available-for-sale financial assets of the company decrease seriously: Closing fair value declines relative to the cost has reached or exceeded 50%:

The standard of fair value decrease is not temporary: 12 months in a row fell.

Computing method of investment cost: consideration of payment at acquisition (net of cash dividends declared but not yet paid or due but unpaid interest on bonds) and the relevant transaction cost are recognized as the investment cost.

Determination basis of: Falling or downturn continued during the rally up less than 20% margin. Rebound duration not more than six months are treated as continue decrease period.

For available-for-sale debt instruments which impairment losses is confirmed, in subsequent accounting periods, the fair value is arisen and it is objectively connected with the event after impairment loss previously recognized. This impairment loss previously recognized shall reverse through profit or loss. When impairment loss of available-for-sale equity instrument has occurred, this loss shall not reverse thought profit or loss.

Impairment of held to maturity investment: Measurement method of the impairment loss of held to maturity investments is according to the measurement method of the impairment loss of receivables.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(9) 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 derecognised when all the risks and rewards of ownership of the financial asset have been substantially transferred. The financial assets shall not be derecognised 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 derecognised.

In addition to two circumstances of the derecognition mentioned above, a financial assets shall be derecognised 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 recognised in profit or loss.

(b) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through 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 amortised 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 amortised costs using the effective interest method.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(9) 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 derecognised or partly derecognised when the present obligation is discharged or partly discharged. The difference between the carrying amount of the derecognised portion of the financial liability and the consideration paid shall be recognised 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.

(10) 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.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(10) Receivables (Continued)

(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 RMB 100,000 (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 recognised in profit or loss. Accounts receivable and other receivables which are not impaired according to the separate impairment assessment, shall be combined into certain groups with similar credit risk characteristics and subject to impairment assessment by groups.
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(b) Receivables that are combined into certain groups and subject to provision by groups:

Basis for determination of groups is as follow:

Group name	Criteria
Group 1	Except for the accounts receivable and other receivables that are subject to separate provision, the Group determines the ratios of provision for bad debts based on historical loss experience for the groups of receivables with similar credit risk characteristics by aging and taking into consideration of the current circumstances.
Group 2	Receivables with extremely low credit risk based on measurement of historical evidence
Group 3	Other receivables due from related parties
Group 4	Deposits and staff advances

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(10) Receivables (Continued)

- (b) Receivables that are combined into certain groups and subject to provision by groups (Continued):

Accounts receivable which are subject to group provision

Method for provision by groups are summarised as followed:

Group name	Method for provision
Group 1	Aging analysis method
Group 2	Percentage of bad-debt provision is 0%
Group 3	Percentage of bad-debt provision is 0%
Group 4	Percentage of 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.

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(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(11) 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 materials, direct labour 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) Amortisation of low-value consumables and packaging materials

Low-value consumables and packaging materials are expensed upon issuance.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(12) Long-term equity investments

(a) Initial recognition

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, the Group's long-term equity investments in its jointly controlled entities and associates, as well as the long-term equity investments where the Group does not have control, joint control or significant influence over the investees and which are not quoted in an active market and whose fair value cannot be reliably measured.

Subsidiaries are all entities over which the Company is able to control. Jointly controlled entities are the investees over which the Group is able to exercise joint control together with other venturers. Associates are all entities over which the Group has significant influence, but not control, on their financial and operating policies.

Investments in subsidiaries are measured using the cost method in the Company's financial statements, and adjusted by using the equity method when preparing the consolidated financial statements. Investments in jointly controlled entities and associates are accounted for using the equity method. Other long-term equity investments, which the Group does not have control, joint control or significant influence over the investee and which are not quoted in an active market and whose fair value cannot be reliably measured, are accounted for using the cost method.

Long-term equity investments accounted for using the cost method are measured at the initial investment costs. For long-term equity investments accounted for using the equity method, where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost; where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current year and the cost of the long-term equity investment is adjusted upwards accordingly.

(b) Subsequent measurement

Under the cost method of accounting, investment income is recognised in profit or loss for the cash dividends or profit distribution declared by the investee.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(12) Long-term equity investments *(Continued)*

(b) Subsequent measurement *(Continued)*

Under the equity method of accounting, the Group recognised the investment income based on its share of net profit or loss of the investee. While the accounting policies and accounting period of the investees are inconsistent with the Group, the financial statements of the investees are all adjusted according to the accounting policies and accounting period of the Group and recognised investment income accordingly. The Group discontinues recognising its share of net losses of an investee when the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Group has obligations for additional losses and the conditions on recognition of provision are satisfied in accordance with the accounting standards on contingencies, the Group continues to recognise the investment losses and the provision. For changes in shareholders' equity of the investee other than those arising from its net profit or loss, the Group record directly in capital surplus, provided that the Group's proportion of shareholding in the investee remains unchanged. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by the investee. The unrealised profits or losses arising from the intra-group transactions amongst the Group and its investees are eliminated in proportion to the Group's equity interest in the investees, and then based which the investment gain or losses are recognised. The loss on the intra-group transaction amongst the Group and its investees, of which the nature is asset impairment, is recognised in full, and the related unrealised loss is not eliminated.

(c) Definition of control, joint control and significant influence over the investees

Control refers to the power to govern the financial and operating policies of an investee, so as to obtain benefits from their operating activities. In determining whether the Company is able to exercise control over the investee, the effect of potential voting rights of the investee shall be considered, such as convertible debts and warrants currently exercisable.

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Significant influence refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not the power to control, or jointly control, the formulation of such policies with other parties.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(12) Long-term equity investments *(Continued)*

(d) Impairment of long-term equity investments

The carrying amount of long-term equity investments in subsidiaries, jointly controlled entities and associates shall be reduced to the recoverable amount if the recoverable amount is below the carrying amount. For other long-term equity investments which are not quoted in an active market and whose fair value cannot be reliably measured, the excess of its carrying amount over the present value of future cash flows discounted at the prevailing market yield rate for similar financial assets shall be recognised as impairment loss and cannot be reversed once recognised.

(13) 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 recognised 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 amortised on a basis consistent with the amortisation policy which the Group adopts for intangible assets.

When an investment property is transferred to an owner-occupied property, it is reclassified as a fixed asset or an intangible asset at the date of the transfer. When an owner-occupied property is transferred for earning rentals or for capital appreciation, the fixed asset or intangible asset is reclassified as an investment property at its carrying amount at the date of the transfer.

The estimated useful life, net residual value of the investment property and the depreciation (amortisation) method applied are reviewed and adjusted as appropriate at each year-end.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(13) Investment properties *(Continued)*

An investment property is derecognised 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 recognised in profit or loss for the current year.

Investment properties are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. 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 recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

(14) 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 recognised 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.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(14) Fixed assets (Continued)

(a) Recognition, initial measurement and depreciation method of fixed assets (Continued)

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 derecognised and all the other subsequent expenditures are recognised 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 life of the fixed assets.

(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%

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(14) Fixed assets *(Continued)*

(c) Impairment of fixed assets

Fixed assets are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. 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 recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

(d) 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 unrecognised 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 Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(14) Fixed assets (Continued)

(e) Other specification

Disposal of fixed assets

A fixed asset is derecognised 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 recognised in profit or loss.

(15) 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.

Construction in progress is tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. 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 recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(16) 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 capitalised 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 recognised in profit or loss for the current year. Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For the specific borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowing during the capitalisation period.

For the general borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average effective interest rate of general borrowings used, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which estimated future cash flows during the period of expected duration or shorter period applied discounted to the initial amount of the borrowings.

(17) 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 recognised only if both of the following conditions are satisfied: (i) it is probable that future economic benefits attributable to the asset will flow to the enterprise; (ii) the amount of the intangible assets can be measured reliably.

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(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(17) Intangible assets *(Continued)*

(a) Recognition and measurement of intangible assets *(Continued)*

The acquisition cost of intangible assets includes acquisition price, related taxes and other costs which are directly attributable to bringing the intangible assets ready for their intended use. The cost of the internally developed intangible assets includes: the costs of the material consumed for developing the intangible assets, labor costs, registration fees, amortisation of other patents and licenses and capitalised interest expenses in the development phase, and other costs which are directly attributable to bringing the intangible assets ready for their intended use.

(b) Periodical review of useful life and amortisation method

For an intangible asset with a finite useful life, review and adjustment on its useful life and amortisation 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 the 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, Xingqun, Zhongyi, Pangaoshou, Chenlijj, Jingxiutang, Qixing, which are identified as uncertain 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:

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(17) Intangible assets *(Continued)*

(d) Research and development *(Continued)*

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

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

Expenditure on the research phase is recognised in profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalised 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; and
- 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 recognised in profit or loss in the period in which they are incurred. Development costs previously recognised as expenses are not recognised as an asset in a subsequent period. Capitalised expenditure on the development phase is presented as development costs in the balance sheet and transferred to intangible assets at the date that the asset is ready for its intended use.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(17) Intangible assets *(Continued)*

(e) Impairment of intangible assets

Intangible assets are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. 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 recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

(18) 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 recognised as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortised on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortisation.

(19) Provisions

Provisions for product warranties, onerous contracts etc. are recognised 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 recognised as interest expense.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(20) 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 recognises 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 recognised 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.

(c) Rendering of services

The revenue from rendering of services is recognised using the percentage of completion method.

(d) Transfer of asset use rights

Income from transfer of asset use rights include:

- Interest income is recognised on a time-proportion basis using the effective interest method;
- License fee income is recognised when the right to receive payment is established;
- Income from an operating lease is recognised on a straight-line basis over the period of the lease.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(20) Revenue *(Continued)*

(e) Dividend income

Dividend income from long-term equity investment accounted for using cost method, financial assets at fair value through profit or loss and available-for-sale financial assets is recognised when the right to receive dividend is established.

(21) 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 refers to the obtained long-term assets with purchase, construction or otherwise formed, which is includes 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 refers to the government grants other than the assets-related grants.

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.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(21) Government grants *(Continued)*

(b) Accounting treatment

The assets-related government grants shall be recognized as deferred income in accordance with the useful life of long-term assets;

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.

(22) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised 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 recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised 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 realised or the liability is settled.

Deferred tax assets are only recognised 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 utilised.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(22) Deferred tax assets and deferred tax liabilities *(Continued)*

Deferred tax liabilities are recognised 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 recognised.

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; and
- the tax payer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

(23) 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 recognised on a straight-line basis over the period of the lease, and are either capitalised 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 unrecognised finance charge and is amortised 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 unrecognised finance charge.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(24) Changes in significant accounting policies and accounting estimates

(a) Changes in accounting policies

The Group has performed the 5 new and revised Accounting Standards for Business Enterprises issued by the Ministry of Finance in the year 2014 in advance, the adapting of above standards do not significantly impact the financial statements of the Group and the financial statements have presented in accordance with the above standards.

(b) Changes in accounting estimates

There are no changes in accounting estimates in the current period.

(25) Correction of prior period's accounting errors

There are no corrections of significant accounting errors in the current period.

(26) Other significant accounting policies

(a) Segment information

The Group identifies operating segments based on the internal organisation 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.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(26) Other significant accounting policies *(Continued)*

(b) Employee benefits

Employee benefits mainly include wages or salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labour union funds, employee education funds and other expenditures incurred in exchange for service rendered by employees.

Where the Group terminates the employment relationship with employees before the end of the employment contract or offers compensation for encouraging employees to accept voluntary redundancy, a provision for termination benefits for the compensation arising from the termination of an employment relationship with employees shall be recognised, with a corresponding charge to profit or loss when the Group has made a formal plan for termination of an employment relationship or an offer for voluntary redundancy which will be implemented immediately and cannot be withdrawn by the Group unilaterally.

Employee benefits are recognised as salaries and wages payable in the accounting period in which an employee has rendered service, as costs of assets or expenses to whichever the employee service is attributable.

(c) Profit distribution

Cash dividend distribution is recognised as a liability in the period in which it is approved by the shareholders' meeting.

(27) Critical accounting estimates and judgments

(a) Current and deferred income tax

The Group is subject to income taxes only in the People's Republic of China (the "PRC") and Hong Kong. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(27) Critical accounting estimates and judgments (Continued)

(a) Current and deferred income tax (Continued)

Deferred tax assets relating to certain temporary differences and tax losses are recognized as management considers it is probable that the future taxable profit will be available against which the temporary differences or tax losses can be utilized. Where the expectation is different from the original estimate, such differences will impact recognition of deferred tax assets in the period in which such estimate is changed.

Baiyunshan which was merged with the Company during the reporting period received the "Certificate of High/New Technology Enterprise", the certificated was jointly issued by Guangdong Provincial Department of Science and Technology, Department of Finance of Guangdong Province, Guangdong Provincial State Tax Bureau and Guangdong Provincial Local Tax Bureau in November 2012, numbering GR201244000005 and the effective period is 3 years. The Company has applied for High/New Technology Enterprise in accordance with the main body of a merged company. Base on the recent information, management consider the certificate will be obtained in the year of 2014 in all probability and enjoy the tax rate of 15%. The deferred income tax is charged as this discount.

3 TAXATION

(1) Main tax and tax rate

(a) Turnover tax and Real-estate tax

Taxable item	Type	Tax rate
Sales of goods	Value-added tax ("VAT")	13%, 17%
Income from sales of materials	VAT	17%
Income from rendering of services	Business tax	5%
Rental income	VAT	6%
Rental income	Business tax	5%
Transferred Technology income	VAT	3%, 6%
Balance of owner-occupied real estates	Real-estate tax	1.2%
Rental income	Real-estate tax	12%
Interest income	Business tax	5%
Sales of wine products	Consumption Tax	10%

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3 TAXATION (Continued)

(1) Main tax and tax rate (Continued)

(b) City maintenance and construction tax

Calculated and paid based on 7% of the amount of VAT, business tax and consumption tax paid.

(c) Education surcharge

Calculated and paid based on 3% of the amount of VAT, business tax and consumption tax paid.

(d) Local education surcharge

Calculated and paid based on 2% of the amount of VAT, business tax and consumption tax paid.

(e) Enterprise income tax

Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd.(Zhong Yi), Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd.(Jing Xiu Tang), Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.(Qi Xing), Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.(Xing Qun),Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.(Chen Li Ji),Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.(Pan Gao Shou),Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.(Tian Xin),Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.(Ming Xing),Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.(Guang Hua), received the "Certificate of High/New Technology Enterprise", which was jointly issued by Guangdong Provincial Department of Science and Technology, Department of Finance of Guangdong Province, Guangdong Provincial State Tax Bureau and Guangdong Provincial Local Taxation Bureau.

The certificates of the 8 subsidiaries (namely, Zhong Yi etc), numbering GF201144000520, GF201144000114, GF201144000043, GF201144000298, GF201144000144, GF201144000400, GF201144000016, GF201144000599 respectively, were issued in 2011 and the effective period is 3 years. The certificate of Guang Hua, numbering GR201244000497, was issued in November 2012 and the effective period is 3 years.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3 TAXATION *(Continued)*

(1) Main tax and tax rate *(Continued)*

(e) Enterprise income tax *(Continued)*

A subsidiary of the Group, Guangxi Ying Kang Co. Ltd. (Guangxi Ying Kang) received the "Certificate of High/New Technology Enterprise", which was jointly issued by Department of Science and Technology of Guangxi Zhuang Autonomous Region, Department of Finance of Guangxi Zhuang Autonomous Region, Guangxi Zhuang Autonomous Region State Tax Bureau, Guangxi Zhuang Autonomous Region Local Taxation Bureau, numbering GF201245000068, was issued in November 2012 and the effective period is 3 years.

Baiyunshan which has merged with the Company during the Reporting Period received the "Certificate of High/New Technology Enterprise", the certificate was jointly issued by Guangdong Provincial Department of Science and Technology, Department of Finance of Guangdong Province, Guangdong Provincial State Tax Bureau and Guangdong Provincial Local Tax Bureau in November 2012, numbering GR201244000005 and the effective period is 3 years.

Pursuant to the relevant national preferential tax policies for High/New Technology Enterprise, The company which is recognised as a High/New Technology Enterprise could enjoy these policies of enterprise income tax at the reduced rate of 15%.

Except for the preferential tax preference mentioned above, the group companies in the PRC pays 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) Co., Ltd. of the group, pays the corporation profits tax in accordance with "Hong Kong Inland Revenue Ordinance" at a the corporation profit tax rate of 16.5%.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

(1) Subsidiaries

(a) Subsidiaries acquired from establishment or investment

Name of subsidiary	Type of subsidiary	Registration place	Nature of business and principal activities	Registered capital ('0000)	Scope of business	Paid-in capital at end of period ('0000)	Other assets constitution investment in substance ('0000)	Legal Representative	Organisation code	% equity interest held by the Company	% voting rights held	Consolidated or not	Minority interests at end of period ('0000)	Amount of minority interests adjusted against minority interest in the profit or loss ('0000)	Ending balance after the Company's equity interest adjusted against the amount of losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest ('0000)
Direct subsidiaries															
Xing Qun	Subsidiary	Guangzhou	Pharmaceutical manufacturing	7,717	Production of CPM	6,867	-	Yao Jiangong	19051196-X	88.99	88.99	Yes	1,742	-	-
Zhong Yi	Wholly-owned subsidiary	Guangzhou	Pharmaceutical manufacturing	21,741	Production of CPM	21,741	-	Zhang Chunbo	19045979-4	100.00	100.00	Yes	-	-	-
Chen Li Ji	Wholly-owned subsidiary	Guangzhou	Pharmaceutical manufacturing	11,285	Production of CPM	11,285	-	Ouyang Qiang	19045981-5	100.00	100.00	Yes	-	-	-
Guangzhou Han Fan ⁽¹⁾	Subsidiary	Guangzhou	Pharmaceutical manufacturing	24,606	Research and development of medicine and health products	24,490	-	Huang Xiang	71241860-8	99.49	99.53	Yes	74	-	-
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Pharmaceutical manufacturing	8,242	Production of CPM	8,242	-	Li Guangliang	19045980-7	100.00	100.00	Yes	-	-	-
Jing Xiu Tang	Subsidiary	Guangzhou	Pharmaceutical manufacturing	8,623	Production of CPM	7,623	-	Wang Wenchu	19047922-6	88.40	88.40	Yes	1,580	-	-
Pan Gao Shou	Subsidiary	Guangzhou	Pharmaceutical manufacturing	6,544	Production of CPM	5,744	-	Wei Dahua	19048780-8	87.77	87.77	Yes	2,619	-	-
Cai Zhi Lin	Wholly-owned subsidiary	Guangzhou	Pharmaceutical trading	3,222	Retailing of Chinese raw medicine and CPM	3,222	-	Zhou Lushan	19050398-6	100.00	100.00	Yes	-	-	-
Guangzhou Pharmaceutical Import & Export Co., Ltd. ("Pharmaceutical Import & Export")	Wholly-owned subsidiary	Guangzhou	Pharmaceutical trading	2,400	Import and export trading of medicine	2,400	-	Feng Yaowen	19047097-7	100.00	100.00	Yes	-	-	-
Guangzhou Baiyushan Bai Di Bio-Technology Co., Ltd. (Guangzhou Bai Di)	Subsidiary	Guangzhou	Pharmaceutical manufacturing	13,160	Research and Development of medicine	12,960	-	Chen Jiannong	73154713-0	98.48	98.48	Yes	135	-	-
Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. ("WJ Great Health")	Wholly-owned subsidiary	Guangzhou	Food manufacturing	1,000	Production And Sales of Pre-packaged food and dairy	1,000	-	Chen Mao	59151288-3	100.00	100.00	Yes	-	-	-
Guangzhou Guang Yao Yi Gan Biological Product Co., Ltd. (Guangzhou Yi Gan) ⁽²⁾	Subsidiary	Guangzhou	Pharmaceutical manufacturing	2,100	Advisory of research and development and technological transformation of biological products	1,260	-	Liu Joyan	05659089-8	60.00	60.00	Yes	181	-	-

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(All amounts in Renminbi yuan unless otherwise stated)

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4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Subsidiaries (Continued)

(a) Subsidiaries acquired from establishment or investment (Continued)

Name of subsidiary	Type of subsidiary	Registration place	Nature of business and principal activities	Registered capital ('0000)	Scope of business	Paid-in capital at end of period ('0000)	Other assets constitution investment in substance ('0000)	Legal Representative	Organisation code	% equity interest held by the Company	% voting rights held	Consolidated or not	Minority interests at end of period ('0000)	Minority interest in the profit or loss ('0000)	Ending balance after
															the Company's equity interest adjusted against the amount of the current year's adjusted losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest ('0000)
Indirect subsidiaries															
Qi Xing	Subsidiary	Guangzhou	Pharmaceutical manufacturing	10,000	Production of CPM	7,500	-	Wu Changhai	61841434-4	75.00	75.00	Yes	4,046	-	-
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd. (Jing Xiu Tang 1790) ⁽¹⁾	Subsidiary	Guangzhou	Pharmaceutical trading	300	Sales of cosmetic	153	-	Chen Zhiwong	76611890-X	45.08	51.00	Yes	170	-	-
Guangzhou Pan Gao Shou Natural Healthcare Products Co., Ltd (Pan Gao Shou Natural Healthcare) ⁽¹⁾	Subsidiary	Guangzhou	Pharmaceutical manufacturing	1,400	Production and processing of food and health products	1,400	-	Wei Dahua	19145513-8	87.77	100.00	Yes	-	-	-
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	Wholly-owned subsidiary	Guangzhou	Pharmaceutical trading	294	Retailing of Chinese raw medicine and CPM	294	-	Zhou Lushan	19056067-3	100.00	100.00	Yes	-	-	-
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Wholly-owned subsidiary	Guangzhou	Pharmaceutical manufacturing	80	Processing of Chinese Raw medicine	80	-	Zhou Lushan	19066119-1	100.00	100.00	Yes	-	-	-
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese raw medicine Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Pharmaceutical trading	500	Retailing of Chinese raw medicine and CPM	500	-	Zhou Lushan	78120107-4	100.00	100.00	Yes	-	-	-
Guangzhou Ao Ma Medical Apparatus Co., Ltd. (Guangzhou Ao Ma)	Wholly-owned subsidiary	Guangzhou	Pharmaceutical trading	668	Trading of medical apparatus	668	-	Lao Zhicong	68766959-4	100.00	100.00	Yes	-	-	-
Tibet Lin Zhi Guangyao Development Co., Ltd. ⁽¹⁾	Subsidiary	Linzhi	Pharmaceutical trading	200	Production and trading of local product, and craft	110	-	Huang Xiang	58575303-1	54.74	55.00	Yes	50	-	-
Guangzhou Pan Gao Shou Food Beverage Co., Ltd. ⁽¹⁾	Subsidiary	Guangzhou	Pharmaceutical manufacturing	100	Wholesale of pre-packaged food	100	-	Wei Dahua	58339020-6	87.77	100.00	Yes	-	-	-
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Subsidiary	Wulanchabu	Pharmaceutical trading	100	Cultivation, purchase and sales of Chinese medicine herbs and agricultural by-products, development, advisory and service of Chinese medicine herbs	80	-	Zhou Lushan	59195946-6	80.00	80.00	Yes	15	-	-
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Subsidiary	Linqi	Pharmaceutical trading	200	Cultivation, purchase and sales of Chinese medicine herbs	120	-	Kong Jian	59033298-7	60.00	60.00	Yes	122	-	-
Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd. ⁽¹⁾	Subsidiary	Kaili	Pharmaceutical trading	200	Cultivation, purchase and sales of Chinese medicine herbs, research and development of CPM; agricultural by-products, development, advisory	140	-	Kong Jian	05084458-6	67.67	70.00	Yes	57	-	-

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4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Subsidiaries (Continued)

(a) Subsidiaries acquired from establishment or investment (Continued)

Name of subsidiary	Type of subsidiary	Registration place	Nature of business and principal activities	Registered capital ('0000)	Scope of business	Paid-in capital at end of period ('0000)	Other assets constitution investment in substance ('0000)	Legal Representative	Organisation code	% equity interest held by the Company	% voting rights held	Consolidated or not	Minority interests at end of period ('0000)	Ending balance after the Company's equity	
														Amount of minority interests adjusted against losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest ('0000)	Minority interest in the profit or loss ('0000)
Jingyuan Dong E Guangyao Chinese Raw Medicine Development Co., Ltd. ⁽¹⁾	Subsidiary	Jingyu	Pharmaceutical trading	300	Cultivation, purchase and sales of Chinese medicine herbs	180	-	Zhou Lushan	06863552-0	57.50	60.00	Yes	212	-	-
Heilongjiang Sengong Guangyao Raw Medicine Development Co., Ltd. ⁽²⁾	Subsidiary	Ha erbin	Pharmaceutical trading	300	Research, cultivation, purchasing, sales of Chinese Raw medicine; Purchasing and sales of agricultural by-products and wild products.	180	-	Zhou Lushan	07001547-8	60.00	60.00	Yes	120	-	-
Chongqing Guangyao Raw Medicine Development Co., Ltd. (Chongqing Guangyao) ⁽¹⁾⁽³⁾	Subsidiary	Chongqing	Pharmaceutical trading	300	Cultivation, purchasing, sales of Chinese raw medicine and agricultural by-products; Advisory and service of Chinese raw medicine cultivation technology	240	-	Wei Dahua	07567346-1	75.23	80.00	Yes	60	-	-
Wang Lao Ji Great Health Yaan Co., Ltd. ⁽⁴⁾	Wholly-owned subsidiary	Yaan	Pharmaceutical manufacturing	5,000	In preparation	5,000	-	Wu Changhai	07143320-9	100.00	100.00	Yes	-	-	-

Note 1: The reason of difference between ratio of equity interest held and ratio of voting rights held of these eight companies is that the Company indirectly holds these eight companies through subsidiaries which are not wholly-owned by the Company, making the ratio of equity interest held lower than ratio of voting rights held.

Note 2: Caizhilin, Qinghe Forestry Bureau, Xinglong Forestry Bureau, Shanhetun Forestry Bureau and Commercial Department of Heilongjiang General Forestry Bureau invested RMB3,000 thousand to establish Heilongjiang Sengong Guangyao Chinese Raw Medicine Co., Ltd. in September 2013, investment amounted to RMB1,800 thousand, RMB300 thousand, RMB300 thousand, RMB300 thousand, RMB300 thousand respectively, ratio of equity interest held are 60%, 10%, 10%, 10% and 10% respectively.

Note 3: Pangaoshou, Caizhilin, Chengkou Xinhe Agricultural Development Co., Ltd. and Cao Changjin invested RMB3,000 thousand to establish Chongqing Guangyao in August 2013, investment amounted to RMB1,170 thousand, RMB1,230 thousand, RMB450 thousand, RMB150 thousand respectively, ratio of equity interest held are 39%, 41%, 15% and 5% respectively.

Note 4: WLJ Great Health invested RMB50,000 thousand to establish Wao Lao Ji Great Health Yaan Co., Ltd. in July 2013, ratio of equity interest held are 100%.

Note 5: The Company, Guangdong Haohong Investment Co., Ltd. and Guangdong Gongchuang Economic Development Co., Ltd. increased capital amounted to RMB10,000 thousand to Guangyao Yigan in September 2013, the increment amounted to RMB6,000 thousand, RMB2,000 thousand, RMB2,000 thousand respectively.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Subsidiaries (Continued)

(b) Subsidiaries acquired in a business combination involving enterprises under common control

Name of subsidiaries	Type of subsidiaries	Registration place	Nature of business and principle of activities	Registered capital ('0000)	Scope of business	Paid-in capital at end of period ('0000)	Other assets constitution investment in substance ('0000)	Legal Representative	Organisation Code	% equity interest held by the Company	% Voting rights held	Consolidated or not	Minority interests at end of period ('0000)	Minority interest in the profit or loss ('0000)	Ending balance after the Company's equity
															Amount of minority interests adjusted against minority interest exceeded the opening balance of minority interest ('0000)
Tian Xin	Subsidiary	Guangzhou	Pharmaceutical manufacturing	4,569	Manufacture, sales of chemical medicine, CPM, crude drug and health products	3,769	-	Chen Kunnan	190485108	82.49	82.49	Yes	2,939	-	-
Guang Hua	Subsidiary	Guangzhou	Pharmaceutical manufacturing	5,529	Manufacture of chemical medicine material, CPM and veterinary medicine, cosmetics	4,670	-	Wang Wenchu	190485116	84.48	84.48	Yes	1,688	-	-
Ming Xing	Wholly-owned subsidiary	Guangzhou	Pharmaceutical manufacturing	2,649	Manufacture of chemical medicine material, chemical preparation medicine, CPM and health products	2,649	-	Li Hong	19046020X	100.00	100.00	Yes	-	-	-
Baiyunshan Weiling Pharmaceutical Co., Ltd. ("Weiling")	Wholly-owned subsidiary	Jiexi	Pharmaceutical manufacturing	1,179	Manufacture and sales of tablet, colocytics and granule	1,179	-	Fang Liuxin	618223177	100.00	100.00	Yes	-	-	-
Guangzhou Baiyunshan Pharmaceutical Technological Development Co., Ltd. ("BYS Pharmaceutical Technological")	Subsidiary	Guangzhou	Pharmaceutical trading	200	Wholesale of CPM, chemical medicine material and antibiotic	102	-	Wang Wenchu	721974948	51.00	51.00	Yes	1,953	-	-
Guangzhou Baiyunshan Pharmacy	Wholly-owned subsidiary	Guangzhou	Retailing	100	Retail of CPM, common Chinese and western medicine, tobacco and wine, sales of grocery	100	-	Wen Xianwen	19056006-7	100.00	100.00	Yes	-	-	-
Guangzhou Guangyao Baiyunshan Great Health Hotel Co., Ltd. ("Great Health Hotel")	Wholly-owned subsidiary	Guangzhou	Hotel	50	Retailing, hospitality industry, Chinese caterin	50	-	Cai Jingui	58760950-0	100.00	100.00	Yes	-	-	-
Guangyao Baiyunshan (Hong Kong) Limited	Wholly-owned subsidiary	Hongkong	Pharmaceutical trading	HK\$500	Import and export trading of medicine	HK\$ 500	-	Xu Hantao	Not applicable	100.00	100.00	Yes	-	-	-

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Subsidiaries (Continued)

(c) Subsidiaries acquired in a business combination involving enterprises not under common control

Name of subsidiary	Type of subsidiary	Registration place	Nature of business and principal activities	Registered capital ('0000)	Scope of business	Paid-in capital at end of period ('0000)	Other assets constitution investment in substance ('0000)	Legal Representative	Organisation code	% equity interest held by the company	% Voting rights held	Consolidated or not	Minority interests at end of period ('0000)	Amount of minority interests adjusted against minority interest in the profit or loss ('0000)	Ending balance after the Company's equity interest adjusted against the amount of the current year's losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest. ('0000)
Ying Kang	Subsidiary	Nanning	Pharmaceutical manufacturing	3,188	Wholesale of CPM, chemical material medicine and antibiotic	1,626	-	Xu Keyi	19828518-6	51.00	51.00	Yes	1,284	-	-

(2) Notes to the change of scope of consolidation

- (a) The reason for the increase of the 11 companies in consolidation scope comparing to the preceding periods are: (1) The Company issued an addition of 445,601,005 A shares by way of share swap to absorb and merge Baiyunshan, a subsidiary of GPLH, in May 2013. The 7 subsidiaries of Baiyunshan was consolidated into the Company. (2) The Company issued an addition of 4,738,818 A shares to acquire 100% equity interest of Guangyao Baiyunshan (Hong Kong) Limited, a subsidiary of GPLH, in June, 2013. (3) WLJ Great Health, a subsidiary of the Company, invested RMB50,000 thousand to establish Wao Lao Ji Great Health Yaan Co., Ltd. in July 2013, ratio of equity interest held is 100%. (4) Pangaoshou, Caizhilin and other shareholders invested RMB3,000 thousand to establish Chongqing Guangyao in August 2013, ratio of equity interest held by the Group is 75.23%. (5) Caizhilin and other shareholders invested RMB3,000 thousand to establish Heilongjiang Sengong Guangyao Chinese Raw Medicine Co., Ltd. in September 2013, ratio of equity interest held by the Group is 60%.
- (b) The reason for the decrease of 1 company in the consolidation scope is: As in May, 2013, 80% equity interest of Bo Zhou Baiyunshan owned by Baiyunshan has been transferred to HWBYS.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) New entities in the scope of consolidation and entities no-longer in the scope of consolidation

(a) New entities in the scope of consolidation

Name of Subsidiary	Net Assets as at 31 December 2013	Net Profits for the year then ended 2013
Tian Xin	167,825,681.41	59,991,503.97
Guang Hua	108,731,945.51	46,022,856.69
Ming Xing	94,864,523.80	46,931,299.68
Weiling	28,607,410.97	3,281,832.96
Baiyunshan Pharmaceutical Technological	39,858,021.35	14,744,949.56
Guangzhou Baiyunshan Pharmacy	(162,851.16)	–
Baiyunshan Great Health Hotel	626,617.92	23,483.11
Guangyao Baiyunshan (Hong Kong) Limited	36,509,211.79	3,776,776.02
Wanglaoji Great Health (Yaan) Co., Ltd.	49,708,383.39	(291,616.61)
Chongqing Guangyao	3,000,000.00	–
Heilongjiang Sengong Guangyao	2,992,270.27	(7,729.73)

(b) Entities no-longer in the scope of consolidation

Name of Subsidiary	Net Assets at the Disposal Date	Net Profits from 1 January 2013 to Disposal Date
Bozhou Baiyunshan	(12,887,925.53)	(1,186,266.10)

(4) Business combination involving entities under common control

(a) The combination date is 31 May 2013, The Company issued an addition of 445,601,005 A shares (RMB 1 per share) of equity securities as combination cost for absorbing and merging Baiyunshan through share swap.

(i) Determination basis of combination date: The date of the Company obtaining control of Baiyunshan is recognised as combination date.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(4) Business combination involving entities under common control *(Continued)*

(a) *(Continued)*

- (ii) The share swap price of absorbing and merging Baiyunshan is based on the A shares' average price of the 20 transaction days before the announcement date of the board resolution regarding the first discussion of the related matters of the assets reorganisation. The price is RMB12.10 and RMB11.5 per share confirmed after ex right and ex interest respectively, which determined the share swap ratio is 1:0.95. The number of shares capital of Baiyunshan before the swap is 469,053,689 shares, in exchange for the 445,601,005 A shares of the Company.
- (iii) Baiyunshan is a jointly stock company reorganised in year 1992. Approved by the China Securities Regulatory Commission to issue shares for public flotation. The headquarter is located in Guangzhou, major business scope is pharmaceutical manufacturing. As at the date of combination, Baiyunshan has 7 subsidiaries.
- (iv) For investment properties, Baiyunshan and its subsidiaries adopts fair value model for their subsequent measurement, but the Company uses cost model as the basic for subsequent measurement, and the two policies are inconsistent with each other. The Company retrospectively adjusted then consolidated the assets and liabilities of Baiyunshan in accordance with the article 7 in the Accounting Standard for Business Enterprises-Business Combination. The information is as follows:

Item	Combination date (before retroactive adjustment)	Combination date (after retroactive adjustment)
Total assets	2,783,368,290.43	2,525,349,622.76
Including: Investment properties	252,975,150.00	33,450,853.22
Total liabilities	1,122,404,509.48	1,081,716,426.89

- (v) The assets and liabilities of Baiyunshan when combining into the Company are as follows:

Item	Combination date	As at previous balance sheet date
Current assets	1,335,391,826.15	1,303,941,767.74
Non-current assets	1,189,957,796.61	1,116,943,758.34
Including: Investment properties	33,450,853.22	34,103,919.04
Current liabilities	968,885,355.20	1,045,020,791.21
Non-current liabilities	112,831,071.69	83,219,503.14

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Business combination involving entities under common control (Continued)

(a) (Continued)

- (vi) The relevant information of Baiyunshan from the beginning to the date of combination is as follows:

Party being absorbed	From the beginning to the combination date		
	Income	Net profits	Net cash flow from operating activities
Baiyunshan	1,250,164,778.28	150,987,964.15	76,776,452.20

- (vii) Only Tian Xin among the 7 subsidiaries of Baiyunshan has investment properties. The Company retrospectively adjusted and consolidated the financial statement of Tian Xin in accordance with the Accounting the article 12 in the Accounting Standard for Business Enterprises – Consolidated Financial Statements. The information is as follows:

Item	Combination date (before retroactive adjustment)	Combination date (after retroactive adjustment)
Total assets	415,542,648.23	390,673,761.53
Including: Investment properties	15,063,340.00	1,311,330.65
Total liabilities	206,165,342.43	202,463,964.37

- (viii) The assets and liabilities of 7 subsidiaries of Baiyunshan on the date of combination are as follows:

Name of company	As at the combination date		As at previous balance sheet date	
	Total assets	Total liabilities	Total assets	Total assets
Tian Xin	390,673,761.53	202,463,964.37	431,246,832.54	275,419,451.92
Guang Hua	316,825,458.83	193,345,727.22	248,009,729.40	146,304,868.19
Ming Xing	318,634,618.42	209,147,185.73	267,056,346.84	179,299,810.01
Wei Ling	64,674,609.37	37,830,183.29	47,184,790.78	21,859,212.77
Baiyunshan Pharmaceutical Technology	227,127,041.42	193,896,573.34	212,942,262.23	173,329,190.44
Guangzhou Baiyunshan Pharmacy	(33,044.27)	129,806.89	(33,044.27)	129,806.89
Great Health Hotel	1,589,894.63	1,156,902.55	1,520,836.66	917,701.85

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Business combination involving entities under common control (Continued)

(a) (Continued)

(ix) The information of subsidiaries of Baiyunshan from the beginning to the date of combination is as follows:

Acquiree	Basis of business combination involving enterprises under common control	Controller	From the beginning to the combination date		Net cash flow from operating activities
			Income	Net profits	
Tian Xin	Tian Xin and the Company are under control of GPLH, and the control is not transitory	GPLH	403,359,221.44	32,382,416.54	11,225,236.31
Guang Hua	Guang Hua and the Company are under control of GPLH, and the control is not transitory	GPLH	240,238,314.64	21,774,870.40	372,451.18
Ming Xing	Ming Xing and the Company are under control of GPLH, and the control is not transitory	GPLH	251,018,254.22	21,745,134.93	63,990,303.57
Weiling	Weiling and the Company are under control of GPLH, and the control is not transitory	GPLH	95,719,648.38	1,518,848.07	9,745,029.91
Pharmaceutical Technology	Pharmaceutical Technology and the Company are under control of GPLH, and the control is not transitory	GPLH	1,014,204,553.92	8,117,396.29	12,524,307.82
Guangzhou Baiyunshan Pharmacy	Guangzhou Baiyunshan Pharmacy and the Company are under control of GPLH, and the control is not transitory	GPLH	-	-	-
Great Health Hotel	Baiyunshan Great Health Hotel (ZHU XIN CUN) and the Company are under control of GPLH, and the control is not transitory	GPLH	1,001,569.39	(170,142.73)	(30,802.69)

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(4) Business combination involving entities under common control *(Continued)*

- (b) The combination date is 30 June 2013, the Company issued an addition of 4,738,818 shares (RMB 1 per share) as combination cost, and acquire 100% equity of Guangyao Baiyunshan (Hong Kong) Limited
- (i) Determination basis of combination date: The date of the company obtaining control of Guangyao Baiyunshan (Hong Kong) Co., Ltd. is determined as combination date.
- (ii) The share swap price of acquiring Guangyao Baiyunshan (Hong Kong) Limited is based on the A shares' average price of the 20 transaction days before the announcement date of the board resolution regarding the first discussion of the related matters of the assets reorganisation. The price is RMB12.10 per share confirmed after ex right and ex interest respectively. Pursuant to the "Report of asset appraisal on the equity of Guangyao Baiyunshan (Hong Kong) Limited acquired by the Company." (Zhong Tian Heng Ping Bao Zi [2012] No. 027) issued by China Valuer International Co., Ltd. the appraisal value on 31 December 2011 of Polian Company is RMB57,339.7 thousand, and the Company has issued 4,738,818 A shares for the acquisition of Guangyao Baiyunshan (Hong Kong) Limited.
- (iii) Guangyao Baiyunshan (Hong Kong) Limited was incorporated in the year of 1988 in Hong Kong, its major business scope is operation of State-owned assets and investment.
- (iv) For investment properties, Guangyao Baiyunshan (Hong Kong) Co., Ltd. adopts fair value model for subsequent measurement, but the Company uses cost model as a basis for subsequent measurement, and the two policies are inconsistent with each other. The Company adjusted then consolidated the financial statements of Guangyao Baiyunshan (Hong Kong) Co., Ltd. in accordance with the article 12 in the Accounting Standard for Business Enterprises – Consolidated Financial Statements. The information is as follows:

Item	Combination date (before retroactive adjustment)	Combination date (after retroactive adjustment)
Total assets	95,347,312.99	76,553,037.23
Including: Investment properties	23,060,122.50	4,266,799.33
Total liabilities	43,203,965.49	41,143,030.36

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(4) Business combination involving entities under common control *(Continued)*

(b) *(Continued)*

- (v) The assets and liabilities of Guangyao Baiyunshan (Hong Kong) Limited on the date of combination are as follows:

Name of company	As at the combination date		As at previous balance sheet date	
	Total assets	Total liabilities	Total assets	Total assets
Guangyao Baiyunshan (Hong Kong) Limited	76,553,037.23	41,143,030.36	71,162,613.85	37,339,556.62

- (vi) The relevant information of Guangyao Baiyunshan (Hong Kong) Limited from the beginning to the date of combination is as follows:

Acquiree	Basis of business combination involving enterprises under common control	Controller	Income from	Net profit from	Cash flow
			the beginning to the combination date	the beginning to the combination date	of operating activities from the beginning to the combination date
Guangyao Baiyunshan (Hong Kong) Limited	Guangyao Baiyunshan (Hong Kong) Limited and the Company are under control of GPL, and the control is not transitory	GPL	135,875,425.65	2,203,045.88	12,888,392.07

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4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Notes to the adjustment of the previous statements made by Business combination involving entities under common control

The baiyunshan share absorbed and merged by the way of share swap and acquired 100% equity interest of Guangyao Baiyunshan (Hong Kong) Limited by issuing shares are business combination involving entities under common control. They are included in the consolidated financial statements as if the combination had occurred from the date when Baiyunshan, Guangyao Baiyunshan (Hong Kong) Limited and together with the Company first came under the control of the ultimate controlling party in accordance with the articles of Accounting Standard for Business Enterprise-Business Combination. The previous financial statement should be adjusted and the information of adjustment is as below:

Main information of balance sheet	The group (audited)	Baiyunshan (restated)	31 December 2012		
			Guangyao Baiyunshan (Hong Kong) Limited (restated)	Adjustment (restated)	Consolidation (restated)
Current assets	3,547,287,907.87	1,872,708,877.89	60,795,063.41	(129,125,967.86)	5,351,665,881.31
Non-current assets	2,688,105,810.02	1,343,968,258.27	10,367,550.44	100,552.51	4,042,542,171.24
Current liabilities	1,915,390,486.71	1,568,932,773.27	37,037,585.54	(47,010,217.23)	3,474,350,628.29
Non-current liabilities	95,682,897.89	135,002,946.42	301,971.08	(67,093,946.29)	163,893,869.10
Equities	4,224,320,333.29	1,512,741,416.47	33,823,057.23	(14,921,251.83)	5,755,963,555.16

Main information of balance sheet	The group (audited)	Baiyunshan (restated)	The year ended 2012		
			Guangyao Baiyunshan (Hong Kong) Limited (restated)	Adjustment (restated)	Consolidation (restated)
Revenue	8,229,058,538.06	4,310,760,489.27	98,734,400.02	(575,911,638.96)	12,062,641,788.39
Profits	438,071,481.52	427,252,963.85	(449,647.31)	(9,559,115.55)	855,315,682.51
Total profits	457,839,196.56	433,232,134.52	(449,647.31)	(9,559,115.55)	881,062,568.22
Net profits	408,330,681.14	367,348,261.03	(449,647.31)	(8,532,080.95)	766,697,213.91

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(5) Notes to the adjustment of the previous statements made by Business combination involving entities under common control *(Continued)*

The information of Baiyunshan which is restated in the above-mentioned table based on audited consolidated financial statement of Baiyunshan and its 7 subsidiaries, and this information has been retrospectively adjusted by using the cost method to measure investment properties.

The information of Guangyao Baiyunshan (Hong Kong) Limited which is restated in the above-mentioned table is the information after the adjustment for the non-coterminous accounting years of the Group and Guangyao Baiyunshan (Hong Kong) Limited, and this information also included retrospective adjustment made for measuring the investment properties using the cost method.

The significant inter-group balance, transactions and unrealised profits among the 3 companies have been eliminated by the adjustment of the above-mentioned table.

(6) Translation of overseas operating entity

Guangyao Baiyunshan (Hong Kong) Limited, a subsidiary of the Company, is a foreign operating entity, the assets and liabilities items among the balance sheet of Guangyao Baiyunshan (Hong Kong) Limited 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 exchange rate during the reporting period. Differences on translation of foreign currency financial statement are individually listed in shareholder's equity. The cash flow items of foreign 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.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	31 December 2013			31 December 2012		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash on hand –						
RMB			754,930.02			2,229,430.51
Hong Kong Dollars (“HKD”)	3,587.38	0.7862	2,820.40	7,950.98	0.8109	6,447.05
			<u>757,750.42</u>			<u>2,235,877.56</u>
Bank deposits –						
RMB			1,878,374,679.49			1,099,904,272.22
US Dollars (“USD”)	3,151,972.60	6.0969	19,217,261.74	146,867.20	6.2855	923,132.60
HKD	2,463,147.39	0.7862	1,936,576.41	5,004,306.80	0.8109	4,057,742.17
Euro (EUR)	535,955.54	8.4189	4,512,156.10	467,470.45	8.3132	3,886,193.87
Yen (JPY)	10,000,002.00	0.0578	577,710.12	2.00	0.0730	0.15
Great Britain Pound (GBP)	0.11	10.091	1.11	0.11	10.1611	1.12
			<u>1,904,618,384.97</u>			<u>1,108,771,342.13</u>
Other deposits –						
RMB			30,271,005.98			24,392,497.78
HKD	44,007.49	0.7862	34,598.69	44,007.49	0.8109	35,683.47
			<u>30,305,604.67</u>			<u>24,428,181.25</u>
			<u>1,935,681,740.06</u>			<u>1,135,435,400.94</u>

Details of restricted cash are listed as follows:

	31 December 2013	31 December 2012
Cash deposit of notes payable within 3 months	11,232,987.27	–
Cash deposit of notes payable over 3 months	16,053,239.48	20,540,491.86
Cash deposit of construction	100,543.50	–
Housing fund	575,670.22	548,384.33
	<u>27,962,440.47</u>	<u>21,088,876.19</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Financial assets held for trading

	31 December 2013	31 December 2012
Listed shares	3,362,667.20	2,875,920.00
Including: market value of listed investment	3,362,667.20	2,875,920.00

The fair value of listed shares is determined at the closing price quoted in the Shanghai Stock Exchange on the last trading day of the reporting period.

(3) Notes receivable

(a) Classification of notes receivable

	31 December 2013	31 December 2012
Bank acceptance notes	1,315,644,828.33	840,354,449.11
Commercial acceptance notes	10,708,927.57	4,074,792.76
	1,326,353,755.90	844,429,241.87

(b) As at 31 December 2013, notes receivable that are being pledged of the Group amounted to RMB11,000 thousand. (as at 31 December 2012: nil). The top five of which are summarized as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2013.11.7	2014.5.7	2,000,000.00
Entity 2	2013.9.13	2014.3.13	1,000,000.00
Entity 3	2013.9.26	2014.3.26	1,000,000.00
Entity 4	2013.9.26	2014.3.26	1,000,000.00
Entity 5	2013.9.27	2014.3.27	1,000,000.00

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(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(3) Notes receivable *(Continued)*

(c) Notes receivable that are reclassified to accounts receivable due to inability of the companies of issuance and that are not matured but have been endorsed are summarised as follows:

(i) As at 31 December 2013, notes receivable that are reclassified to accounts receivable due to inability of the companies of issuance amounted to RMB4,585 thousand (as at 31 December 2012: nil), the top five of which are summarised as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2011.12.15	2012.6.15	1,000,000.00
Entity 2	2013.1.17	2013.7.17	500,000.00
Entity 3	2013.3.22	2013.9.21	400,000.00
Entity 4	2013.5.7	2013.11.1	250,000.00
Entity 5	2013.3.28	2013.9.28	200,000.00

The Group has charged total provision for bad debts when transferred notes receivables of Entity 1 to accounts receivables.

(ii) The bank acceptance notes receivable that are not matured but have been endorsed amounted to RMB1,053,687 thousand (as at 31 December 2012: RMB1,449,306 thousand), the top five of which are summarised as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2013.7.31	2014.1.31	10,000,000.00
Entity 2	2013.7.4	2014.1.4	10,000,000.00
Entity 3	2013.8.29	2014.2.28	9,000,000.00
Entity 4	2013.11.27	2014.5.27	8,979,000.00
Entity 5	2013.7.31	2014.1.31	8,570,000.00

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Notes receivable (Continued)

(c) (Continued)

- (iii) As at 31 December 2013, the commercial acceptance notes that are not matured but have been endorsed amounted to RMB7,698 thousand (as at 31 December 2012: RMB2,952 thousand). the top five of which are summarised as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2013.10.16	2014.1.16	2,079,900.00
Entity 2	2013.12.23	2014.6.23	1,300,000.00
Entity 3	2013.9.23	2014.3.23	1,000,000.00
Entity 4	2013.12.6	2014.2.6	877,992.45
Entity 5	2013.7.29	2014.1.29	725,849.10

(d) notes receivable that are not matured but have been discounted:

- (i) Amount as at 31 December 2013, the bank acceptance notes that are not matured but have been discounted amounted to RMB114,178 thousand (as at 31 December 2012: RMB115,632 thousand), and the top five of which are summarised as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2013.7.9	2014.1.8	5,000,000.00
Entity 2	2013.8.29	2014.2.28	4,705,178.20
Entity 3	2013.9.11	2014.3.11	3,500,000.00
Entity 4	2013.10.31	2014.4.30	3,451,503.00
Entity 5	2013.11.8	2014.5.8	2,390,345.00

- (ii) As at 31 December 2013 and 31 December 2012, there are no commercial acceptance notes that are not matured but have been discounted.

(e) The balance of notes receivable dated 31 December 2013 will expiry before 30 June 2014.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Dividends receivable

Item	31 December 2012	Current increase	Current decrease	31 December 2013
Dividends receivable				
within 1 year aging	–	20,000,000.00	20,000,000.00	–
Including: HWBYS	–	20,000,000.00	20,000,000.00	–

(5) Accounts receivable

The majority of the Group's sales are transacted with credit terms of 3 to 6 months granted to customers. The remaining transactions are settled by cash upon delivery, advance from customers or bank acceptance notes.

(a) The aging of accounts receivable is analysed as follows:

	31 December 2013	31 December 2012
Within 1 year	961,563,413.82	732,153,204.20
1 to 2 years	21,462,412.04	9,434,815.86
2 to 3 years	5,779,861.24	1,412,507.17
3 to 4 years	871,321.18	5,258,079.41
4 to 5 years	4,836,377.21	4,098,045.03
Over 5 years	8,577,552.93	55,780,992.95
	1,003,090,938.42	808,137,644.62

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

(b) Accounts receivable by categories are analysed as follows:

	31 December 2013			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	5,874,187.50	0.59%	5,391,750.00	91.79%
Subject to provision by groups: Group 1	991,218,442.23	98.81%	18,516,130.62	1.87%
Individually insignificant but subject to separate provision	5,998,308.69	0.60%	5,998,308.69	100.00%
	1,003,090,938.42	100.00%	29,906,189.31	2.98%

	31 December 2012			
	% of total balance	% of total balance	% of total balance	Ratio
Individually significant and subject to separate provision	4,947,794.34	0.61%	4,333,356.84	87.58%
Subject to provision by groups: Group 1	794,304,269.21	98.29%	60,849,767.26	7.66%
Individually insignificant but subject to separate provision	8,885,581.07	1.10%	8,885,581.07	100.00%
	808,137,644.62	100.00%	74,068,705.17	9.17%

Classification of accounts receivable: refer to Note 2(10).

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

- (c) As at 31 December 2013, accounts receivable that are individually significant and subject to separate provision are analysed as follows:

	Ending balance	Provision for bad debts	Ratio	Reason
Customer 1	3,374,187.50	2,891,750.00	85.70%	It is expected the amount could not be recovered in full due to significant delinquency in repayment by this customer.
Customer 2	1,500,000.00	1,500,000.00	100.00%	Although the group has sued this company, it is expected that the amount could not be recoverable.
Customer 3	1,000,000.00	1,000,000.00	100.00%	it is expected that the amount could not be recoverable.
	<u>5,874,187.50</u>	<u>5,391,750.00</u>	91.79%	

- (d) The groups of accounts receivable in which provisions are made using aging analysis method are analysed as follows:

	31 December 2013			31 December 2012		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
Within 1 year	960,108,483.73	96.85%	9,601,084.85	731,958,099.59	92.15%	7,319,581.00
1 to 2 years	21,462,412.04	2.17%	2,146,241.19	7,463,705.76	0.94%	746,370.56
2 to 3 years	3,393,212.69	0.34%	1,017,963.81	962,968.50	0.12%	288,890.56
3 to 4 years	458,736.15	0.05%	229,368.09	1,552,009.82	0.20%	776,004.92
4 to 5 years	1,370,624.76	0.14%	1,096,499.82	3,242,826.60	0.41%	2,594,261.28
Over 5 year	4,424,972.86	0.45%	4,424,972.86	49,124,658.94	6.18%	49,124,658.94
	<u>991,218,442.23</u>	100.00%	<u>18,516,130.62</u>	<u>794,304,269.21</u>	100.00%	<u>60,849,767.26</u>

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

- (e) As at 31 December 2013, accounts receivable that are individually insignificant but subject to separate provision are analysed as follows:

	Ending balance	Provision for bad debts	Ratio	Reason
Customer 1	508,889.00	508,889.00	100.00%	Although the company has won the lawsuit, it is expected that the amount could not be recovered.
Customer 2	477,000.16	477,000.16	100.00%	This company is in poor situation and it is expected that the amount could not be recovered.
Customer 3	470,000.00	470,000.00	100.00%	It is expected that the amount could not be recovered.
Customer 4	467,462.40	467,462.40	100.00%	Although the Group has sued this company, it is expected that the amount could not be recovered.
Customer 5	400,000.00	400,000.00	100.00%	It is expected that the amount could not be recovered.
Others	3,674,957.13	3,674,957.13	100.00%	It is expected that the amount could not be recovered.
	<u>5,998,308.69</u>	<u>5,998,308.69</u>	100.00%	

- (f) As at 31 December 2013 and 31 December 2012, there is no material accounts receivable which have past due but not impaired.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

(g) Reversal or collection during the current period is as follows:

Item	Reason of reversal or collection	Basis of provisions previously made	Accumulated provision for bad debts made before reversal or collection	Amount received	Amount of reversal of provision for bad debts
Accounts receivable due from certain customers	Some receivables were collected due to efforts on collection	Certain customer were not able to settle the receivables according to contracts or agreements	377,255.40	376,006.41	1,248.99

(h) There are no accounts receivable that have been collected by restructuring or other manners during the current period.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

- (i) Accounts receivable (RMB46,809 thousand) that are written off during the current period are analysed as follows:

	Nature	Amount	Reason	Arising from related party transaction or not
Baiyun Trading Department	Payment	8,146,626.00	It is verified that the amount could not be recovered.	Yes
HongKong Xin Min Pharmaceutical Co., Ltd.	Payment	7,965,357.40	It is verified that the amount could not be recovered.	Yes
Beijing Heng He Kang Jian Pharmaceutical Co., Ltd.	Payment	1,441,606.84	It is verified that the amount could not be recovered.	No
Anguo Jin Zhou Medicine Store	Payment	1,207,975.00	It is verified that the amount could not be recovered.	No
Wuhan Jiang Han District Pharmaceutical Co., Ltd. Kang Xin Pharmaceutical Sales Department	Payment	1,313,862.84	It is verified that the amount could not be recovered.	No
Hong Kong Hua Jia	Payment	1,093,328.57	It is verified that the amount could not be recovered.	No
Managing Department of supplier	Payment	894,507.27	It is verified that the amount could not be recovered.	No
Sichuan Ziyang Medicine Co., Ltd.	Payment	887,173.28	It is verified that the amount could not be recovered.	No
Hong Kong Hui Da	Payment	623,790.53	It is verified that the amount could not be recovered.	No
Tangshan Pharmaceutical Co., Ltd.	Payment	525,960.15	It is verified that the amount could not be recovered.	No
Others	Payment	22,709,044.67	It is verified that the amount could not be recovered.	No
Total		<u>46,809,232.55</u>		

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

(j) As at 31 December 2013, accounts receivable from shareholders who hold more than 5% (including 5%) of the voting rights of the Company is account receivable of RMB11 thousand from GPLH (as at 31 December 2012: account receivable of RMB5 thousand from GPLH).

(k) As at 31 December 2013, the top five of accounts receivable are analysed as follows:

	Relationship with the Group	Amount	Aging	% of total balance
Customer 1	Third Party	104,776,117.54	Within 1 year	10.45%
Customer 2	Third Party	43,381,140.18	Within 1 year	4.32%
Customer 3	Third Party	40,702,800.00	Within 1 year	4.06%
Customer 4	Third Party	35,274,039.92	Within 1 year	3.52%
Customer 5	Third Party	22,043,640.00	Within 1 year	2.20%
		246,177,737.64		24.55%

(l) As at 31 December 2013, accounts receivable from related parties accounted for 3.64% of total accounts receivable balance (as at 31 December 2012: 4.61%), refer to Note 6 for details.

(m) There are no accounts receivable derecognised due to transfer of financial assets during the current period.

(n) As at 31 December 2013, there are no securitizations that targeted at accounts receivable.

(o) Accounts receivable denominated in foreign currencies are summarised as follows:

	31 December 2013			31 December 2012		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
USD	2,258,215.76	6.0969	13,768,115.67	3,292,105.21	6.2855	20,692,441.88
HKD	7,003,374.71	0.7862	5,506,263.30	4,079,670.98	0.8109	3,308,001.22
EUR	-	Not applicable	-	13,842.70	8.3132	115,077.68
JPY	-	Not applicable	-	94,162,500.00	0.0731	6,879,284.85
			19,274,378.97			30,994,805.63

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables

	31 December 2013	31 December 2012
Petty cash	5,590,842.15	7,575,235.72
Deposits	29,838,619.79	18,264,564.35
Staff advances	28,921,124.81	22,924,389.79
Receivables due from external parties	80,899,440.84	53,977,036.93
Receivables due from related parties (Note 6(5))	22,753,002.38	6,121,139.00
Tax refund for exports	21,117,734.81	25,430,444.37
Taxes pending for customs registration	4,623,940.24	6,382,157.92
Others	5,265,491.20	10,414,648.03
	199,010,196.22	151,089,616.11
Less: Provision for bad debts	17,864,477.96	30,397,527.06
	181,145,718.26	120,692,089.05

(a) Other receivables by aging are analysed as follows:

	31 December 2013			31 December 2012		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	144,239,141.72	72.48%	135,681.15	104,557,138.29	69.20%	350,438.56
1 to 2 years	7,931,234.15	3.99%	333,846.86	5,795,688.71	3.84%	128,507.72
2 to 3 years	5,348,410.41	2.69%	614,277.81	5,758,323.82	3.81%	2,600,900.39
3 to 4 years	5,023,200.99	2.52%	2,269,357.12	3,905,291.89	2.58%	309,873.67
4 to 5 years	1,878,996.56	0.94%	382,438.20	1,386,083.29	0.92%	676,317.27
Over 5 years	34,589,212.39	17.38%	14,128,876.82	29,687,090.11	19.65%	26,331,489.45
	199,010,196.22	100.00%	17,864,477.96	151,089,616.11	100.00%	30,397,527.06

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

(b) Other receivables by categories are analysed as follows:

	31 December 2013			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	10,870,395.15	5.46%	10,870,395.15	100.00%
Subject to provision by groups:				
Group 1	19,208,172.17	9.65%	2,211,869.09	11.52%
Group 2	77,145,826.05	38.76%	–	0.00%
Group 3	22,753,002.38	11.43%	100,000.00	0.44%
Group 4	64,350,586.75	32.35%	–	0.00%
Individually insignificant but subject to separate provision	4,682,213.72	2.35%	4,682,213.72	100.00%
	199,010,196.22	100.00%	17,864,477.96	8.98%

	31 December 2012			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	10,970,395.15	7.26%	10,970,395.15	100.00%
Subject to provision by groups:				
Group 1	12,852,138.28	8.51%	2,099,027.22	16.33%
Group 2	55,149,369.93	36.49%	–	–
Group 3	6,121,139.00	4.05%	100,000.00	1.63%
Group 4	48,764,189.86	32.28%	–	–
Individually insignificant but subject to separate provision	17,232,383.89	11.41%	17,228,104.69	99.98%
	151,089,616.11	100.00%	30,397,527.06	20.12%

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

- (c) Other receivables that are individually significant and subject to separate provision are analysed as follows:

	Ending balance	Provision for bad debts	Ratio	Reason
Other receivables 1	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 2	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 3	1,520,000.00	1,520,000.00	100.00%	As this company went bankrupt, it is expected that the amount would not be recoverable
Other receivables 4	1,025,878.50	1,025,878.50	100.00%	As this company went bankrupt, it is expected that the amount would not be recoverable
Other receivables 5	502,043.54	502,043.54	100.00%	As this company is on bankruptcy liquidation procedures, it is expected that the amount could not be recovered
Others	3,152,755.76	3,152,755.76	100.00%	It is expected that the amount could not be recovered
	<u>10,870,395.15</u>	<u>10,870,395.15</u>	100.00%	

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

- (d) The groups of other receivables in which provisions are made using aging analysis method are analysed as follows:

	31 December 2013			31 December 2012		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	13,568,115.20	70.64%	135,681.15	9,095,857.00	70.77%	90,958.57
1 to 2 years	3,338,468.60	17.38%	333,846.86	820,813.83	6.39%	82,081.38
2 to 3 years	566,288.40	2.95%	169,886.52	883,583.80	6.87%	265,075.14
3 to 4 years	264,869.63	1.38%	132,434.82	558,747.33	4.35%	279,373.67
4 to 5 years	152,053.00	0.79%	121,642.40	557,989.33	4.34%	446,391.47
Over 5 years	1,318,377.34	6.86%	1,318,377.34	935,146.99	7.28%	935,146.99
	19,208,172.17	100.00%	2,211,869.09	12,852,138.28	100.00%	2,099,027.22

- (e) Other receivables that are individually insignificant but subject to separate provision are analysed as follows:

	Ending balance	Provision for bad debts	Ratio	Reason
Other receivables 1	85,500.00	85,500.00	100.00%	It is expected that the amount could not be recovered
Other receivables 2	71,739.00	71,739.00	100.00%	It is expected that the amount could not be recovered
Other receivables 3	65,846.20	65,846.20	100.00%	It is expected that the amount could not be recovered
Other receivables 4	60,080.00	60,080.00	100.00%	It is expected that the amount could not be recovered
Other receivables 5	59,200.00	59,200.00	100.00%	It is expected that the amount could not be recovered
Others	4,339,848.52	4,339,848.52	100.00%	It is expected that the amount could not be recovered
	4,682,213.72	4,682,213.72	100.00%	

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

- (f) Other receivables that are subject to full provision or in large proportionate but have been reversed or collected in the current period are analysed as follows:

Other receivables	Reason	Basis	Amount of provision for bad debts before reverse or collect	Amount	Amount of provision for bad debts
South Securities Company	Received settlement of accounts	The company went bankruptcy	255,055.04	255,055.04	-

- (g) There are no other receivables that have been collected by restructuring or other manners in the current period.

- (h) Other receivables (RMB11,606 thousand) that have been written off in the current period are analysed as follows:

	Nature	Amount	Reason	Arisen from related transactions or not
HongKong Hong Xing	Current account	5,240,280.90	It is verified that the amount could not be recoverable	No
Guangzhou Baiyunshan Group Foreign Trading Department	Current account	1,659,044.09	It is verified that the amount could not be recoverable	Yes
Baiyun District Tax Bureau	Tax in advance	940,000.00	It is verified that the amount could not be recoverable	No
Baiyun Company	Current account	850,165.00	It is verified that the amount could not be recoverable	No
Withholding Tax	Tax withholding	742,729.77	It is verified that the amount could not be recoverable	No
Chengdu CPM Technology Development	Current account	647,703.90	It is verified that the amount could not be recoverable	No
Others	Current account	1,526,486.01	It is verified that the amount could not be recoverable	No
Total		11,606,409.67		

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

- (i) As at 31 December 2013, other receivable from shareholders who hold more than 5% (including 5%) of the voting rights of the Company is RMB842 thousand from GPLL. (As at 31 December 2012: RMB897 thousand).
- (j) As at 31 December 2013, The top five of the debt form the balance of other receivables is analysed as follows:

	Relationship with the company	Amount	Aging	% of total balance
Other receivables 1	Third party	21,117,734.81	Within 1 year	10.61%
Other receivables 2	Related party	19,258,298.81	Within 1 year	9.68%
Other receivables 3	Third party	12,370,000.00	Within 1 year	6.22%
Other receivables 4	Third party	10,000,000.00	Within 1 year	5.02%
Other receivables 5	Third party	7,000,001.25	Within 1 year	3.52%
		69,746,034.87		35.05%

- (k) As at 31 December 2013, accounts receivable from related parties accounted for 11.43% of total other accounts receivable balance (as at 31 December 2012: 4.05%): refer to Note 6 for details.
- (l) There are no other receivables derecognised due to transfer of financial assets during the current period.
- (m) As at 31 December 2013, there are no securitizations that targeted at other receivables.
- (n) As at 31 December 2013, the other receivables denominated in foreign currencies are summarised as follows:

	31 December 2013			31 December 2012		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
HKD	674,748.02	0.7862	530,507.14	783,924.04	0.8108	635,644.81
			530,507.14			635,644.81

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Advances to suppliers

(a) The aging of advances to suppliers is analysed as follows:

	31 December 2013		31 December 2012	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	564,108,967.87	91.89%	439,593,021.58	98.41%
1 to 2 years	45,971,995.32	7.49%	3,071,649.81	0.69%
2 to 3 years	899,375.16	0.15%	90,086.72	0.02%
Over 3 years	2,901,983.43	0.47%	3,912,777.27	0.88%
	613,882,321.78	100.00%	446,667,535.38	100.00%

(b) The top five of advances to suppliers are analysed as follows:

	Relationship with the Group	Amount	Aging	Reason of unsettlement
Supplier 1	Third party	95,582,753.94	Within 1 year	Normal purchases
Supplier 2	Third party	43,732,480.68	Within 1 year	Normal purchases
Supplier 3	Third party	39,638,084.95	Within 1 year	Normal purchases
Supplier 4	Third party	35,289,416.00	Within 1 year	Normal purchases
Supplier 5	Third party	28,910,399.96	Within 1 year	Normal purchases
		243,153,135.53		

(c) As at 31 December 2013 and 31 December 2012, there are no advances to shareholders who hold more than 5% (including 5%) of the voting rights of the Company.

(d) As at 31 December 2013, the advances to related parties accounted for 1.42% of the total balance of advances to suppliers (as at 31 December 2012: 0.71%): refer to Note 6 for details.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Advances to suppliers (Continued)

(e) The advances to suppliers denominated in foreign currencies are summarised as follows:

	31 December 2013			31 December 2012		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
USD	1,676,642.10	6.1346	10,286,671.47	81,144.00	6.2982	511,057.10
HKD	30,976,632.30	0.8077	25,019,855.88	54,694,649.30	0.8115	44,383,646.99
EUR	-	Not applicable	-	2,206,255.60	8.2211	18,137,855.73
			35,306,527.35			63,032,559.82

(f) As at 31 December 2013 and 31 December 2012, There is no significant advances to suppliers with aging over one year.

(8) Inventories

(a) Classification of inventories

	31 December 2013			31 December 2012		
	Ending balance	Provision for declines in value of inventories	Carrying amount	Ending balance	Provision for declines in value of inventories	Carrying amount
Goods in transit	6,259,476.04	-	6,259,476.04	4,633,011.92	-	4,633,011.92
Raw materials	596,252,876.34	1,163,784.28	595,089,092.06	570,735,254.37	3,101,901.17	567,633,353.20
Work in progress	156,376,261.67	-	156,376,261.67	180,150,442.91	-	180,150,442.91
Semi-finished goods	190,609,695.88	981,315.46	189,628,380.42	150,787,462.46	981,315.46	149,806,147.00
Finished goods	683,304,886.83	12,214,273.40	671,090,613.43	693,610,834.47	9,465,771.70	684,145,062.77
Low-value consumables	3,951,500.73	-	3,951,500.73	4,124,577.02	131,357.96	3,993,219.06
Packaging materials	104,359,501.34	-	104,359,501.34	93,238,068.23	22,220.70	93,215,847.53
Goods In processing contract	15,464,794.08	-	15,464,794.08	8,476,288.80	-	8,476,288.80
Commodity Stocks	503,727,260.88	558,931.62	503,168,329.26	375,160,220.61	1,383,440.37	373,776,780.24
Others	441,799.02	-	441,799.02	67,980.76	-	67,980.76
	2,260,748,052.81	14,918,304.76	2,245,829,748.05	2,080,984,141.55	15,086,007.36	2,065,898,134.19

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(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Inventories (Continued)

(b) Provisions for declines in the value of inventories

Item	31 December 2012	Current period additions	Current period reductions			31 December 2013
			Reversal	Write-off	Other reductions	
Raw materials	3,101,901.17	985,421.00	131,706.70	2,748,925.60	42,905.59	1,163,784.28
Work in progress	981,315.46	–	–	–	–	981,315.46
Finished goods	9,465,771.70	7,668,359.99	2,250,825.47	2,669,032.82	–	12,214,273.40
Low-value consumables	131,357.96	–	–	–	131,357.96	–
Packaging materials	22,220.70	–	–	–	22,220.70	–
Commodity stocks	1,383,440.37	674,583.81	76,085.85	1,118,991.44	304,015.27	558,931.62
	<u>15,086,007.36</u>	<u>9,328,364.80</u>	<u>2,458,618.02</u>	<u>6,536,949.86</u>	<u>500,499.52</u>	<u>14,918,304.76</u>

(c) Provisions for declines in the value of inventories are analysed as follows

Item	Basis for provision	Reason for reversal	% of amount of reversal to the relevant inventory balance
Raw materials	The difference when net realisable value is less than carrying amount of raw material	Increase in net realisable value	0.02%
Finished goods	Carrying amount over net realisable value	Increase in market price	0.33%
Commodity stocks	Carrying amount over net realisable value	Increase in market price	0.02%

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) Other current assets

	31 December 2013	31 December 2012
Deductible Input VAT	19,142,497.23	1,525,807.40
Provisional Income Tax paid	205,083.92	72,813.03
	19,347,581.15	1,598,620.43

The Group pays the enterprise income tax, VAT and other taxes in accordance with taxation laws, and presents them on the balance sheet based on their nature in accordance with the provisions of "Accounting Standards for Business Enterprises No.30 – Presentation of Financial Statements". For balance of deductible VAT, it is required to be presented as "Other current assets" or "Other non-current assets" in the balance sheet based on its liquidity.

(10) Available-for-sale financial assets

(a) Details are as follows:

	31 December 2013	31 December 2012
Available-for-sale shares	17,608,107.28	20,401,660.98

The available-for-sale financial assets comprise the A-share of China Everbright Bank Company Limited and A-share of Bank of Communications held by the Group, and the fair value of which is determined at the closing price quoted in the Shanghai Stock Exchange on the last trading day of the reporting period.

(b) As at 31 December 2013, amount of available-for-sale financial assets (amortized cost), fair value, accumulated movement of fair value charged as other comprehensive income and impairment are summarized as follows:

Item	Available-for-sale equity instrument
Cost of available-for-sale stock	11,249,958.40
Fair value	17,608,107.28
Accumulated movement of fair value charged as other comprehensive income	5,379,267.59
Accumulated movement of fair value charged as deferred tax liabilities	978,881.29
Impairment	–

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(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Investment in jointly controlled entities and associates

Entity	Enterprise type	Registered address	Legal Representative	Principal activities	Registered capital (RMB'0000)	Share holding	Voting right	Total assets at end of period (RMB'0000)	Total liabilities at end of period (RMB'0000)	Net assets at end of period (RMB'0000)	Sales for the period (RMB'0000)	Net profit for the period (RMB'0000)
1. Jointly controlled entities												
GP Corp.	Sino-foreign equity joint venture	Guangzhou	Li Bingrong	Trading of western pharmaceutical products and medical apparatus	70,000	50.00%	50.00%	979,412	767,747	211,664	2,285,138	19,081
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. ("Wang Lao Ji")	Sino-foreign equity joint venture	Guangzhou	Wang Jianyi	Production processing, sales of CPM beverage and candies	20,476	48.05%	48.05%	152,453	58,604	93,849	251,229	6,646
Guangzhou Promise Biological Products Co., Ltd. (Nuo Cheng) (Note 1)	Stock corporation	Guangzhou	Zhou Lijian	Production of Freeze-dried rabies vaccine for human use; import of goods, import & export of technology	8,400	49.24%	50.00%	33,563	9,330	24,233	22,197	6,973
HWBYS	Sino-foreign equity joint venture	Guangzhou	Du zhiqiang	Manufacture, construction engineering, research & development and sales of medicine, health product, food& Chinese medicinal herbs	20,000	50.00%	50.00%	120,929	57,753	63,176	157,710	10,326
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. (Baxter Qiao Guang)	Sino-foreign equity joint venture	Guangzhou	Chen Mao	Manufacture of high-capacity injection and imports, wholesale of medicine.	17,750	50.00%	50.00%	20,338	15,728	4,610	29,793	932
2. Associates												
Hanzhou Zheda Han Fang Chinese Medical Info. Engineering Co., Ltd.	Limited Liability Company	Hangzhou	Qu Haibin	Technology service and development	100	44.00%	44.00%	6	4	2	-	-
Golden Eagle Fund Management Co., Ltd	Limited Liability Company	Zhuhai	Liu Dong	Fund management	25,000	20.00%	20.00%	17,206	3,326	13,880	12,002	(3,866)
Guangzhou Jinshen Medical Co., Ltd.	Limited Liability Company	Guangzhou	Gao Qi	Research and development: natural health product, Chinese medicine and food	200	38.25%	38.25%	6	3	3	-	-
Wei Yi Co., Ltd. (Note 2)	Limited Liability Company	Guangzhou	Qiao Yong	Medical investment management	2,000	50.50%	41.00%	-	-	-	-	-

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(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Investment in jointly controlled entities and associates (Continued)

Note 1: The reason of difference between ratio of equity interest held and ratio of voting rights held of this company is that the Company holds the shares of this company indirectly through subsidiaries which are not wholly-owned by the Company, making the ratio of equity interest held lower than ratio of voting rights held.

Note 2: The reason of difference between ratio of equity interest held and ratio of voting rights held of this company is that as at 8 November 2012, the Company and Guangdong Wen Ming Investment Management Co., Ltd. and Ka Shi Region Weiwuer Hospital jointly established Wei Yi Co., Ltd. Pursuant to the Articles of Association, the registered capital of this company is RMB20,000 thousand, the Company, Guangdong Wen Ming Investment Management Co., Ltd. and Ka Shi Region Weiwuer Hospital contributed RMB8,200 thousand, RMB7,800 thousand and RMB4,000 thousand respectively. The first phase contribution from the Company and Guangdong Wen Ming Investment Management Co., Ltd. is RMB2,020 thousand and RMB1,980 thousand respectively. As at 31 December 2013, the paid-in capital of Guangdong Wen Ming Investment Management Co., Ltd. is RMB4,000 thousand.

None of the jointly controlled entities and associates of the Group are listed companies.

(12) Long-term equity investments

(a) Details of long-term equity investments

Entity	Investment cost	31 December	Current period	31 December	% Equity interest held	% Voting rights held	Impairment provision	Impairment	Cash dividend in current period
		2012	movement	2013				provided in the current period	
Equity method:									
GP Corp.	396,589,139.78	865,089,213.72	82,865,153.62	947,954,367.34	50.00%	50.00%	-	-	-
Wang Lao Ji	102,035,124.44	418,658,001.69	31,848,288.13	450,506,289.82	48.05%	48.05%	-	-	-
Nuo Cheng	42,000,000.00	85,015,307.46	36,147,354.36	121,162,661.82	49.24%	50.00%	-	-	-
HWBYS	100,000,000.00	271,656,205.28	25,816,300.13	297,472,505.41	50.00%	50.00%	-	-	20,000,000.00
Baxter Qiao Guang	37,000,000.00	18,391,904.41	4,659,933.12	23,051,837.53	50.00%	50.00%	-	-	-
Guangzhou Jinshen Medical Co., Ltd.	765,000.00	-	-	-	38.25%	38.25%	-	-	-
Hangzhou Zheda Han Fang Chinese Medical Infor. Engineering Co., Ltd.	440,000.00	-	-	-	44.00%	44.00%	-	-	-
Golden Eagle Fund Management Co., Ltd	50,000,000.00	36,297,916.34	(7,732,458.87)	28,565,457.47	20.00%	20.00%	-	-	-
Wei Yi Co., Ltd.	2,020,000.00	2,020,000.00	-	2,020,000.00	50.50%	41.00%	-	-	-
Subtotal	730,849,264.22	1,697,128,548.90	173,604,570.49	1,870,733,119.39	-	-	-	-	20,000,000.00

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(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Long-term equity investments (Continued)

(a) Details of long-term equity investments (Continued)

Entity	Investment cost	31 December 2012	Current period movement	31 December 2013	% Equity interest held	% Voting rights held	Impairment provision	Impairment provided in the current period	Cash dividend in current period
Cost method:									
Shanghai Jiuhetang Chinese Medicine Co., Ltd. (Note 1)	515,000.00	547,193.71	-	547,193.71	9.53%	10.00%	-	-	-
Beijing Imperial Court Cultural Development Company Ltd.	200,000.00	200,000.00	-	200,000.00	10.00%	10.00%	-	-	-
Qi Xing Ma Zhong Pharmaceutical Co., Ltd (Note 2)	362,826.38	362,826.38	-	362,826.38	40.00%	40.00%	-	-	-
San You Development Co., Ltd of Indonesia (Note 2)	1,078,551.23	1,078,551.23	-	1,078,551.23	50.00%	50.00%	1,078,551.23	-	-
Sales Store of Peking Road of Guangzhou Medicine Co., Ltd (Note 2)	218,399.05	218,399.05	-	218,399.05	20.00%	20.00%	-	-	-
South China Innovative Pharmaceutical Co., Ltd of Guangdong	10,000,000.00	10,000,000.00	-	10,000,000.00	11.12%	11.12%	-	-	-
Shenzhen Zhong Lian Guang Shen Pharmaceutical Group Co., Ltd.	312,077.00	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	9.97%	9.97%	300,000.00	-	-
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	2.80%	2.80%	2,000,000.00	-	-
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	5.00%	5.00%	275,000.00	-	-
Guangzhou Nan Xin Pharmaceutical Co., Ltd.	7,677,876.51	7,677,876.51	-	7,677,876.51	13.00%	13.00%	-	-	4,410,900.00
Guangzhou Yu Fa Medical Instrument Co., Ltd.	100,000.00	100,000.00	-	100,000.00	10.00%	10.00%	100,000.00	-	-
Baxter Healthcare (Note 3)	82,338,800.00	-	82,338,800.00	82,338,800.00	12.50%	12.50%	-	-	4,500,000.00
Guangzhou Bank of Commerce	100,000.00	100,000.00	-	100,000.00	-	-	-	-	18,106.82
Subtotal	106,278,530.17	23,971,923.88	82,338,800.00	106,310,723.88	-	-	4,553,551.23	-	8,941,351.14
Total	837,127,794.39	1,721,100,472.78	255,943,370.49	1,977,043,843.27	-	-	4,553,551.23	-	28,941,351.14

Note:

- The reason of difference between ratio of equity interest held and ratio of voting rights held of this company is that the Company holds the shares of this company indirectly through subsidiaries which are not wholly-owned by the Company, making the ratio of equity interest held lower than ratio of voting rights held.
- The Group have not participated in the operation of Mazhong Medicine of Qi Xing and Sales Store of Peking Road of Guangzhou Medicine Co., Ltd., nor exercised significant influence on them, in which the investments were measured using the cost method.
- As in June, 2013 the Company completed the acquiring of 12.5% equity of Baxter Healthcare held by GPLH by issuing an addition of 6,804,860 shares to GPLH. The issued price is based on the A shares' average price of the 20 transaction days before the announcement date of the board resolution regarding the first discussion of the related matters of the assets reorganisation. The price is RMB12.10 per share confirmed after ex right and ex interest. Pursuant to the "Report of asset appraisal on the equity of Baxter Healthcare acquired by the Company." (Zhong Tian Heng Ping Bao Zi [2012] No. 028) issued by China Valuer International Co., Ltd. the appraisal value on 31 December 2011 of Baxter Healthcare is RMB82,338.8 thousand, which increases 6,804,860 A share of the Company.

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(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Long-term equity investments (Continued)

(b) There are no limitation on fund transfer between the Group and its invested.

(13) Investment properties

(a) Investment properties – cost method:

	31 December 2012	Current period addition	Current period disposal	31 December 2013
Cost	266,574,616.45	119,353,715.00	1,891,507.01	384,036,824.44
Buildings	248,229,715.76	119,353,715.00	1,891,507.01	365,691,923.75
Land use rights	18,344,900.69	–	–	18,344,900.69
Accumulated depreciation and amortisation	130,380,179.00	9,056,232.08	1,708,832.01	137,727,579.07
Buildings	123,055,459.42	8,769,990.01	1,708,823.01	130,116,617.42
Land use rights	7,324,719.58	286,242.07	–	7,610,961.65
Net book value	136,194,437.45			246,309,245.37
Buildings	125,174,256.34			235,575,306.33
Land use rights	11,020,181.11			10,733,939.04
Provision for impairment	–	–	–	–
Buildings	–	–	–	–
Land use rights	–	–	–	–
Carrying amount	136,194,437.45			246,309,245.37
Buildings	125,174,256.34			235,575,306.33
Land use rights	11,020,181.11			10,733,939.04

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(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(13) Investment properties *(Continued)*

- (a) Investment properties – cost method: *(Continued)*
- (i) Depreciation charges for the year ended 2013 amounted to RMB8,770 thousand. (for the year ended 2012: RMB7,568 thousand); Amortisation charges for the year ended 2013 amounted to RMB286 thousand (for the year ended 2012: RMB226 thousand).
 - (ii) As for the year ended 2013, The decrease of original cost and accumulated depreciation of the investment properties arising from the fluctuations in exchange is RMB199 thousand and RMB67 thousand respectively. (As for the year ended 2012: RMB1 thousand and RMB0 thousand respectively.)
 - (iii) The land use right among the investment properties is located in Mainland China, and the useful life is 10-50 years.
 - (iv) The increase of investment properties in current period is mainly due to the purchase of the buildings owned by GPLH by the issue of 19,069,338 new A shares to GPLH. This issued price is based on the A shares' average price of 20 transaction days before the announcement date of the board resolution regarding the first discussion of the related matters of the assets reorganization. The price is RMB12.10 per share confirmed after ex right and ex interest. Pursuant to the "Report of asset appraisal on the equity of real estate and trademark purchased by the Company" (Zhong Tian Heng Ping Bao Zi [2012] No. 026) issued by China Valuer International Co., Ltd. the appraisal value on 31 December 2011 of the above-mentioned buildings is RMB230,740 thousand, When the above-mentioned properties are transferred to and registered under the name of the Company, the area is 137.74 square meters less than that agreed in the appraisal report, GPLH made up the difference with cash RMB1,342,300 Pursuant to the different usage of the above-mentioned buildings, RMB117,040 thousand is recorded as investment properties, RMB113,700 thousand is recorded as fixed assets.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Fixed assets and Accumulated depreciation

(a) Fixed assets

	31 December 2012	Current increase	Current decrease	31 December 2013
Cost	3,412,942,476.09	324,379,543.34	90,502,484.95	3,646,819,534.48
Buildings	1,665,966,056.24	188,642,315.18	13,797,137.60	1,840,811,233.82
Machinery and equipment	1,369,055,227.85	101,193,208.68	50,075,762.37	1,420,172,674.16
Motor vehicles	96,621,115.02	5,806,747.31	7,526,185.05	94,901,677.28
Electronic equipments	130,148,838.75	8,464,627.49	8,447,267.78	130,166,198.46
Office equipment	97,747,414.62	12,525,333.24	10,656,132.15	99,616,615.71
Decoration and fixtures	53,403,823.61	7,747,311.44	–	61,151,135.05
Accumulated depreciation	1,800,884,864.47	165,676,161.31	72,065,284.10	1,894,495,741.68
Buildings	631,690,904.98	57,405,970.87	3,777,000.98	685,319,874.87
Machinery and equipment	899,376,682.29	85,231,609.19	48,858,011.22	935,750,280.26
Motor vehicles	70,164,361.40	4,570,736.98	6,994,081.19	67,741,017.19
Electronic equipments	88,031,607.21	7,902,328.08	7,788,681.91	88,145,253.38
Office equipment	62,281,091.54	7,920,652.51	4,647,508.80	65,554,235.25
Decoration and fixtures	49,340,217.05	2,644,863.68	–	51,985,080.73
Provision for impairment	20,061,484.89	612,824.67	232,462.61	20,441,846.95
Buildings	9,818,341.35	–	–	9,818,341.35
Machinery and equipment	8,386,959.95	605,464.18	172,772.61	8,819,651.52
Motor vehicles	217,914.47	–	59,690.00	158,224.47
Electronic equipments	1,635,422.74	7,360.49	–	1,642,783.23
Office equipment	2,846.38	–	–	2,846.38
Decoration and fixtures	–	–	–	–
Carrying amount	1,591,996,126.73			1,731,881,945.85
Buildings	1,024,456,809.91			1,145,673,017.60
Machinery and equipment	461,291,585.61			475,602,742.38
Motor vehicles	26,238,839.15			27,002,435.62
Electronic equipments	40,481,808.80			40,378,161.85
Office equipment	35,463,476.70			34,059,534.08
Decoration and fixtures	4,063,606.56			9,166,054.32

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Fixed assets and Accumulated depreciation (Continued)

(a) Fixed assets (Continued)

- (i) For the year ended 2013, the fixed assets transferred from construction in progress amounted to RMB162,688 thousand (for year ended 2012: RMB58,408 thousand).
- (ii) As for the year ended 2013, the decrease of original cost and accumulated depreciation of fixed assets is due to fluctuations in exchange amount are RMB262 thousand and RMB90 thousand respectively. (As for the year ended 2012: RMB2 thousand and RMB0 thousand respectively)
- (iii) Depreciation expenses for the year ended 2013 amounted to RMB165,676 thousand in total (for the the year ended 2012: RMB166,885 thousand), of which RMB114,280 thousand, RMB2,447 thousand and RMB48,949 thousand were charged to cost of sales, selling and distribution expenses and general and administrative expenses, respectively (for the year ended 2012: RMB116,372 thousand, RMB2,647 thousand and RMB47,866 thousand respectively).

- (b) As at 31 December 2013, the buildings and the machinery and equipment are temporarily idle, which are analysed as follows:

	Cost	Accumulated depreciation	Provision for impairment loss	Carrying amount
Buildings	6,478,874.98	1,604,872.01	4,618,987.46	255,015.51
Machinery	15,029,241.63	7,270,254.23	7,758,987.40	–
Electrical equipment	147,897.48	69,184.00	78,713.48	–

- (c) As at 31 December 2013, fixed assets which were lack of ownership certificate are summarised as follows:

	Carrying amount	Reason	Estimated date of obtaining the ownership certificate
Buildings	39,619,593.92	Procedures are not complete, so the certificates are not handled.	Uncertain
Motor vehicles	147,187.50	Procedures are not complete, so the ownership cannot be transferred	Uncertain
	<u>39,766,781.42</u>		

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Fixed assets and Accumulated depreciation (Continued)

(d) Fixed assets held under operating leases are summarised as follows:

	31 December 2013 Carrying Amount	31 December 2012 Carrying Amount
Buildings	8,200,580.22	11,533,263.06

(e) The increase amounted to RMB113,700 thousand at current period of fixed assets is due to the purchase of the buildings owned by GPLH by issuing an addition of 19,069,388 shares to GPLH in June 2013, (refer to Note 5(13)(a)).

(f) As at 31 December 2013, Guangyao Baiyunshan (Hong Kong) Limited, a subsidiary of the Company, acquired the comprehensive credit loan amounted to HKD300 thousand, letter of credit and the total amount of trust letter amounted to HKD100,000 thousand from Bank of China (Hong Kong) Co., Ltd., by the original value amounted to HKD8,893 thousand, the net value HKD6,616 thousand of the buildings of fixed assets and the original value amounted to HKD6,843 thousand, the net value amounted to HKD4,225 thousand of investment properties, and the issued undue L/C amounted to USD155 thousand.

(15) Construction in progress

	31 December 2013			31 December 2012		
	Ending balance	Provision for impairment	Carrying amount	Ending balance	Provision for impairment	Carrying amount
Construction in progress	336,543,747.06	1,121,052.88	335,422,694.18	141,198,742.20	1,121,052.88	140,077,689.32

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(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Construction in progress (Continued)

(a) Movement of construction in progress

	Budget	31 December 2012	Current period additions	Current period reductions		31 December 2013	Source of funds	% contribution in budget
				Transferred to Fixed assets	Other decrease			
Sewage Disposal Line of Zhongyi	1,076,307.00	479,176.40	257,910.69	432,329.53	-	304,757.56	Self-funding	68.48%
EMS System	1,940,000.00	725,000.00	435,000.00	-	1,160,000.00	-	Self-funding	59.79%
Yunpu New Equipment Project	8,500,000.00	2,010,767.87	3,410,233.00	2,132,061.81	1,406,257.90	1,882,681.16	Self-funding	112.96%
Holeless casting machine and site improvement	9,500,000.00	-	3,812,639.40	3,812,639.40	-	-	Self-funding	93.16%
Showroom construction of Zhongyi	1,875,267.05	935,000.00	940,267.05	1,875,267.05	-	-	Self-funding	100.00%
Bag-packaging Line of Second Manufacturing Department	1,280,000.00	-	1,094,017.09	1,094,017.09	-	-	Self-funding	85.47%
GMP improvement project	10,586,473.86	-	7,351,430.66	7,351,430.66	-	-	Self-funding	69.44%
Pill Line	5,000,000.00	1,534,400.00	-	-	309,400.00	1,225,000.00	Self-funding	24.50%
Olein Production Line	14,300,000.00	627,634.00	106,640.00	147,440.00	586,834.00	-	Self-funding	5.13%
Improvement Project for Sewage Disposal Line	1,500,000.00	1,041,218.92	661,682.63	1,673,060.55	29,841.00	-	Self-funding	113.53%
Solvent tank farm project	1,300,000.00	425,178.29	-	-	425,178.29	-	Self-funding	32.71%
Road works dormitory surrounding	1,630,000.00	456,505.08	-	54,505.24	-	401,999.84	Self-funding	28.01%
Near-infrared line detection Tendril-leaved Fritillary Bulb Dose	5,500,000.00	5,232,967.54	192,406.70	-	-	5,425,374.24	Self-funding	98.64%
Tonic Auto-packaging Line	330,000.00	329,247.86	-	329,247.86	-	-	Self-funding	99.77%
Chuanbeili auto-packaging Line	2,088,974.40	1,067,100.00	1,021,874.40	2,057,589.78	31,384.62	-	Self-funding	98.50%
Office Building	8,713,000.00	233,776.58	6,383,964.60	-	-	6,617,741.18	Self-funding	75.95%
Research of Bio Vaccine & Industrialisation Platform	25,600,000.00	104,528.00	3,674,450.46	-	-	3,778,978.46	Self-funding	14.76%
Office computer	2,375,000.00	-	2,377,087.94	2,377,087.94	-	-	Self-funding	100.09%
Wanglaoji herbal tea museum decoration	5,500,000.00	-	2,849,550.73	-	-	2,849,550.73	Self-funding	51.81%
Wanglaoji Yaan manufacturing project	298,000,000.00	-	1,092,423.00	-	-	1,092,423.00	Offering funds, others	0.37%
Office Equipment & Motor Vehicle	6,110,000.00	-	4,831,140.00	4,159,753.00	209,183.00	462,204.00	Self-funding	79.07%
Pill Preparation Line Technological Transformation Project	8,000,000.00	2,260,189.40	1,703,982.99	1,282,320.68	201,167.94	2,480,683.77	Self-funding	47.04%
GMP Site Improvement	6,920,000.00	32,000.00	4,592,426.40	972,181.71	893,069.75	2,759,174.94	Self-funding	53.92%
General Factory New Freezer Installation	10,334,999.40	580,499.46	24,995.29	605,494.75	-	-	Self-funding	100.00%
General Factory Powder Inj. Equipment Project	69,700,000.00	17,086,499.47	51,181,425.23	42,153,736.25	-	26,114,188.45	Self-funding, allocation	97.95%
General Factory Oral Cephalosporins Improvement	7,850,000.00	1,220,912.42	-	-	-	1,220,912.42	Self-funding	100.00%
General Factory Solid Preparation GMP Improvement	1,300,000.00	1,215,879.66	-	1,215,879.66	-	-	Self-funding	93.53%
Chemical Factory Sterile APIs No.204 Workshop Technology Improvement	3,260,000.00	806,092.36	-	-	-	806,092.36	Self-funding	24.73%
Chemical Factory Cephalosporins Sterile APIs Line Improvement	48,381,100.00	1,634,570.12	19,713,281.10	-	-	21,347,851.22	Self-funding, loan	44.12%

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(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Construction in progress (Continued)

(a) Movement of construction in progress (Continued)

	Budget	31 December 2012	Current period additions	Current period reductions		31 December 2013	Source of funds	% contribution in budget
				Transferred to Fixed assets	Other decrease			
Chemical Factory Oral API GMP Improvement	11,695,100.00	302,226.52	4,180,009.27	-	-	4,482,235.79	Self-funding	38.33%
Adhesive Plaster Workshop Improvement	1,660,000.00	-	1,222,013.30	1,162,013.30	-	60,000.00	Self-funding	73.62%
AB0807098-1 land parcel of Zhongluotan Wulonggang	120,000,000.00	-	24,223,095.00	-	22,867,295.00	1,355,800.00	Self-funding	20.19%
Eye drops workshop improvement	4,230,000.00	-	64,000.00	-	-	64,000.00	Self-funding	1.51%
Tonghe cream improvement	6,920,000.00	-	1,069,404.71	-	-	1,069,404.71	Self-funding	15.45%
Liwan No.24 building GMP improvement (2013)	3,320,000.00	-	194,400.00	-	-	194,400.00	Self-funding	5.86%
Liwan No.21 building GMP improvement (2013)	5,421,000.00	-	125,200.00	-	-	125,200.00	Self-funding	2.31%
Tian Xin Powder Inj. Project	7,000,000.00	1,418,491.76	3,840,360.96	1,282,817.95	-	3,976,034.77	Self-funding	75.13%
Tian Xin Chemical Institute Project	25,500,000.00	18,662,592.40	6,832,206.46	6,176,413.63	-	19,318,385.23	Self-funding	99.98%
Tian Xin Wei D 2 Tartaric Acid Inj.	15,000,000.00	200,000.00	-	-	-	200,000.00	Self-funding	1.33%
Tian Xin Asepsis Water Inj Workshop	20,000,000.00	9,135,611.46	2,471,498.96	4,108,874.69	-	7,498,235.73	Self-funding	58.04%
Tian Xin Waste Water Recycling	1,200,000.00	178,629.00	151,216.00	-	-	329,845.00	Self-funding	27.49%
Tian Xin Powder Injector & Screw Arbor Line	19,800,000.00	1,757,128.42	-	-	-	1,757,128.42	Self-funding	8.87%
Tian Xin Cephalosporins Workshop Improvement	12,000,000.00	8,293,373.98	2,912,325.70	3,352,432.62	-	7,853,267.06	Self-funding	93.38%
Tian Xin Water Inj Workshop	15,900,000.00	11,770,268.08	4,052,776.28	5,530,299.66	-	10,292,744.70	Self-funding	99.52%
Tian Xin Penicillin GMP Improvement	12,900,000.00	-	8,211,350.94	-	-	8,211,350.94	Self-funding	63.65%
Tian Xin GMP Improvement	18,460,000.00	-	18,009,453.19	-	-	18,009,453.19	Self-funding, loan	97.56%
Purchasing import lamp inspection machine project	12,000,000.00	-	4,927,518.80	-	-	4,927,518.80	Self-funding	41.06%
Preparation workshop GMP improvement	2,500,000.00	-	1,150,000.00	-	-	1,150,000.00	Self-funding	46.00%
Ming Xing Equipment Improvement	67,430,000.00	14,548,708.07	25,359,250.79	20,840,776.51	32,192.28	19,034,990.07	Self-funding	59.18%
Ming Xing Cong Hua Xing Zhou Workshop	9,710,000.00	8,272,855.00	974,791.52	7,060,687.20	-	2,186,959.32	Self-funding	95.24%
Ming Xing Workshop Improvement	16,100,000.00	4,983,395.90	5,786,312.44	7,182,641.79	-	3,587,066.55	Self-funding	66.89%
Ming Xing Decoration	17,200,000.00	1,511,650.00	10,729,906.12	1,530,062.55	-	10,711,493.57	Self-funding	71.17%
Ming Xing relocation improvement	340,000,000.00	-	79,407,091.41	-	-	79,407,091.41	Self-funding	23.36%
Lyophilized powder	30,000,000.00	-	838,497.02	-	-	838,497.02	Self-funding	2.79%
Weiling new factory	45,760,000.00	927,221.73	32,105,982.77	-	-	33,033,204.50	Self-funding	72.19%
Others	64,634,106.03	19,197,446.45	33,645,117.36	30,735,215.42	4,007,521.44	18,099,826.95	Self-funding	
		141,198,742.20	390,192,608.36	162,688,278.28	32,159,325.22	336,543,747.06		

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(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Construction in progress (Continued)

- (b) For the year ended 2013, borrowing costs eligible for capitalization are summarized as follows:

Item	31 December 2012	Current increase	Transfer to fixed assets	Other reduction	31 December 2013
Chemical Factory					
Cephalosporins Sterile APIs Line Improvement	–	213,325.59	–	–	213,325.59
Powder-needle & water inj. GMP improvement	–	503,407.76	–	–	503,407.76
Total	–	716,733.35	–	–	716,733.35

- (c) Impairment of construction in progress

Item	31 December 2012	Current increase	Current decrease	31 December 2013	Reason
General factory veterinary drugs workshop GMP improvement	869,318.50	–	–	869,318.50	Project stopped
Guanghua sewage expansion project	251,734.38	–	–	251,734.38	Project stopped
Total	1,121,052.88	–	–	1,121,052.88	

- (d) The construction progress of significant constructions in progress are analysed as follows:

Progress

General Factory Powder Inj. Equipment Project	Construction phase
Chemical Factory Cephalosporins Sterile APIs Line Improvement	Construction phase
Tian Xin Chemical Institute Project	Construction completed, pending for acceptance and settlement
Tian Xin Water Inj Workshop	Construction phase
Powder-needle & water inj. GMP improvement	Construction phase
Ming Xing Equipment Improvement	Construction phase
Ming Xing decoration	Construction phase
Relocation improvement	Preparation phase
Weiling new factory	Preparation phase

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Intangible assets

(a) Details of intangible assets

	31 December 2012	Current increase	Current decrease	31 December 2013
Original cost	438,704,044.13	89,031,150.27	20,158,246.90	507,576,947.50
Land use rights	296,508,122.08	31,896,315.00	20,037,730.66	308,366,706.42
Industrial patents and technologies	14,782,555.11	737,536.17	–	15,520,091.28
Non-patent technologies	9,932,451.20	2,186,750.00	–	12,119,201.20
Trademarks	107,922,764.54	51,437,773.20	–	159,360,537.74
Others	9,558,151.20	2,772,775.90	120,516.24	12,210,410.86
Accumulated amortisation	131,699,650.28	6,882,895.45	1,379,909.14	137,202,636.59
Land use rights	80,070,824.41	2,922,142.88	1,288,452.73	81,704,514.56
Industrial patents and technologies	6,544,035.50	597,086.71	–	7,141,122.21
Non-patent technologies	7,054,763.05	1,292,458.95	–	8,347,222.00
Trademarks	32,659,590.72	19,077.20	–	32,678,667.92
Others	5,370,436.60	2,052,129.71	91,456.41	7,331,109.90
Impairment	1,403,611.28	114,005.00	–	1,517,616.28
Land use rights	480,700.24	–	–	480,700.24
Industrial patents and technologies	453,343.04	–	–	453,343.04
Non-patent technologies	–	–	–	–
Trademarks	469,568.00	114,005.00	–	583,573.00
Others	–	–	–	–
Carrying amount	305,600,782.57			368,856,694.63
Land use rights	215,956,597.43			226,181,491.62
Industrial patents and technologies	7,785,176.57			7,925,626.03
Non-patent technologies	2,877,688.15			3,771,979.20
Trademarks	74,793,605.82			126,098,296.82
Others	4,187,714.60			4,879,300.96

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Intangible assets (Continued)

(a) Details of intangible assets (Continued)

The increase at current period of the intangible assets is mainly due to the purchase of the trademark owned by GPL by issuing an addition of 4,226,579 shares to GPL in June 2013, The issued price is based on the A share's average price of the 20 transaction days before the announcement date of the board resolution regarding the first discussion of the related matters of the asset reorganisation. The price is RMB12.10 per share confirmed after ex right and ex interest. Pursuant to the "Report of asset appraisal on the equity of real estate and trademark acquired by the Company." (Zhong Tian Heng Ping Bao Zi [2012] No. 026) issued by China Valuer International Co., Ltd. the appraisal value on 31 December 2011 of the above-mentioned trademarks is RMB51,142 thousand.

For the year ended 2013, the amortisation of intangible assets amounted to RMB6,883 thousand (for t the year ended 2012: RMB9,649 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.

(17) Development costs

	31 December 2012	Current increase	Current period transferred out Recognized in profit or loss in current period	Recognized as intangible assets	31 December 2013
Capitalised expenditures	4,112,051.69	4,465.99	-	400,000.00	3,716,517.68
Expensed expenditures	-	282,190,575.40	282,190,575.40	-	-
	<u>4,112,051.69</u>	<u>282,195,041.39</u>	<u>282,190,575.40</u>	<u>400,000.00</u>	<u>3,716,517.68</u>

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(18) Long-term prepaid expenses

	31 December 2012	Current increase	Current period amortisation	Other decrease	31 December 2013
Building decoration and fixtures	3,512,483.37	991,429.80	1,483,997.51	–	3,019,915.66
Basketball field construction	302,052.89	–	144,985.38	–	157,067.51
ERP system fee	2,445.64	–	2,445.64	–	–
Installation of the product identification code for the packing production line	450,189.96	–	284,330.50	–	165,859.46
GMP improvement fee	69,807.28	409,474.16	69,807.27	–	409,474.17
Rain sewage diversion improvement	539,641.41	–	161,892.48	–	377,748.93
Zhongxin warehouse iron canopy improvement	458,909.61	–	123,755.46	–	335,154.15
GSP authentication network construction	785,780.39	–	449,017.44	–	336,762.95
Others	1,801,353.55	1,682,624.69	1,186,905.14	–	2,297,073.10
	7,922,664.10	3,083,528.65	3,907,136.82	–	7,099,055.93

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(19) Deferred tax assets and deferred tax liabilities

(a) Recognised deferred tax assets

	31 December 2013	31 December 2012
Impairment provision of construction in progress	168,157.94	168,157.94
Impairment provision of long-term equity investment	587,551.22	587,551.22
Provision for declines in values of inventories	1,074,416.55	1,463,417.21
Provision for bad debts	6,983,793.01	6,472,906.53
Impairment provision of fixed assets	2,481,650.45	2,759,072.90
Difference arising from accounting and tax depreciations of fixed assets	1,967,385.60	1,364,267.38
Long-term prepaid expenses	–	79,941.40
Changes in fair value of financial assets held for trading	322,306.22	658,863.83
Employee benefits payable	28,506,513.64	29,889,994.83
Provisions	75,028.68	125,047.80
Other payables	200,575,405.13	44,119,637.18
Other non-current liabilities	12,261,335.96	12,144,522.52
Deductible tax losses	2,358,525.18	5,395,982.41
Provision for impairment of intangible assets	120,175.06	404,927.53
Difference arising from accounting and tax amortizations of intangible assets	316,758.07	85,124.98
Elimination of unrealized profits arising from the inter-company transaction	9,151,314.21	13,926,312.20
Others	–	44,108.99
	266,950,316.92	119,689,836.85

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(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(19) Deferred tax assets and deferred tax liabilities (Continued)

(b) Recognised deferred tax liabilities

	31 December 2013	31 December 2012
Other receivables – rental income	799,455.95	1,733,304.25
Changes in fair value of available-for-sale financial assets	978,881.29	2,130,188.97
Depreciation balance of fixed assets revaluation	337,501.80	351,644.40
Amortisation balance of intangible assets revaluation	1,359,488.40	1,394,347.20
	3,475,327.44	5,609,484.82

(c) Deductible temporary differences and deductible losses that are not recognised as deferred tax assets are analysed as follows:

	31 December 2013	31 December 2012
Deductible temporary differences	65,854,798.29	58,698,183.03
Deductible tax losses	81,775,442.10	74,828,065.19
	147,630,240.39	133,526,248.22

(d) The tax losses that are not recognized as deferred tax assets will expire in the following years:

	31 December 2013	31 December 2012
2013	–	17,539,311.81
2014	20,651,753.02	21,659,097.66
2015	6,723,985.46	13,246,797.36
2016	10,573,746.33	10,978,815.15
2017	12,361,462.33	11,404,043.21
2018	31,464,494.96	–
	81,775,442.10	74,828,065.19

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(19) Deferred tax assets and deferred tax liabilities (Continued)

- (e) The temporary differences on which deferred tax assets are recognized are summarised as follows

	31 December 2013	31 December 2012
Impairment provision of construction in progress	1,121,052.88	1,121,052.88
Impairment provision of long-term equity investment	3,610,204.88	3,610,204.88
Provision for declines in values of inventories	6,924,281.04	9,540,880.31
Provision for bad debts	34,576,196.17	31,734,749.19
Impairment provision of fixed assets	16,544,336.31	16,085,021.22
Difference arising from accounting and tax depreciations of fixed assets	13,115,904.02	9,095,115.89
Changes in fair value of financial assets held for trading	2,148,708.10	2,635,455.32
Employee benefits payable	160,508,115.50	162,179,950.91
Other payables	890,213,675.30	223,047,278.78
Other non-current liabilities	81,608,906.39	80,786,260.13
Deductible tax losses	15,723,501.22	35,973,216.05
Elimination of unrealized profits arising from the inter-company transaction	58,447,970.75	70,607,032.22
Provision for impairment of intangible assets	480,700.24	2,448,806.43
Difference arising from accounting and tax amortizations of intangible assets	2,111,720.43	567,499.85
Long term prepaid expenses	–	319,765.59
Provisions	500,191.19	500,191.19
Others	–	2,723,239.55
	1,287,635,464.42	652,975,720.39

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(19) Deferred tax assets and deferred tax liabilities (Continued)

- (f) The temporary differences on which deferred tax liabilities were recognized are summarised as follows

	31 December 2013	31 December 2012
Other receivables-rental income	5,329,706.31	7,741,993.71
Changes in fair value of available-for-sale financial assets	6,398,173.42	8,868,480.43
Depreciation balance of fixed assets revaluation	2,250,012.00	2,344,296.00
Amortisation balance of intangible assets revaluation	9,063,256.00	9,295,648.00
	23,041,147.73	28,250,418.14

(20) Provision for asset impairment

	31 December 2012	Current Increase	Current period reductions			31 December 2013
			Reversal	Write-off	Other decrease	
Provision for bad debts	104,466,232.23	5,949,798.92	632,310.44	58,415,642.22	3,597,411.22	47,770,667.27
Provision for declines in value of inventories	15,086,007.36	9,328,364.80	2,458,618.02	6,536,949.86	500,499.52	14,918,304.76
Impairment provision of long-term equity investments	4,553,551.23	-	-	-	-	4,553,551.23
Impairment provision of fixed assets	20,061,484.89	612,824.67	-	232,462.61	-	20,441,846.95
Impairment provision of construction in in progress	1,121,052.88	-	-	-	-	1,121,052.88
Impairment provision of intangible assets	1,403,611.28	114,005.00	-	-	-	1,517,616.28
Impairment provision of goodwill	475,756.92	-	-	-	-	475,756.92
	147,167,696.79	16,004,993.39	3,090,928.46	65,185,054.69	4,097,910.74	90,798,796.29

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(21) Short-term borrowings

	31 December 2013	31 December 2012
Credit borrowings	429,751,500.77	510,217,807.78
Pledge borrowings	9,900,000.00	–
Guaranteed bank borrowings	70,000,000.00	171,000,000.00
	509,651,500.77	681,217,807.78

- (a) As at 31 December 2013 and 31 December 2012, there are no overdue short-term borrowings.
- (b) As at 31 December 2013 and 31 December 2012, there are no borrowings under mortgaged.
- (c) As at 31 December 2013, the pledged bank borrowings amounted to RMB9,900 thousand, which of accounts receivables amounted to RMB11,000 thousand (as at 31 December 2012: nil).
- (d) As at 31 December 2013, the weighted average interest rate of short-term borrowings is 6.0456% per annum (as at 31 December 2012: 6.1691% per annum).
- (e) As at 31 December 2013, the short-term borrowings including balance of foreign currency are summarized as follows:

	31 December 2013			31 December 2012		
	Foreign currency	Exchange rate	RMB	Foreign currency	Exchange rate	RMB
USD	1,290,000.00	6.1325	7,910,925.00	790,360.00	6.2855	4,967,807.78

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(22) Notes payable

	31 December 2013	31 December 2012
Bank acceptance notes	93,173,655.25	75,970,070.30
Commercial acceptance notes	37,600,000.00	–
	130,773,655.25	75,970,070.30

As at 31 December 2013, notes payable amounting to RMB130,774 thousand were expected to be due within 1 year (as at 31 December 2012: RMB75,970 thousand).

(23) Accounts payable

(a) Details of accounts payable:

	31 December 2013		31 December 2012	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	1,440,862,487.84	97.99%	1,055,453,503.56	97.67%
Over 1 year	29,498,049.77	2.01%	25,144,030.97	2.33%
	1,470,360,537.61	100.00%	1,080,597,534.53	100.00%

(b) As at 31 December 2013 and 31 December 2012, there are no accounts payable to shareholders who hold more than 5% (including 5%) of the voting rights of the Company.

(c) As at 31 December 2013, the amount of accounts payable to related parties accounted for 0.89% of the total balance (as at 31 December 2012: 1.26%); refer to Note 6 for details.

(d) As at 31 December 2013 and 31 December 2012, there are no accounts payable that are individually significant whose aging are over 1 year.

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(23) Accounts payable (Continued)

(e) Accounts payable denominated in foreign currencies are summarised as follows:

	31 December 2013			31 December 2012		
	Amount	Exchange rate	RMB	Amount	Exchange rate	RMB
USD	873,224.05	6.0969	5,323,959.71	2,124,843.11	6.2855	13,355,672.72
HKD	10,826.68	0.7862	8,512.25	3,442,121.10	0.8108	2,791,043.89
EUR	-	Not applicable	-	13,460.00	8.3132	111,896.21
			5,332,471.96			16,258,612.82

(24) Advances from customers

(a) Details of advances from customers

	31 December 2013		31 December 2012	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	852,478,967.90	97.36%	600,613,501.37	98.66%
Over 1 year	23,100,579.42	2.64%	8,168,206.35	1.34%
	875,579,547.32	100.00%	608,781,707.72	100.00%

(b) As at 31 December 2013 and 31 December 2012, there are no advances from shareholders who hold more than 5% (including 5%) of the voting rights of the Company

(c) As at 31 December 2013, advances from related parties accounted for 2.23% of the total balance (as at 31 December 2012: 4.81%): refer to Note 6 for details.

(d) As at 31 December 2013 and 31 December 2012, there are no advances from customers that are individually significant whose aging are over 1 year.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(24) Advances from customers (Continued)

(e) Advances from customers denominated in foreign currencies are summarised as follows:

	31 December 2013			31 December 2012		
	Amount	Exchange rate	RMB	Amount	Exchange rate	RMB
USD	170,548.62	6.1705	1,052,365.24	847,336.02	6.3174	5,352,984.07
HKD	21,019.20	0.7923	16,653.51	28,022,259.73	0.8109	22,722,514.31
EUR	-	Not applicable	-	295,982.00	8.3132	2,460,569.29
			1,069,018.75			30,536,067.67

(25) Employee benefits payable

	31 December 2012	Current increase	Current decrease	31 December 2013
Wages and salaries, bonuses, allowances and subsidies	161,523,525.56	2,013,415,667.71	1,866,815,957.75	308,123,235.52
Staff welfare	385,730.60	96,139,614.52	96,005,303.07	520,042.05
Social insurances	517,520.10	275,843,949.40	276,165,291.84	196,177.66
Including: Medical insurance	(7,341.30)	66,120,652.19	66,118,145.79	(4,834.90)
Basic pension insurance	350,005.62	142,756,935.89	143,102,107.06	4,834.45
Annuity	179,667.77	42,369,985.77	42,350,377.73	199,275.81
Unemployment insurance	2,569.89	10,547,639.61	10,547,262.09	2,947.41
Work injury insurance	-	5,994,743.17	5,994,450.76	292.41
Maternity insurance	(7,381.88)	5,674,101.69	5,674,101.69	(7,381.88)
Other insurances	-	2,379,891.08	2,378,846.72	1,044.36
Housing funds	216,941.41	105,606,651.29	105,816,839.00	6,753.70
Labor union funds and employee education funds	4,274,288.66	29,927,052.04	29,260,075.75	4,941,264.95
Non-monetary welfare	-	2,587,381.76	2,587,381.76	-
Compensation for lay-off	-	1,504,544.18	1,504,544.18	-
Housing allowance	19,503,820.29	17,391,252.10	18,016,609.59	18,878,462.80
Staff and workers' bonus and welfare fund	4,909,965.67	3,404.94	4,481,465.67	431,904.94
Others	1,135,148.00	13,745,156.46	13,550,218.25	1,330,086.21
	192,466,940.29	2,556,164,674.40	2,414,203,686.86	334,427,927.83

As at 31 December 2013, employee benefits payable mainly include the wages, bonus and service fee of December 2013 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 the year of 2014.

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(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(26) Taxes payable

	31 December 2013	31 December 2012
VAT	127,220,262.33	45,037,064.85
Business tax	1,185,744.57	1,219,665.04
City maintenance and construction tax	10,083,347.34	4,187,031.94
Education surcharge	4,335,021.46	1,862,207.15
Local education surcharge	2,922,209.28	1,170,452.64
Enterprise income tax	240,323,868.00	86,016,944.13
Individual income tax	9,234,519.98	8,229,720.63
Land appreciation tax	–	15,236.00
Real-estate tax	1,033,448.20	1,010,788.36
Urban area embankment maintenance fee	6,381,581.35	5,320,581.51
Stamp duty	651,616.40	460,737.39
Others	12,069.47	1,617.33
	403,383,688.38	154,532,046.97

(27) Interest payable

Item	31 December 2013	31 December 2012
Interest payable of short-term borrowings	675,414.98	1,069,051.16

(28) Dividends payable

Investor	31 December 2013	31 December 2012
Public shares	77,540,811.00	778.11
Baiyunshan Group	45.01	45.01
Minority shareholders	35,972,445.12	25,442,830.79
	113,513,301.13	25,443,653.91

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(29) Other payables

(a) The aging of other payables is analysed as follows:

	31 December 2013	31 December 2012
Within 1 year	1,075,363,506.40	575,791,829.78
Over 1 year	136,349,000.64	78,479,985.85
	<u>1,211,712,507.04</u>	<u>654,271,815.63</u>

(b) Other payables are analysed by categories as follows:

	31 December 2013	31 December 2012
Deposits	84,113,878.93	70,859,551.72
Technology development expenses	1,032,360.91	523,747.85
Rental expenses	785,699.69	824,335.92
Payables to third parties	101,140,187.61	75,149,025.34
Amount due to employees	8,180,604.37	9,522,314.75
Payables to related parties (Note 6(5))	32,381,184.74	19,325,960.05
Accruals for purchase of fixed assets	7,530,558.54	7,220,848.99
Sales rebate	313,958,358.03	164,716,926.03
Accrued expenses	636,423,766.90	289,101,764.45
Others	26,165,907.32	17,027,340.53
	<u>1,211,712,507.04</u>	<u>654,271,815.63</u>

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(29) Other payables (Continued)

(c) Details of accrued expenses:

	31 December 2013	31 December 2012
Rental expenses	4,788,163.36	4,615,372.88
Agent fees	5,239,164.72	14,065,872.20
Advertising expenses	434,784,769.45	183,959,826.29
Utilities	2,931,629.82	4,020,583.74
Transportation expenses	116,858,313.12	46,439,123.26
Conference expenses	7,009,258.62	4,005,350.93
Research and development expenses	7,708,976.20	3,608,789.40
Marketing expenses	6,396,288.30	9,828,754.99
Travelling expenses	3,495,518.50	3,117,490.40
Consulting expenses	10,730,986.80	6,977,935.69
Trademark expenses	3,000,000.00	3,000,000.00
Others	33,480,698.01	5,462,664.67
	636,423,766.90	289,101,764.45

- (d) As at 31 December 2013, other payables to shareholders who hold more than 5% (including 5%) of the voting rights of the Company are other payables of RMB30,835 thousand to GPLH (as at 31 December 2012: RMB16,551 thousand to GPLH).
- (e) As at 31 December 2013, other payables to related parties accounted for 2.67% of the total balance (as at 31 December 2012: 2.95%): refer to Note 6 for details.
- (f) As at 31 December 2013 and 31 December 2012, 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 Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(29) Other payables (Continued)

- (g) As at 31 December 2013, all other payables are denominated in foreign currencies as follows:

	31 December 2013			31 December 2012		
	Foreign currency	Exchange rate	RMB	Foreign currency	Exchange rate	RMB
HKD	2,626,071.75	0.7862	2,064,696.40	3,168,039.16	0.8109	2,568,804.55
			2,064,696.40			2,568,804.55

(30) Long-term borrowings

- (a) Classification of long-term borrowings:

Category of borrowings	31 December 2013	31 December 2012
Credit borrowings	8,627,419.10	—

- (b) Top five of the long-term borrowings:

Company	Beginning	Ending	Currency	Ratio (%)	31 December 2013	31 December 2012
Industrial Bank Co., Ltd Guangzhou Branch	2013-7-15	2016-2-25	RMB	6.40	2,473,319.50	—
Industrial Bank Co., Ltd Guangzhou Branch	2013-8-29	2016-2-25	RMB	6.40	1,733,516.70	—
Industrial Bank Co., Ltd Guangzhou Branch	2013-6-27	2016-2-25	RMB	6.40	1,156,758.00	—
Industrial Bank Co., Ltd Guangzhou Branch	2013-9-22	2016-2-25	RMB	6.40	1,204,062.00	—
Industrial Bank Co., Ltd Guangzhou Branch	2013-10-14	2016-2-25	RMB	6.40	751,640.70	—

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(31) Long-term payables

	31 December 2013	31 December 2012
State fund	18,864,953.57	21,014,110.79
Department of Finance of Guangxi Zhuang Autonomous Region	2,264,426.47	2,264,426.47
State Pharmaceutical Administration	305,000.00	305,000.00
Others	781,372.36	829,932.36
	<u>22,215,752.40</u>	<u>24,413,469.62</u>

(32) Special payables

	31 December 2013	31 December 2012
Compensation of relocation	<u>19,058,160.00</u>	<u>–</u>

(33) Predicted liabilities

	31 December 2013	31 December 2012
Predicted loss of rejection on goods	<u>500,191.19</u>	<u>500,191.19</u>

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(34) Other non-current liabilities

Item	Opening balance	Current increase of subsidy	Current revenue from non-operation	For cooperation	Other decrease	Ending balance
Government grants related to assets:						
Including:						
Technology funds granted by government	40,264,856.27	7,596,000.00	5,620,322.73	-	-	42,240,533.54
Relocation compensation	3,261,367.57	-	365,644.44	-	-	2,895,723.13
Financial discount	2,024,553.03	-	71,866.92	-	-	1,952,686.11
Special fund of environmental protection	5,685,277.72	704,296.24	789,764.82	-	-	5,599,809.14
Innovating platform construction	7,855,927.73	700,000.00	4,333,332.13	-	-	4,222,595.60
Others	3,419,562.08	1,212,000.00	1,195,261.12	-	-	3,436,300.96
Government grants related to income:						
Including:						
Technology funds granted by government	61,795,720.51	23,198,408.37	25,711,833.71	3,610,525.00	-	55,671,770.17
Special fund of technology exports	817,232.06	-	485,433.33	-	-	331,798.73
Medical industrial research project	3,101,199.39	19,905.00	797,678.25	-	-	2,323,426.14
Special fund of energy-saving improvement	726,000.00	174,000.00	166,050.00	-	-	733,950.00
Special fund of innovative firms	1,173,848.23	-	750,470.02	-	-	423,378.21
Others	2,943,207.80	10,584,263.76	1,091,155.46	9,630,300.00	-	2,806,016.10
Appropriation to Long-term services fund	301,971.08	8,150.06	-	-	16,582.96	293,538.18
Total	133,370,723.47	44,197,023.43	41,378,812.93	13,240,825.00	16,582.96	122,931,526.01

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(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(35) Share capital

	31 December 2012		Current increase (+) decrease (-)				31 December 2013		
	Amount	% of the total balance	Issued shares	Shares dividends	Transfer from reserves	Others	Subtotal	Amount	% of the total balance
Shares with restriction of trading –									
State-owned shares	-	-	-	-	-	-	-	-	-
State-owned legal person shares	-	-	34,839,645.00	-	-	-	34,839,645.00	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 with restriction of trading-subtotal	-	-	34,839,645.00	-	-	-	34,839,645.00	34,839,645.00	2.70
Shares without restriction of trading:									
RMB ordinary shares	591,000,000.00	72.88	445,601,005.00	-	-	-	445,601,005.00	1,036,601,005.00	80.27
Foreign shares listed in the PRC	-	-	-	-	-	-	-	-	-
Foreign shares listed out of the PRC	219,900,000.00	27.12	-	-	-	-	-	219,900,000.00	17.03
Others	-	-	-	-	-	-	-	-	-
Shares without restriction of trading-subtotal	810,900,000.00	100.00	445,601,005.00	-	-	-	445,601,005.00	1,256,501,005.00	97.30
Total share capital	810,900,000.00	100.00	480,440,650.00	-	-	-	480,440,650.00	1,291,340,650.00	100.00

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(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(35) Share capital (Continued)

	31 December 2011		Current increase (+) decrease (-)					31 December 2012	
	Amount	% of the total balance	Issued shares	Shares dividends	Transfer from reserves	Others	Subtotal	Amount	% of the total balance
Shares with restriction of trading –									
State-owned shares	-	-	-	-	-	-	-	-	-
State-owned legal person shares	-	-	-	-	-	-	-	-	-
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 with restriction of trading-subtotal	-	-	-	-	-	-	-	-	-
Shares without restriction of trading:									
RMB ordinary shares	591,000,000.00	72.88	-	-	-	-	-	591,000,000.00	72.88
Foreign shares listed in the PRC	-	-	-	-	-	-	-	-	-
Foreign shares listed out of the PRC	219,900,000.00	27.12	-	-	-	-	-	219,900,000.00	27.12
Others	-	-	-	-	-	-	-	-	-
Shares without restriction of trading-subtotal	810,900,000.00	100.00	-	-	-	-	-	810,900,000.00	100.00
Total share capital	810,900,000.00	100.00	-	-	-	-	-	810,900,000.00	100.00

Note: The Company executed and completed the material assets reorganization transaction, which is including: (1) The Company issued an addition of 445,601,005 A shares by way of share swap to absorb and merger Baiyunshan, a subsidiary of GPLH, in May 2013. (2) The Company issued an addition of 34,839,645 A shares to GPLH as consideration payment, to acquire the buildings and trademarks which are owned by GPLH or GPLH has the right to dispose, and 100% equities of Guangyao Baiyunshan (Hong Kong) Limited, a subsidiary of GPLH, and 12.5% equities of Baxter Healthcare held by GPLH. The Company completed the registration of share on 5 July 2013. After the above-mentioned assets reorganization was completed, the Company's total share capital was 1,291,340,650. The addition A shares issued by way of share swap to absorb and merger Baiyunshan in May 2013, and the addition A shares issued to acquire the relevant assets held by GPLH in June 2013, have been verified by Capital Verification Report issued by BDO CHINA SHU LUN PAN CPAs LLP with reference is Xin Hui Shi Bao Zi [2013] No.410242 and Xin Hui Shi Bao Zi [2013] No.410253 respectively.

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(36) Capital surplus

	31 December			31 December
	2012	Current increase	Current decrease	2013
Share premium	914,006,770.47	795,936,263.43	–	1,709,943,033.90
Other capital surplus	788,767,102.30	4,767,828.90	9,689,886.41	783,845,044.79
Including: Transfer of capital surplus recognized under the previous accounting system	24,955,836.66	–	–	24,955,836.66
	1,702,773,872.77	800,704,092.33	9,689,886.41	2,493,788,078.69

	31 December			31 December
	2011	Current increase	Current decrease	2012
Share premium	914,006,770.47	–	–	914,006,770.47
Other capital surplus	788,532,547.33	234,554.97	–	788,767,102.30
Including: Transfer of capital surplus recognized under the previous accounting system	24,955,836.66	–	–	24,955,836.66
	1,702,539,317.80	234,554.97	–	1,702,773,872.77

The fluctuation of the capital surplus in current period was due to:

(a) Details of movement of share premium:

- (i) As in May, 2013 the Company merger Baiyunshan under common control and transfer the surplus reserve amounted to RMB118,559 thousand and undistributed profits amounted to RMB793,598 thousand into the capital surplus of the Company amounted to RMB912,157 thousand on 31 May 2013.
- (ii) The Company issued 30,101 thousand shares to acquire the relevant assets of GPLH at current period, the fair value of the acquired assets exceed the issued shares for RMB334,119 thousand, the Company increase capital surplus RMB334,119 thousand accordingly.
- (iii) The Company issued 445,601 thousand shares by way of share swap to absorb and merger Baiyunshan, Upon the completion of acquiring Guangyao Baiyunshan (Hong Kong) Limited by issuing 4,739 thousand shares to GPLH, the Company will transfer the capital surplus arising from common control when preparing the 2012 financial statements and decrease RMB450,340 thousand of capital surplus.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(36) Capital surplus *(Continued)*

(b) Details of other movement for capital surplus:

Details of increment are mainly for:

- (i) The capital surplus amounted to RMB1,261 thousand of Nuocheng, a joint venture of Baidi (a subsidiary of the Company), is recognized by the shares proportion held by Baidi.
- (ii) Chenliji Medical Factory, a subsidiary of the Company, transfer the long-term payables to capital surplus amounted to RMB2,149 thousand in current period.
- (iii) QiXing Pharmaceutical, a subsidiary of the Company, scrap the fixed assets from investment in capital and transfer the assessed appreciation as an addition to capital surplus amounted to RMB1,358 thousand.

Details of reduction are mainly for:

- (i) The decrease of capital surplus amounted to RMB1,635 thousand is due to the net changes in fair value of available-for-sale financial assets held by the Group, which include the decrease of RMB1,233 thousand due to the decline in the price of the A-share of China Everbright Bank Company Limited held by the Group and the decrease of RMB402 thousand due to the increase in the price of the A-share of Bank of Communications held by the Group.
- (ii) The recognized investment losses of Pan Gao Shou arising from the purchasing of 10% minority shareholding of Guangzhou Pan Gao Shou Health Products Co., Ltd. and the net assets difference is allocated against capital surplus. The portion calculated at the increased shareholding ratio of the Group is RMB3,348 thousand.
- (iii) As the capital surplus of GP Corp., a jointly controlled entity, decreased in the current period, the Group recognized the decrease in capital surplus amounted to RMB64 thousand based on its share of interest in GP Corp..
- (iv) As the sales of Bozhou Baiyunshan, a subsidiary of the Company, in the current period, the Group recognized the decrease in capital surplus amounted to RMB4,644 thousand based on its share of interest.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(37) Surplus reserve

	31 December 2012	Current increase	Current decrease	31 December 2013
Statutory surplus reserve	668,805,957.33	55,083,461.99	118,995,283.05	604,894,136.27
Free surplus reserve	118,925,617.49	-	-	118,925,617.49
	787,731,574.82	55,083,461.99	118,995,283.05	723,819,753.76

	31 December 2011	Current increase	Current decrease	31 December 2012
Statutory surplus reserve	609,922,085.52	58,883,871.81	-	668,805,957.33
Free surplus reserve	118,925,617.49	-	-	118,925,617.49
	728,847,703.01	58,883,871.81	-	787,731,574.82

The fluctuation of the surplus reserve in current period was due to:

- (a) As the sales of Bozhou Baiyunshan, a subsidiary of the Company, in the current period, the Group recognized the decrease in surplus reserve amounted to RMB437 thousand based on its share of interest.
- (b) As in May 2013, the Company absorbed and merged Baiyunshan under common control and transfer the surplus reserve amounted to RMB118,559 thousand into the capital surplus of the Company on 31 May 2013.

In accordance with the Company Law and the Company's 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 of Directors and approved by the General Meeting of Shareholders. The discretionary surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(38) Undistributed profits

	The year ended 2013	The year ended 2012
Undistributed profits at the beginning of the year (before adjustments)	2,271,551,430.93	1,708,283,539.83
Adjustments of undistributed profits at the beginning of the year (Add: positive; Less: negative)	–	–
Undistributed profits at the beginning of the year (after adjustments)	2,271,551,430.93	1,708,283,539.83
Add: Net profit for the current period	980,045,077.10	729,039,715.80
Less: Appropriation for statutory surplus reserve	55,083,461.99	58,883,871.81
Less: distributed dividends	77,480,439.00	106,887,952.89
Less: Others	788,518,023.69	–
Undistributed profits at the end of the period	<u>2,330,514,583.35</u>	<u>2,271,551,430.93</u>

- (a) As at 31 December 2013, surplus reserves of the Company's subsidiaries amounted to RMB260,413 thousand is included in undistributed profits (as at 31 December 2012: RMB163,832 thousand).
- (b) As the sales of Bozhou Baiyunshan, a subsidiary of the Company, Capital surplus and surplus reserve which amounted to RMB5,080 thousand at the beginning of period shall transfer to the undistributed profits at the end of period.
- (c) As in May 2013, the Company absorbed and merged Baiyunshan under common control and transfer the undistributed profits amounted to RMB793,598 thousand into the capital surplus of the Company on 31 May 2013.
- (d) Pursuant to the special resolution of board of shareholders on 30 December 2013, the Group distributed cash dividends amounted to RMB77,480 thousand which was calculated by issued shares amounted to 1,291,340,650 to all shareholders, total distributed cash dividends was RMB0.06 per share.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(39) Minority interest

Investee	Investment relationship with the Company	31 December 2013	31 December 2012
Xing Qun	Direct subsidiary	17,420,476.04	14,706,616.89
Guangzhou Han Fan	Direct subsidiary	739,958.16	687,926.00
Jing Xiu Tang	Direct subsidiary	15,798,683.13	18,094,021.67
Pan Gao Shou	Direct subsidiary	26,188,640.36	26,671,196.07
Guangzhou Bai Di.	Direct subsidiary	1,353,303.90	1,100,972.57
Xizang Lin Zhi Guangyao Development Co., Ltd.	Indirect subsidiary	504,211.67	647,392.22
Guangxi Ying Kang	Direct subsidiary	12,835,636.05	16,678,285.66
Qi Xing	Indirect subsidiary	40,464,535.07	40,462,248.66
Jingyuxian Guangyao Dong E Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	2,121,374.24	1,200,000.00
Jing Xiu Tang 1790	Indirect subsidiary	1,702,636.79	1,428,624.84
Guangzhou Yi Gan	Direct subsidiary	1,810,821.14	2,868,856.19
Pan Gao Shou Natural Healthcare	Indirect subsidiary	–	829,359.13
Chongqing Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	600,000.00	–
Tian Xin	Direct subsidiary	29,386,276.81	27,285,374.39
Guang Hua	Direct subsidiary	16,875,197.94	15,784,594.46
Baiyunshan Pharmaceutical Technology	Direct subsidiary	19,530,387.47	19,410,362.18
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	154,518.27	200,000.00
Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	566,886.28	600,000.00
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	1,218,351.63	955,398.17
Heilongjiang Sengong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	1,196,908.11	–
		190,468,803.06	189,611,229.10

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(All amounts in Renminbi yuan unless otherwise stated)
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(40) Revenue and cost of operation

	The year ended 2013		
	Main operation	Other operation	Subtotal
Revenue	17,463,015,713.01	145,177,599.30	17,608,193,312.31
Cost of operation	11,768,412,156.47	37,882,643.91	11,806,294,800.38
Gross profit	5,694,603,556.54	107,294,955.39	5,801,898,511.93

	The year ended 2012		
	Main operation	Other operation	Subtotal
Revenue	11,914,510,625.16	148,131,163.23	12,062,641,788.39
Cost of operation	8,191,130,028.99	40,807,777.18	8,231,937,806.17
Gross profit	3,723,380,596.17	107,323,386.05	3,830,703,982.22

(a) Revenue cost of main operation by natures are summarised by business as follows:

	Revenue of main operation		Cost of main operation	
	The year ended 2013	The year ended 2012	The year ended 2013	The year ended 2012
Manufacturing	13,789,907,026.39	8,723,604,975.63	8,361,610,824.71	5,249,755,096.49
Trading	3,673,108,686.62	3,190,905,649.53	3,406,801,331.76	2,941,374,932.50
	17,463,015,713.01	11,914,510,625.16	11,768,412,156.47	8,191,130,028.99

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(40) Revenue and cost of operation (Continued)

(b) Revenue and cost of main operation by regions are summarised as follows:

	Revenue of main operation		Cost of main operation	
	The year ended 2013	The year ended 2012	The year ended 2013	The year ended 2012
Southern China	9,457,012,039.74	7,145,057,584.70	6,630,255,995.44	5,029,012,560.97
Eastern China	3,159,357,942.65	1,851,718,461.85	1,913,095,124.64	1,211,068,513.91
Northern China	1,927,840,504.04	1,044,288,492.18	1,199,122,029.68	634,781,260.71
Northeastern China	336,459,913.14	296,004,722.31	205,408,892.35	173,474,360.83
Southwestern China	1,628,815,574.61	917,798,325.11	1,079,839,055.90	626,249,045.99
Northwestern China	512,189,652.06	313,898,646.24	312,632,160.60	181,119,632.65
Other countries	441,340,086.77	345,744,392.77	428,058,897.86	335,424,653.93
	17,463,015,713.01	11,914,510,625.16	11,768,412,156.47	8,191,130,028.99

(c) Top five of the revenue of the Group amounted to RMB1,469,063 thousand in total (for the year ended 2012: RMB1,418,971 thousand), which accounts for 8.41% of the total revenue of the Group (for the year ended 2012: 11.91%).

	Revenue of the main operation	Percentage of the total revenue of the main operation of the group
Customer 1	438,298,879.63	2.51%
Customer 2	302,544,437.42	1.73%
Customer 3	265,561,249.15	1.52%
Customer 4	252,511,154.27	1.45%
Customer 5	210,147,496.30	1.20%
	1,469,063,216.77	8.41%

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(40) Revenue and cost of operation (Continued)

(d) Revenue from other operation

	The year ended 2013	The year ended 2012
Leases of assets	88,129,864.34	91,518,314.37
Sales of materials	4,663,787.33	7,853,778.59
License fee income	21,164,337.97	14,081,290.91
Consulting fee income	970,951.70	563,352.02
Medicine slotting fee income	302,232.15	433,049.41
Technology services income	1,016,135.40	8,279,901.58
Utilities expense collected on behalf	13,366,355.81	13,060,937.68
Management fee	5,646,937.13	3,709,752.82
Labour income	655,652.24	827,849.94
Others	9,261,345.23	7,802,935.91
	145,177,599.30	148,131,163.23

(e) Expenditure from other operation

	The year ended 2013	The year ended 2012
Depreciation of assets leased out	17,663,009.61	15,458,132.84
Cost of materials sold	3,710,491.31	4,193,786.36
Utilities expense collected on behalf	11,795,978.89	13,125,558.84
Labour fee	778,505.48	951,100.37
Management fee	67,773.24	115,852.73
Others	3,866,885.38	6,963,346.04
	37,882,643.91	40,807,777.18

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(41) Taxes and surcharges

	The year ended 2013	The year ended 2012
Business tax	9,931,569.82	9,064,842.63
City maintenance and construction tax	75,096,142.59	52,886,137.03
Education surcharge	32,810,123.51	22,824,549.70
Local education surcharge	21,856,585.49	15,212,435.28
Housing Real-estate tax	8,550,803.37	8,184,106.78
Others	5,413.70	20,226.16
	148,250,638.48	108,192,297.58

Basis of calculation: refer to Note 3.

(42) Selling and distribution expenses

	The year ended 2013	The year ended 2012
Employee benefit expenses	1,333,219,475.91	768,675,889.25
Sales service fees	88,272,489.34	70,849,900.08
Travelling expenses	106,542,606.69	77,955,751.76
Office expenses	19,998,172.72	13,587,113.20
Transportation expenses	451,344,682.66	170,701,823.32
Rental expenses	20,486,904.28	12,971,920.14
Conference expenses	62,482,286.85	65,265,947.73
Advertising and promotion fees	1,312,860,328.27	719,518,429.76
Consulting fees	26,710,774.86	25,224,748.77
Depreciation charges	2,446,934.53	2,646,967.06
Others	60,946,701.41	44,499,468.45
	3,485,311,357.52	1,971,897,959.52

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(43) General and administrative expenses

	The year ended 2013	The year ended 2012
Employee benefit expenses	517,337,413.95	458,344,148.55
Insurance premium	2,170,316.26	1,854,961.98
Depreciation charges	48,948,904.59	47,866,089.44
Utilities	10,285,473.59	9,254,334.30
Administrative expenses	20,943,710.14	22,119,412.87
Travelling expenses	13,135,830.87	11,658,247.41
Transportation expenses	13,865,206.44	11,746,545.78
Repairing expenses	23,217,321.30	19,609,171.59
Rental expenses	17,208,980.88	15,965,302.60
Conference expenses	9,739,650.58	5,775,050.57
Research and development expenses	282,190,575.40	244,293,409.95
Taxation charges	54,083,490.25	38,930,488.71
Amortisation	15,710,985.57	22,066,711.76
Professional service fees	17,346,439.97	28,477,042.76
Audit fees	2,284,000.00	4,104,000.00
Consulting fees	5,133,903.81	4,631,011.56
Trademark License fees	81,172,064.58	32,891,760.47
Others	94,765,084.57	111,443,932.21
	1,227,255,352.75	1,086,927,622.51

(44) Financial expenses

	The year ended 2013	The year ended 2012
Interest expenses	34,980,537.04	57,842,483.64
Discount interest expenses of notes	9,523,235.32	3,179,765.70
Interest income	(17,729,478.85)	(12,289,866.70)
Exchange (gains)/losses	289,808.89	(1,263,969.14)
Bank charges	2,528,073.58	2,826,550.77
Cash discounts	(1,286,879.05)	(791,317.32)
	28,305,296.93	49,503,646.95

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(44) Financial expenses (Continued)

For the year ended 2013 and the year ended 2012, all interest expenses belong to borrowings which loan repayment dates are within 5 years.

(45) Asset impairment losses

	The year ended 2013	The year ended 2012
Provision for bad debts	5,317,488.48	3,607,835.59
Declines in values of inventories	6,869,746.78	4,509,811.08
Fixed asset impairment losses	612,824.67	–
Intangible asset impairment losses	114,005.00	35,388.00
	<u>12,914,064.93</u>	<u>8,153,034.67</u>

(46) Profit arising from changes in fair value

	The year ended 2013	The year ended 2012
Gain or loss arising from changes in fair value of listed shares of Hafei Aviation Industry Co., Ltd held by the Group	501,212.70	80,934.00
Loss arising from changes in fair value of listed shares of Harbin Pharmaceutical Group Co., Ltd. held by the Group	(14,465.50)	(332,706.50)
	<u>486,747.20</u>	<u>(251,772.50)</u>

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(47) Investment income

(a) Details of investment income:

	The year ended 2013	The year ended 2012
Investment income from financial assets:		
Income from financial assets held for disposal trading	–	6,034.70
Income from financial assets held for trading	9,249.61	–
Income from available-for-sale financial assets	441,796.16	21,478.03
Income from disposal available-for-sale financial assets	–	845,976.48
Gain or loss of entrusted loans	(974,002.84)	(755,524.96)
	(522,957.07)	117,964.25
Income from long-term equity investment:		
Income from long-term equity investments recognised by equity method	207,391,786.49	249,407,725.45
Income from long-term equity investments recognised by cost method	8,941,351.14	12,344.32
Investment income from disposal of long-term equity investment	3,914,884.21	–
	220,248,021.84	249,420,069.77
	219,725,064.77	249,538,034.02

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(47) Investment income (Continued)

- (b) Details of investment income from long-term equity investments under equity method are as follows:

	The year ended 2013	The year ended 2012
GP Corp.	88,265,143.04	83,968,696.09
Wang Lao Ji	32,303,458.09	70,819,136.24
Nuo Cheng	34,867,354.36	41,981,705.68
Golden Eagle Fund Management Co., Ltd	(7,732,458.87)	(1,112,178.33)
HWBYS	55,028,356.75	50,105,208.26
Baxter Qiao Guang	4,659,933.12	3,645,157.51
	207,391,786.49	249,407,725.45

(48) Non-operating income

	The year ended 2013	The year ended 2012
Gain on disposal of non-current assets	115,668.82	201,820.56
Including: gain on disposal of fixed assets	115,668.82	201,820.56
Government grants	111,537,005.00	36,562,748.58
Penalty income	461,035.18	366,251.26
Sales of scraps	4,716,466.39	1,244,033.47
Waived liabilities	1,036,276.01	1,055,449.80
Compensation for relocation	1,414,785.87	576,000.00
Others	6,565,823.18	5,792,204.13
	125,847,060.45	45,798,507.80

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(48) Non-operating income (Continued)

Details of government grants:

Item	The year ended 2013	The year ended 2012
Government grants related to assets:		
Including:		
Technology funds granted from government	5,620,322.73	4,219,254.56
Compensation for relocation	365,644.44	2,184,081.81
Financial discount	71,866.92	–
Specific funds of environmental protection	789,764.82	387,681.50
Innovating platform construction	4,333,332.13	581,633.70
Others	1,195,261.12	1,483,101.22
	12,376,192.16	8,855,752.79
Government grants related to assets:		
Including:		
Technology funds granted from government	25,711,833.71	20,724,682.11
Special funds of technology export	485,433.33	516,000.00
Industrialization	797,678.25	143,478.26
Energy conservation improvement funds	166,050.00	–
Special funds of innovate firms	750,470.02	–
Reward of enterprise development	2,193,815.00	–
Prior development funds	66,900,000.00	–
Compensation for difficult enterprises	–	3,000,000.00
Development funds of commercial and trade distribution industry	–	2,000,000.00
Others	2,155,532.53	1,322,835.42
	99,160,812.85	27,706,995.79
Total	111,537,005.00	36,562,748.58

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(49) Non-operating expenses

	The year ended 2013	The year ended 2012
Loss on disposal of non-current assets	3,776,158.49	1,370,583.51
Including: Loss on disposal of fixed assts	3,776,158.49	1,370,583.51
Public welfare donations	9,636,792.96	16,907,768.28
Penalty and overdue fines	1,036,859.64	257,379.96
Others	2,280,423.40	1,515,890.34
	16,730,234.49	20,051,622.09

(50) Income tax expenses

	The year ended 2013	The year ended 2012
Current income tax	370,486,762.09	164,135,794.10
Deferred income tax	(148,243,329.78)	(49,770,439.79)
	222,243,432.31	114,365,354.31

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(50) Income tax expenses (Continued)

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	The year ended 2013	The year ended 2012
Total profit	1,229,190,439.25	881,062,568.20
Income tax expenses calculated at statutory tax rates	307,297,609.81	220,265,642.05
Tax effect of different rates applicable to subsidiaries	(55,216,213.81)	(60,480,583.77)
Adjust effect for income tax of previous period	(4,052,228.32)	(2,317,109.37)
Gain of loss belong to cooperative enterprise & joint venture	(47,567,066.87)	(56,879,906.06)
Non-taxable revenue	(4,475,492.33)	–
Expenses not deductible for tax purposes	22,921,203.39	15,306,844.10
Tax effect of opening balance on deferred income tax due to changes in tax rate	1,197,689.98	–
Tax effect of deductible temporary differences & deductible loss which are not recognised	2,137,930.46	(1,529,532.64)
Income tax expenses	222,243,432.31	114,365,354.31

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(51) 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 2013	The year ended 2012
Consolidated net profit attributable to ordinary shareholders of the Company	980,045,077.10	729,039,715.80
Weighted average number of ordinary shares outstanding:	1,276,290,237.50	1,261,239,823.00
Weighted average basic earnings per share of weighted average:	0.768	0.578

(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 2013	The year ended 2012
Consolidated net profit attributable to ordinary shareholders of the Company	980,045,077.10	729,039,715.80
Weighted average number of ordinary shares outstanding:	1,291,340,650.00	1,261,239,823.00
Weighted average basic earnings per share of weighted average:	0.759	0.578

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(51) Earnings per share (Continued)

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusted net profit for the current year attributable to ordinary shareholders by the adjusted weighted average number of ordinary shares outstanding. For the year ended 2013, there were no potential ordinary shares (for the year ended 2012: nil), diluted earnings per share is equal to basic earnings per share.

(52) Other comprehensive income

	The year ended 2013	The year ended 2012
Items will be classified into profit or loss when satisfied with certain conditions at following accounting period:		
Losses arising from available-for-sale financial assets	(2,793,553.70)	1,215,815.80
Less: Income tax effect arising from available-for-sale financial assets	(1,151,307.68)	282,336.93
	(1,642,246.02)	933,478.87
Recognition of share of other comprehensive income of the investee based on equity method	(44,687.03)	6,215.56
Difference on translation of foreign currency financial statements	(1,090,621.46)	(6,358.30)
Others	-	(542,400.00)
Subtotal	(2,777,554.51)	403,652.73
Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period:		
Recognition of share of other comprehensive income of the investee based on equity method	1,260,544.00	-
Total	(1,517,010.51)	403,652.73

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(53) Notes to the consolidated cash flow statement

(a) Cash received relating to other operating activities

	The year ended 2013	The year ended 2012
Non-operating income	13,158,110.62	4,886,596.35
Other operation income	140,976,599.88	134,195,239.63
Government grants	114,347,065.44	50,610,906.43
Interest income	17,729,478.85	12,289,866.70
Security deposit received and others	13,254,327.21	59,576,246.07
Others	–	140,000.00
	<u>299,465,582.00</u>	<u>261,698,855.18</u>

(b) Cash paid relating to other operating activities

	The year ended 2013	The year ended 2012
Cash payments of selling and distribution expenses	1,554,016,262.18	827,741,479.06
Cash payments of general and administrative expenses	459,353,056.38	350,970,065.82
Financial expenses – bank charges	12,051,308.90	5,059,171.68
Others	49,292,616.97	70,000,186.52
	<u>2,074,713,244.43</u>	<u>1,253,770,903.08</u>

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(53) Notes to the consolidated cash flow statement (Continued)

(c) Cash received relating to other investing activities

	The year ended 2013	The year ended 2012
Cash received from repayment of deposits for short-term loan	–	31,058,849.42
Cash received from bankruptcy liquidation of South Securities Company	255,055.04	212,545.86
Interest received from securities accounts	2,861.70	240.69
	257,916.74	31,271,635.97

(d) Cash paid relating to other investing activities

	The year ended 2013	The year ended 2012
Tax expenses arising from the interest income of entrusted loans	2,809,291.91	2,620,450.25
Subsidiaries sold	131,066.64	–
Deposits for short-term loan	–	3,220,000.00
	2,940,358.55	5,840,450.25

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(54) Supplementary information of cash flow statements

(a) Supplementary information of cash flow statements

(i) Reconciliation of net profit to cash flow operating activities

	The year ended 2013	The year ended 2012
Net profit	1,006,947,006.94	766,697,213.91
Add: Provision for assets impairment	12,914,064.93	8,153,034.67
Depreciation of fixed assets, and depreciation and amortisation of Investment properties	174,446,151.32	172,217,576.66
Amortisation of intangible assets	7,169,137.52	9,648,557.10
Amortisation of long-term prepaid expenses	3,907,136.82	5,202,598.17
Loss (less: gain) on disposal of fixed assets, intangible assets and other long-term assets	2,092,207.44	(123,073.04)
Loss on scrapping of fixed assets	1,568,282.23	1,291,835.99
Loss (less: gain) on changes in fair value	(486,747.20)	251,772.50
Financial expenses	32,839,436.85	55,927,565.83
Investment gain	(219,725,064.77)	(249,538,034.02)
Decrease in deferred tax assets	(147,260,480.07)	(49,254,874.79)
Increase/(less: decrease) in deferred tax liabilities	(982,849.70)	(515,565.01)
Decrease in inventories	(186,300,861.12)	(506,899,687.25)
Decrease of operating receivables	(975,084,800.52)	(283,158,926.56)
Increase of operating payables	1,627,097,518.15	1,071,533,448.15
Others	-	(2,203,017.71)
	<hr/>	<hr/>
Net cash flows from operating activities	1,339,140,138.82	999,230,424.60

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(54) Supplementary information of cash flow statements (Continued)

(a) Supplementary information of cash flow statements (Continued)

(ii) Investing and financing activities that do not involve cash receipts and payments

	The year ended 2013	The year ended 2012
Conversion of debt into capital Convertible company bonds due within one year	—	—
	—	—
Fixed assets held under finance leases	—	—

(iii) Net movement in cash and cash equivalents

	The year ended 2013	The year ended 2012
Cash at the end of period	1,918,952,286.86	1,114,346,524.75
Less: cash at the beginning of year	1,114,346,524.75	626,289,432.69
Add: cash equivalents at end of the period	—	—
Less: cash equivalents at beginning of the year	—	—
Net movement in cash and cash equivalents	804,605,762.11	488,057,092.06

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(54) Supplementary information of cash flow statements (Continued)

(a) Supplementary information of cash flow statements (Continued)

(iii) Net movement in cash and cash equivalents (Continued)

The cash and cash equivalents do not include housing fund of RMB575 thousand, construction security deposit of RMB101 thousand and security deposit for bank payable notes of RMB16,053 thousand.

(b) Details of cash and cash equivalents

	The year ended 2013	The year ended 2012
Cash	1,918,952,286.86	1,114,346,524.75
Including: Cash on hand	757,750.42	2,235,877.56
Bank deposits that are readily available for payment	1,887,888,931.77	1,101,540,247.88
Other cash that are readily available for payment	30,305,604.67	10,570,399.31
Cash equivalents	—	—
Total cash and cash equivalents	1,918,952,286.86	1,114,346,524.75

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) General information of the parent company:

Name of the Parent company	Relationship	Business Type	Registration place	Legal Representative	Nature of business	Registered Capital (RMB '0000)	% equity interest	% voting rights	Ultimate holding company	Organization code
GPHL	Parent Company	Limited liability company (whollystate-owned)	No. 45, North Street, Shamian Guangzhou	Li Chuyuan	Manufacturing and trading	125,281	45.24%	45.24%	Guangzhou State-owned Assets Supervision and Administration Commission	23124735-0

Registered capital and changes in registered capital of the parent company:

	31 December 2013 (RMB'0000)
GPHL	125,281

The percentage of equity interests and voting rights held by the parent company in the Company:

	31 December 2013	
	% equity interest held	% voting rights held
GPHL	45.24%	45.24%

(2) Information of subsidiaries

For the general information and related information of the subsidiaries, please refer to Note 4.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(3) Information of Jointly controlled entities and Associates

Name of related party	Business Type	Registration address	Legal Representative	Nature of business	Registered Capital (RMB '0000)	% equity interest	% voting rights	Code of Organization
1. Jointly controlled entities								
GP Corp.	Sino-foreign joint venture	Guangzhou	Li Bingrong	Trading of medicine and medical apparatus	70,000	50.00%	50.00%	73296653-X
Wang Lao Ji	Sino-foreign joint venture	Guangzhou	Wang Jianyi	Production and sales of Chinese Medicine, beverage and candies.	20,476	48.05%	48.05%	19047976-0
Nuo Cheng	Stock Corporation	Guangzhou	Zhou Lijian	Production of Freeze-dried rabies vaccine for human use; import of goods, import & export of technology	8,400	49.24%	50.00%	78608627-1
HWBYS	Sino-foreign joint venture	Guangzhou	Du Zhiqiang	Manufacture, construction engineering, research & development and sales of medicine, health product, food & Chinese medicinal herbs	20,000	50.00%	50.00%	773303038
Baxter Qiao Guang	Sino-foreign joint venture	Guangzhou	Chen Mao	Manufacturing of high-capacity inj. and imports, wholesale of medicine.	17,750	50.00%	50.00%	661806271

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(3) Information of Jointly controlled entities and Associates (Continued)

Name of related party	Business Type	Registration address	Legal Representative	Nature of business	Registered Capital (RMB '0000)	% equity interest	% voting rights	Code of Organization
2. Associates								
Hangzhou Zheda Han Fang Chinese Medical Info. Engineering Co., Ltd.	Limited Liability Company	Hangzhou	Qu Haibin	Technological development service	100	44.00%	44.00%	73843530-X
Golden Eagle Fund Management Co., Ltd	Limited Liability Company	Zhuhai	Liu Dong	Fund management	25,000	20.00%	20.00%	74448348-X
Guangzhou Jinshen Medical Co., Ltd.	Limited Liability Company	Guangzhou	Gao Qi	Research and development: natural health products, Chinese medicine and food	200	38.25%	38.25%	751974324
Wei Yi Co., Ltd.	Limited Liability Company	Guangzhou	Qiao Yong	Medical investment management	2,000	50.50%	41.00%	058918922

(4) Information of other related parties that do not control or are controlled by the Group

Name of entity	Relationship with the Group	Organization code
Guangzhou Pharmaceutical Industrial Research Institute	Controlled by the same parent company	455347297
HongKong Xin Min Pharmaceutical Company	Controlled by the same parent company	Not applicable
Baiyun Trading Department	Controlled by the same parent company	Not applicable
Guangzhou Yu Fa Medical Apparatus Co., Ltd.	Controlled by the same parent company	618407881
Foreign trading department of Guangzhou Baiyun Corporation	Controlled by the same parent company	Not applicable
Guangzhou South China Medical Apparatus Co., Ltd.	Controlled by the same parent company	23123789-X

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions

(a) For the subsidiaries which are controlled by the Company and consolidated into the consolidated financial statements, the transactions amongst them and that between the Company and them have been eliminated.

(b) Purchases of goods from related parties

Name of related party	Type of transaction	Nature of transaction	Pricing Policies and procedures for decision-making	The year ended 2013		The year ended 2012	
				Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
HWBYS	Purchase of goods	Chinese raw medicine or medicine	Market price	71,528,549.27	0.82	13,989,624.52	0.17
GP Corp.	Purchase of goods	Chinese raw medicine or medicine	Market price	134,866,729.29	1.55	141,749,987.30	1.73
Wang Lao Ji	Purchase of goods	Chinese raw medicine or medicine	Market price	11,152,134.58	0.13	19,499,049.45	0.24
				217,547,413.14	2.50	175,238,661.27	2.14

(c) Sales of goods to related parties

Name of related party	Type of transaction	Nature of transaction	Pricing Policies and procedures for decision-making	The year ended 2013		The year ended 2012	
				Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
GPHL	Sales of goods	Chinese raw medicine or medicine	Market price	119,363.01	-	241,595.91	-
Guangzhou Pharmaceutical Industrial Research Institute	Sales of goods	Chinese raw medicine or medicine	Market price	2,670,688.84	0.02	633,323.93	0.01
HWBYS	Sales of goods	Chinese raw medicine or medicine	Market price	171,533,914.60	0.98	109,930,203.02	0.92
GP Corp.	Sales of goods	Chinese raw medicine or medicine	Market price	438,298,879.63	2.51	435,662,445.23	3.67
Wang Lao Ji	Sales of goods	Chinese raw medicine or medicine	Market price	167,405,644.19	0.96	112,848,071.96	0.95
Nuo Cheng	Sales of goods	Chinese raw medicine or medicine	Market price	242,529.93	-	47,179.49	-
Baxter Qiao Guang	Sales of goods	Chinese raw medicine or medicine	Market price	595,546.89	-	85,602.39	-
				780,866,567.09	4.47	659,448,421.93	5.55

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(d) Other related party transactions

(i) Guaranteed by related parties and guarantees for related parties:

1) The company renders guarantee for subsidiaries as follows:

Name of the guaranteed company	Nature of guarantee	Maximum guarantee	Actual amount as at 31 December 2013	Duration
Cai Zhi Lin	loans for working capital	30,000,000.00	10,000,000.00	1 year
Cai Zhi Lin	loans for working capital		10,000,000.00	1 year
Cai Zhi Lin	loans for working capital		10,000,000.00	1 year
Cai Zhi Lin	loans for working capital	30,000,000.00	10,000,000.00	1 year
Cai Zhi Lin	loans for working capital	30,000,000.00	30,000,000.00	1 year
Cai Zhi Lin	Bank acceptance notes	30,000,000.00	24,720,000.00	1 year
Guangzhou Han Fan	Bank acceptance notes	10,000,000.00	1,920,000.00	1 year
Pharmaceutical Import & Export	Bank acceptance notes	50,000,000.00	46,110,000.00	1 year
			142,750,000.00	

2) The company renders guarantee for associates as follows:

Name of the guaranteed company	Nature of guarantee	Maximum guarantee	Actual amount as at 31 December 2013	Duration
Nuo Cheng	loans for working capital	60,000,000.00	32,000,000.00	one year

Another associate of Nuo Cheng renders the guarantee of joint liability for the above loans.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(d) Other related party transactions *(Continued)*

(ii) Leases

1) Tenancy Agreements

Pursuant to a tenancy agreement entered into by the Company 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 agreement expired on 31 December 2010. The tenancy agreement was renewed by the Company and GPLH on 27 August 2010 with expiry date on 31 December 2013. The 6 subsidiaries of the Group, including Cai Zhi Lin and Qi Xing should pay GPLH RMB679 thousand of the above-mentioned for the current period (for the year ended 2012: RMB1,136 thousand).

2) Office Tenancy Agreement-Second Floor in front stalls and back stalls of GPLH located at No. 45 North Shamian Street

Pursuant to the Office Tenancy Agreement entered into by the Company and GPLH on 1 November 2007, the Company rents the second floor in front stalls of GPLH located at No. 45 North Street Shamian at a fixed annual rent (which is subject to the adjustment of standard rent as prescribed by Guangzhou Real Estate Administration Bureau). The Office Tenancy Agreement expired on 31 August 2010. The Office Tenancy Agreement was renewed by the Company and GPLH on 27 August 2010 with expiry date on 31 August 2013. The lease term is from 1 September 2010 to 31 August 2013.

Pursuant to the Tenancy Agreement entered into by the Company and GPLH on 28 August 1998, GPLH agreed to build a new office building and has granted to the Group the right to use certain premises as the office building (back stalls of GPLH located at No.45 North Shamian Street). The lease payment is at 38% discount of the standard rent as prescribed by Guangzhou Real Estate Administration Bureau on the date when the Official Tenancy Agreement is signed. Since GPLH needed capital to enlarge the new office building, the Company agreed to pay RMB6,000 thousand within 180 days after the Tenancy Agreement was signed. GPLH promised to use the advances only for enlargement of the new office buildings as well as agreed to offset the rental with the advances.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(d) Other related party transactions *(Continued)*

(ii) Leases *(Continued)*

- 2) Office Tenancy Agreement-Second Floor in front stalls and back stalls of GPLH located at No. 45 North Shamian Street *(Continued)*

Pursuant to the Office Tenancy Agreement entered into by the Company and GPLH on 6 February 2004, the Company rented the back stalls of GPLH located at No.45 North Shamian Street, the lease term is up to the date when the advances for rentals is completely offset. As at 31 December 2013, balance of the advances for rentals is RMB204 thousand (as at 31 December 2012, ending balance of rental is RMB480 thousand).

The Company should pay GPLH RMB546 thousand regarding the two office tenancy contracts as mentioned above for the current period (for the year ended 2012: RMB1,093 thousand).

As in June 2013, the Company purchased buildings for pharmaceutical manufacturing which is owned by GPLH or GPLH has the right to dispose of, 388 trademarks, 100% equity interest of Guangyao Baiyunshan (Hong Kong) Limited and 12.50% equity interest of Baxter Healthcare by issuing shares to the GPLH as the consideration. The buildings and offices which are rented to Cai Zhi Lin and Second Floor in front stalls and back stalls of GPLH are located at No. 45 North Shamian Street of the above-mentioned tenancy agreement object to the formed part of the assets purchased in exchange for the consideration shares.

Upon the completion of the above-mentioned assets from GPLH, the Company has rented the Fifth Floor in No.45 North Shamian Street of the purchased buildings of to GPLH for office use, with a lease term of 3 years and the rental for this year amounted of RMB255 thousand (as for the year ended 2012: nil).

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(d) Other related party transactions *(Continued)*

(ii) Leases *(Continued)*

3) Warehouse and Office Building Tenancy Agreement

Pursuant to the Tenancy Agreement entered into by the Company and GPL, the Company rents certain buildings to GP Corp. at a fixed annual rental at fixed amount per annum with a lease term from 1 July 2013 to 31 December 2013 and the rental amounted to RMB1,532 thousand (for the year ended 2012: nil).

Pursuant to the Tenancy Agreement entered into by the Company and Baxter Qiao Guang, the Company rents the building located in No.25, Fangcun Avenue to Baxter Qiao Guang at a fixed annual rental at fixed amount per annum with a lease term from 10 May 2007 to the relocated date and the rental amounted to RMB4,800 thousand (for the year ended 2012: RMB4,800 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 a fixed annual return at fixed amount per annum with a lease term from 1 January 2013 to 31 December 2013 and the rental amounted to RMB45 thousand (for the year ended 2012: RMB43 thousand).

Pursuant to the Tenancy Agreement entered into by Guangzhou Baiyunshan Biological Co., Ltd. ("Baidi") and Nuocheng Biological, Guangzhou Baiyunshan Baidi Biological Co., Ltd. rents the building located in No.1, Wanbao Street North, Panyu District, Guangzhou to Nuocheng Biology at a fixed amount per annum with a lease term from 15 March 2011 to 14 March 2016 and the rental amounted to RMB1,836 thousand (for the year ended 2012: RMB1,750 thousand).

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(d) Other related party transactions *(Continued)*

(iii) License Agreement

Pursuant to the Trademark License Agreement entered into by the Group and GPLH on 1 September 1997, GPLH has granted the Group an exclusive right to use 38 trademarks owned by GPLH for a term of 10 years since the License Agreement was signed. The Group agreed to pay a license fee for the use of the trademarks at 0.1% of the aggregate net sales of the Group (not including WLJ Great Health), the Trademark License Agreement will be automatically renewed for a term of 10 years after expiration of the original agreement and will expired on 1 September 2017.

As in June 2013, the Company completed the purchase of the buildings for pharmaceuticals manufacturing which is owned by GPLH or GPLH has the right to dispose, 388 trademarks, 100% equity interest of Guangyao Baiyunshan (Hong Kong) Limited and 12.50% equity of Baxter Healthcare by the consideration of issuing shares to GPLH. The above trademarks formed part of the assets purchased in exchange for the consideration shares. The Group should pay GPLH RMB4,004 thousand of trademarks license fee for the current period (for the year ended 2012: RMB7,057 thousand).

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(d) Other related party transactions *(Continued)*

(iii) License Agreement *(Continued)*

Pursuant to the arrangement of the Confirmation for Delivery of Assets entered into by the Company and GPLH: (1) From the date of the Confirmation for Delivery of Assets was signed, the Company shall have and undertake the total profit or loss of the underlying assets, and the Company shall have and undertake any of the present or prospective right, equity, risk, loss, obligation, responsibility and liability no matter the transfer and/or registration of the underlying assets is completed or not, the Company shall undertake the relevant contingent liabilities and count of law suit; (2) GPLH committed to endeavour the procurement of the transfer of the trademarks, and granted the right for the unconditional use of the trademarks during the transfer; (3) GPLH committed to compensate the Company for cash within 10 working days for the trademarks for which the transfer was rejected by the State Trademark Bureau based on the assessed value (The assessed value of the "assessed value of the assessed real estate and trademarks purchased by the Company". (Zhong Tian Heng Ping Ping Zi [2012] No. 026) issued by China Valuer International Co., Ltd. shall prevail.) of those trademarks. As at the reporting date, 7 of 334 associated or defensive registered trademarks failed to transfer, GPLH has compensated the Group for assessed value amounted to RMB9,385.03 of these 7 trademarks. The actual quantity of transferred trademarks is 381. There are 325 domestic trademarks have completed transformation which include 54 major trademarks and 271 associated or defensive trademarks, for the 56 overseas trademarks, GPLH has applied for the transformation in November 2013, and the 56 trademarks have not completed transformation.

Pursuant to the Trademark License Agreement entered into by WLJ Great Health and GPLH on 25 May 2012 and 26 April 2013, GPLH authorised the use of 5 trademarks by WLJ Great Health; WLJ Great Health agreed to pay license fees to GPLH at 2.1% of its aggregate net sales, GPLH and the Company are to entitled by 53% and 47% of the license fee respectively.

Pursuant to the Trademark License Supplementary Agreement entered into by the Company, Wang Lao Ji and GPLH on 28 July 2005, Wang Lao Ji agreed to pay license fees to GPLH for the use of the trademarks at 2.1% of its aggregate net sales since Wang Lao Ji become to be a foreign-invested company limited. GPLH and the Company are to entitled by 53% and 47% of the license fee respectively.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(d) Other related party transactions *(Continued)*

(iii) License Agreement *(Continued)*

The Company should receive license fee amounted to RMB84,440 thousand for the current period (for the year ended 2012: RMB37,833 thousand) and should pay GPLH RMB95,248 thousand (for the year ended 2012: RMB42,663 thousand)

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 RMB 1,000 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 proportion which is negotiated by consignor and consignee, the proportion 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 proportion 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 transformation or the date of termination from both parties' negotiation.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(d) Other related party transactions *(Continued)*

(iii) License Agreement *(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 regulations.

In July 2012, Hong To conducted prosecution to China International Economic and Trade Arbitration Commission with "X20120416 Dispute case of Trademark License Agreement", the arbitrations are as follows: 1. Judge GPLH to continue to execute Trademark License Agreement. 2. Judge GPLH to stop nonperformance. GPLH shall stop manufacturing and selling the tinned and bottled "Wang Lao Ji Herbal Tea" and must not authorize other person with the above-mentioned act. 3. Judge GPLH to pay the arbitration fees. As at the reporting date, this arbitration is on the docket.

GPLH started to authorize the Group and its joint-control entity to use the registered trademark "GPC" without compensation in June, 2000.

(iv) Employee residence service fee

	Name of entity	The year ended 2013 (RMB'000)	The year ended 2012 (RMB'000)
Employee residence service fee	GPLH	<u>353</u>	<u>353</u>

Pursuant to the employee residence service contract entered into by GPLH and the Group on 1 September 1997, as well as the supplementary notice issued on 31 December 1997, GPLH agreed to continue to provide residence for employees. The residence service fee is charged at 6% of carrying amount of the employee residence. The employee residence service contract was renewed on 27 August 2010 and the renewed residence service contract will be expired on 31 December 2013.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(d) Other related party transactions *(Continued)*

(v) Transformation of research and development project

	Company	For the year ended 2013 (RMB'000)	For the year ended 2012 (RMB'000)
Service fee for technology	Guangzhou Pharmaceutical General Institute	566	610

(vi) Employee benefits of key management personnel

Employee benefits of the Group's key management personnel amounted to RMB4,097 thousand for the year then ended 2013 (for the year ended 2012: RMB2,879 thousand). The Group's key management personnel include directors, supervisors, general manager, vice general manager, financial controller and secretary to the Board of Director ("BOD"). The key management include 15 persons for the year ended 2013 (for the year ended 2012: 15 persons), among which 11 persons received their salaries from the Group (for the year ended 2012: 11 persons).

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(d) Other related party transactions (Continued)

(vi) Employee benefits of key management personnel (Continued)

1) Remuneration of directors and supervisors (Continued)

Details for remuneration of directors and supervisors as at 31 December 2012:

Name	Remuneration	Salary & allowance	Pension	Bonus	Signing bonus	Service pay	Others	Total
Director								
Yang Rongming	-	-	-	-	-	-	-	-
Cheng Ning (note 2)	-	-	-	-	-	-	-	-
Shi Shaobin (note 3)	-	-	-	12,175.00	-	-	-	12,175.00
Wu Changhai	-	507,492.00	-	154,228.00	-	-	280.00	662,000.00
Liu Jinxiang	80,000.00	-	-	-	-	-	-	80,000.00
Li Shanmin	80,000.00	-	-	-	-	-	-	80,000.00
Zhang Yonghua	80,000.00	-	-	-	-	-	-	80,000.00
Huang Longde	80,000.00	-	-	-	-	-	-	80,000.00
Qiu Hongzhong	80,000.00	-	-	-	-	-	-	80,000.00
Supervisor								
Yang Xiuwei	-	-	-	-	-	-	-	-
Wu Quan	-	-	-	231,583.00	-	-	-	231,583.00
Zhong Yugang	30,000.00	-	-	-	-	-	-	30,000.00

Note 1: Resigned from executive director and director on 8 August 2013.

Note 2: Appointed as director on 19 September 2012.

Note 3: Resigned from director on 18 June 2012.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(d) Other related party transactions (Continued)

(vi) Employee benefits of key management personnel (Continued)

1) Remuneration of directors and supervisors (Continued)

In addition, Yang Rongming, Li Chuyuan, Cheng Ning and Yang Xiuwei received remuneration (including special awards from government) from subsidiaries of the Company, which amounted to RMB1,180,855, RMB1,719,063, RMB1,370,352 and RMB319,729 respectively. (As at 31 December 2012: Yang Rongming, Li Chuyuan, Cheng Ning, Shi Shaobin and Yang Xiuwei received remuneration from subsidiaries of the Company, which amounted to RMB1,014,374, RMB1,141,561, RMB658,357 and RMB607,253 and RMB800,323 respectively). Part of above remuneration was for salary. The board of directors considered this remuneration is hard to allocate to service rendered by the Group, subsidiaries of the Company and common controlled subject, therefore, this remuneration was not allocated.

As at 31 December 2013, no director rejected or agreed to reject any arrangement for above remuneration (for the year ended 2012: nil).

2) The top five of remuneration

The top five of remuneration for the year ended 2013 including 1 director, (for the year ended 2012: nil). Details of the remuneration for the other 4 directors (for the year ended 2012: 5) are summarized as follow:

	The year ended 2013	The year ended 2012
Salary, bonus housing and other allowance	2,975,028.00	3,837,260.00
	Number of person	
	The year ended 2013	The year ended 2012
Range:		
0 – 1,000,000	4	5

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(e) Receivables from and payables to related parties

(i) Receivables from related parties

	31 December 2013		31 December 2012	
	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Notes				
receivable: GP Corp.	55,200,715.35	-	9,400,000.00	-
HWBYS	6,250,000.00	-	-	-
	61,450,715.35	-	9,400,000.00	-
Accounts				
receivable: GPL	10,943.58	109.44	4,763.40	47.63
Guangzhou Pharmaceutical Industrial Research Institute	2,259,600.00	22,596.00	-	-
HWBYS	19,069,217.89	190,692.18	10,052,548.03	113,608.68
GP Corp.	10,461,373.56	104,613.74	2,147,125.60	20,642.75
Wang Lao Ji	4,527,584.00	45,275.84	8,859,080.68	88,590.81
Nuo Cheng	45,000.00	450.00	7,600.00	76.00
Baxter Qiao Guang	95,400.00	954.00	64,574.80	645.75
HongKong Xin Min Pharmaceutical Company.	-	-	7,965,400.00	7,965,400.00
Baiyun Trading Department	-	-	8,146,600.00	8,146,600.00
	36,469,119.03	364,691.20	37,247,692.51	16,335,611.62
Other				
receivables: GPL	842,087.85	-	896,960.10	-
Guangzhou South China Medical Apparatus Co., Ltd.	100,000.00	100,000.00	100,000.00	100,000.00
HWBYS (Note 1)	19,258,298.81	-	1,484,499.42	-
GP Corp.	205,486.60	-	7,600.00	-
Wang Lao Ji	2,285,283.77	-	1,915,199.20	-
Baxter Qiao Guang	61,845.35	-	57,880.28	-
Foreign trade department of Gaungzhou Baiyun Corporation	-	-	1,659,000.00	1,659,000.00
	22,753,002.38	100,000.00	6,121,139.00	1,759,000.00

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(e) Receivables from and payables to related parties *(Continued)*

(i) Receivables from related parties *(Continued)*

	31 December 2013		31 December 2012	
	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Advances to				
suppliers: HWBYS	6,183,497.21	-	2,115,330.13	-
GP Corp.	2,523,411.25	-	-	-
Wang Lao Ji	-	-	838,130.40	-
Guangzhou Yu Fa Medical Apparatus Co., Ltd.	-	-	210,278.62	-
	8,706,908.46	-	3,163,739.15	-

Note 1: The other receivables of HWBYS include the other receivables amounted to RMB18,694 thousand of Bozhou Baiyunshan, a subsidiary of HWBYS. Bozhou Baiyunshan was the subsidiary of Baiyunshan with 80% shareholding, Baiyunshan has transferred the 80% shares to HWBYS in May 2013. The above-mentioned other receivables are the borrowings and interests of Bozhou Baiyunshan to Baiyunshan, which is arisen before the equity transfer.

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(All amounts in Renminbi yuan unless otherwise stated)
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6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(e) Receivables from and payables to related parties (Continued)

(ii) Payables to related parties

	Related Parties	31 December 2013	31 December 2012
Notes Payable:	GP Corp.	3,814,560.00	8,654,300.00
	HWBYS	4,872,280.00	–
		8,686,840.00	8,654,300.00
Accounts Payable:	HWBYS	1,087,454.09	2,738,973.63
	GP Corp.	11,604,351.96	10,833,697.92
	Wang Lao Ji	321,351.19	–
		13,013,157.24	13,572,671.55
Other Payables	GPHL	30,835,415.51	16,550,960.05
	Guangzhou Pharmaceutical Industrial Research Institute	500,000.00	–
	HWBYS	20,000.00	2,750,000.00
	GP Corp.	1,025,769.23	25,000.00
		32,381,184.74	19,325,960.05
Advances from customers:	HWBYS	3,893,014.43	65,236.00
	GP Corp.	2,630,257.22	4,918,408.67
	Wang Lao Ji	12,968,599.69	24,294,003.19
		19,491,871.34	29,277,647.86

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7 CONTINGENCIES

- (1) In year 2012, WLJ Great Health, the wholly-owned subsidiary was sued with its unauthorised use of the. specific name, package and decoration of the famous products by Guangdong Jia Duo Bao Beverage & Food Co., Ltd. (JDB).

As at the 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 WLJ 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.

- (2) In year 2012, WLJ Great Health, the wholly-owned subsidiary was sued with its unauthorized use of the. slogan“怕上火，喝王老吉” by JDB.

Chongqing First intermediate people's court rejected the appeal of illicit competition for slogan “怕上火，喝王老吉” accrued from Guangdong Jiaduobao Co., Ltd. on 24 December 2013. Meanwhile, the appeal of destroying, no longer using advertisement “怕上火，喝王老吉” and promotion, declaration of apology and compensation amounted to RMB10,000 thousand was rejected.

- (3) Pursuant to the Cooperative Development Contract entered into by Tian Xin, a subsidiary of the Company, Guangdong Guangyuan Engineering Co., Ltd. (Guangyuan, an entity registered in China) and Bank of China Guangdong Branch (BOC) on 10 October 1994, the contracting parties agreed to develop a parcel of land owned by Tian Xin which is located in the East Jianglingxia Street, Guigang Ave. (the parcel) for a real estate project. Pursuant to the contract, Tian Xin shall render the parcel and complete relevant formalities, BOC shall provide funds for construction and Guangyuan shall be responsible for the construction work, Tian Xin shall receive RMB30,000 thousand for relocation, when the construction is completed, these three contracting parties shall be distributed corresponding floor areas of flat units and carpark units of the project. Tian Xin has received RMB30,000 thousand for relocation in October 1994. But this project could not be normally procured due to disputes during the process. BOC took legal proceedings to Guangzhou Intermediate People's court in August 2004 and requested for declaration of the Cooperative Development Contract to be invalid and Tian Xin should return the RMB30,000 thousand relocation fee.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

7 CONTINGENCIES (Continued)

(3) (Continued)

Tian Xin made a counter claim in November 2004. Pursuant to the judgment ((2004) Sui Zhong Fa Min Si Chu Zi No.118) from Guangzhou Intermediate People's court on 22 September 2009, the Cooperative Development Contract entered into by Tian Xin, Guangyuan and BOC is deemed to be invalid, Guangyuan shall return the investment fund amounted to RMB37,500 thousand to BOC, Tian Xin does not need to fulfill the obligation of repayment. Afterwards, BOC and Tian Xin lodged an appeal, Guangdong Higher People's Court handed down its judgment ((2009) Yue Gao Fa Min Yi Zhong Zi No.210) on 25 May 2011 which declared that the Cooperative Development Contract entered into by Tian Xin, Guangyuan and BOC is valid and the contract was terminated on 5 April 2004, Guangyuan shall return the investment fund of RMB37,500 thousand to BOC and shall pay Tian Xin damages of RMB11,650 thousand. Guangyuan and BOC shall pay the acceptance fees, legal costs and the fees incurred for the counter claim. Tian Xin applied execution to Guangzhou Intermediate People's Court (Intermediate court), and this execution was terminated due to Intermediate court found that Guangyuan had no properties to complete the execution. It is expected the amount could not be recovered, accordingly, management did not recognized it.

- (4) Chemical Pharmaceutical Factory acquired the acceptance note numbering 4010005120001382 from the another subsidiary of the Company, Baiyunshan General Factory by purchasing and sales of goods, the acceptance note amounted to RMB1,500 thousand and the drawer was Ningbo Tianyuan Machinery Co., Ltd., the payee was Xiangshan Botai Machinery Co., Ltd., the payer was Xiangshan Lvy City Credit Co., Ltd. Pursuant to the Civil Judgement ((2011) Yong Xiang Cui Zi No.18) issued by Zhejiang Xiangshan People's Court (Xiangshan Court) on 12 November 2011, Zhejiang Runtai Trade Co., Ltd.(Runtai) shall apply for the procedure of public summons as lost this acceptance note. Runtai has the right to apply for payment to payer as no one apply for rights during the procedure of public summons and completion of the procedure. Thus, Chemical Pharmaceutical Factory unable to accept this note, conducted prosecution to Xiangshan Court, the applications are as follows: A. The above-mention Civil Judgement should be repealed; B. Runtai shall pay RMB1,500 thousand and interest; C. Xiangshan Lvy City Credit Co., Ltd. shall undertake joint and several liability; Pursuant to the Civil Judgement ((2012) Yong Xiang Shang Chu Zi No.561) issued by Xiangshan Court on 3 March 2013, Chemical Pharmaceutical Factory has the right of acceptance note numbering 4010005120001382, Runtai should pay Chemical Pharmaceutical Factory RMB1,500 thousand, compensate the loss of interest and reject other prosecutions of Chemical Pharmaceutical Factory within 30 days from the judgement is effective. Chemical Pharmaceutical Factory lodged an appeal to Ningbo Intermediate People's Court, Bank of Ningbo Donghai (Xiangshan Lvy City Credit Co., Ltd.) shall undertake joint and several liability of the RMB1,500 thousand and and interest. Pursuant to the Civil Judgement ((2013)Zhe Yong Shang Zhong Zi No.553) issued by Zhejiang Ningbo Intermediate People's Court on 31 July 2013, the appeal was rejected and original judgement was affirmed. It is expected the amount could not be recovered, accordingly, it has changed as 100% provision for bad debts.

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(All amounts in Renminbi yuan unless otherwise stated)

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8 COMMITMENTS

(1) Capital expenditures commitments

- (a) Capital expenditures contracted for but are not yet necessary to be recognised on the balance sheet

The Group's capital expenditures contracted for but are not yet necessary to be recognised on the balance sheet are as follows:

	31 December 2013	31 December 2012
Investment	64,860,000.00	–
Building, machinery and equipment	53,592,966.09	124,632,743.31
	<u>118,452,966.09</u>	<u>124,632,743.31</u>

The Group's share of the jointly controlled entities' capital commitments are as follows:

	31 December 2013	31 December 2012
Building, machinery and equipment	48,665,593.98	8,368,312.12

- (b) Capital commitments authorised by the management but are not yet contracted for

	31 December 2013	31 December 2012
Investment	–	4,500,000.00
Building, machinery and equipment	1,044,959,643.81	155,008,755.45
	<u>1,044,959,643.81</u>	<u>159,508,755.45</u>

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

8 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 summarised as follows:

Remaining leasing term	Minimum lease payables	
	31 December 2013	31 December 2012
Within 1 year	32,771,523.03	10,109,468.94
1 to 2 years	12,158,549.65	11,098,324.91
2 to 3 years	5,969,310.75	7,027,961.16
Over 3 years	32,652,546.68	32,116,627.60
	83,551,930.11	60,352,382.61

The rental expenses under operating lease amounted to RMB40,634 thousand are recognised in the profit or loss for the year ended 2013 (for the year ended 2012: RMB27,032 thousand).

(3) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 31 December 2012.

9 EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to the second resolution of the sixth session board of directors on 17 March 2014, the Group distributed cash dividends amounted to RMB2.30 each 10 shares base on the general capital for the year 2013 amounted to 1,291,340,650 shares, total distributed cash dividends was RMB297,008,349.50.

Pursuant to the resolution of the fifth session 23th board of directors, the Company and Guangzhou Xingzhou Pharmaceutical Co., Ltd. ("Xingzhou Pharmaceutical") established Guangzhou Guangyao Xingzhou Pharmaceutical Co., Ltd., which registered capital amounted to RMB86,480 thousand, including 75% shares held by the Company amounted to RMB64,860 thousand of cash and 25% shares held by Xingzhou Pharmaceutical amounted to RMB17,254 thousand of equipments. The above events has completed in February 2014.

10 OTHER SIGNIFICANT EVENTS

There are no significant debt restructurings and non-monetary transactions incurred in the current period.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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11 SEGMENT INFORMATION

As the chief operating decision-maker, the BOD assesses performance of the operating segments and allocates resources by reviewing the Group's internal reporting. Management has determined the operating segments based on these reports.

The BOD considered the nature of the Group's business and determined that the Group has two reportable operating segments as follows:

- Manufacturing: manufacture and sale of western pharmaceutical products, CPM and health products produced by the Group's manufacturing subsidiaries;
- Trading: wholesale and retail of western pharmaceutical products, medical apparatus, CPM and Chinese raw medicine; wholesale of goods other than pharmaceutical products.
- Sales between segments are carried out on terms equivalent to those that prevail in arm's length transactions.

Assets and liabilities are allocated based on the segment operations, expenses attributable indirectly to each segment are allocated among segments based on the proportion of revenue.

(1) The segment information for the year ended 2013 and as of 31 December 2013 are as follows:

	Manufacturing	Trading	Unallocated	Elimination	Total
Revenue	13,888,167,949.22	3,686,349,660.19	33,675,702.90	-	17,608,193,312.31
Inter-segment revenue	32,764,367.88	3,858,216,859.27	101,166,409.71	(3,992,147,636.86)	-
Interest income	21,468,171.97	1,090,116.25	1,895,909.08	(6,724,718.45)	17,729,478.85
Interest expenses	31,074,715.72	35,504,531.50	36,128,021.28	(59,490,375.19)	43,216,893.31
Share of profit or loss of associates and jointly controlled entities	34,867,354.36	-	161,843,924.47	11,471,537.21	208,182,816.04
Asset impairment losses	10,209,732.52	1,639,207.57	87,492.29	977,632.55	12,914,064.93
Depreciation and amortisation	171,132,372.00	5,152,946.81	9,345,185.60	571,882.53	186,202,386.94
Total profit	968,319,473.42	32,376,602.44	447,952,045.38	(219,457,681.99)	1,229,190,439.25
Income tax expenses	119,148,213.30	8,548,827.66	83,243,594.32	11,302,797.03	222,243,432.31
Net profit (Including: minority interest)	849,171,260.12	23,827,774.78	364,708,451.06	(230,760,479.02)	1,006,947,006.94
Total assets	8,177,645,896.25	2,166,054,216.66	6,918,419,046.40	(5,012,996,007.92)	12,249,123,151.39
Total liabilities	5,222,107,061.12	1,986,384,749.68	1,103,419,355.88	(3,085,024,710.23)	5,226,886,456.45
Long-term equity investments in associates and jointly controlled entities	121,162,661.82	-	1,749,570,457.57	-	1,870,733,119.39
Additions of non-current assets other than long-term equity investments	421,774,612.38	4,726,393.21	304,296,402.52	-	730,797,408.11

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(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

11 SEGMENT INFORMATION (Continued)

(2) The segment information for the year ended 2012 and as of 31 December 2012 are as follows:

	Manufacturing	Trading	Unallocated	Elimination	Total
Revenue	8,677,118,418.42	3,351,340,531.00	34,182,838.97	-	12,062,641,788.39
Inter-segment revenue	150,963,755.99	2,491,602,441.32	40,237,410.57	(2,682,803,607.88)	-
Interest income	9,569,395.74	800,647.39	1,919,823.57	-	12,289,866.70
Interest expenses	19,839,364.37	36,410,850.09	46,012,332.65	(42,031,615.09)	60,230,932.02
Share of profit or loss of associates and jointly controlled entities	41,786,015.72	-	206,022,069.16	1,599,640.57	249,407,725.45
Asset impairment losses	7,292,105.86	1,255,289.85	(219,739.81)	(174,621.23)	8,153,034.67
Depreciation and amortisation	172,462,429.63	5,560,683.13	9,685,324.00	-	187,708,436.76
Total profit	698,969,526.66	48,465,079.16	363,867,809.66	(230,239,847.26)	881,062,568.20
Income tax expenses	58,521,976.15	13,416,418.97	45,948,172.98	(3,521,213.79)	114,365,354.31
Net profit (Including: minority interest)	640,447,550.51	35,048,660.19	317,919,636.68	(226,718,633.49)	766,697,213.89
Total assets	6,483,706,428.27	1,519,008,150.69	6,189,522,725.19	(4,798,029,251.60)	9,394,208,052.55
Total liabilities	3,833,980,620.23	1,376,955,396.75	1,095,994,888.74	(2,668,686,408.33)	3,638,244,497.39
Long-term equity investments in associates and jointly controlled entities	85,315,307.46	-	1,612,470,197.15	(656,955.71)	1,697,128,548.90
Additions of non-current assets other than long-term equity investments	159,540,358.08	2,692,852.58	8,472,034.12	-	170,705,244.78

The Group's revenue from external customers in the PRC and other countries/area, and the total non-current assets other than financial assets and deferred tax assets located in the PRC and other countries/area are summarised as follows:

Revenue from external customers	The year ended 2013	The year ended 2012
PRC	17,166,853,225.54	11,716,897,395.62
Other countries/area	441,340,086.77	345,744,392.77
	17,608,193,312.31	12,062,641,788.39

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11 SEGMENT INFORMATION (Continued)

(2) (Continued)

	As at 31 December 2013	As at 31 December 2012
Total non-current assets		
PRC	4,645,092,792.07	3,880,339,896.02
Other countries/area	20,683,653.62	22,110,777.39
	4,665,776,445.69	3,902,450,673.41

12 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 2013 and 31 December 2012, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarised as follows:

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

12 FINANCIAL INSTRUMENT AND RISK (Continued)

(1) Market risk (Continued)

(a) Foreign exchange risk (Continued)

	31 December 2013					
	USD	HKD	EUR	JPY	GBP	Total
Financial assets denominated in foreign currency –						
Cash at bank and on hand	19,217,261.74	1,973,995.50	4,512,156.10	577,710.12	1.11	26,281,124.57
Accounts receivable	13,768,115.67	5,506,263.30	-	-	-	19,274,378.97
Other receivables	-	530,507.14	-	-	-	530,507.14
	32,985,377.41	8,010,765.94	4,512,156.10	577,710.12	1.11	46,086,010.68
Financial liabilities denominated in foreign currency –						
Short-term borrowings	7,910,925.00	-	-	-	-	7,910,925.00
Accounts payable	5,323,959.71	8,512.25	-	-	-	5,332,471.96
Other payables	-	2,064,696.40	-	-	-	2,064,694.40
	13,234,884.71	2,073,208.65	-	-	-	15,308,093.36

	31 December 2012					
	USD	HKD	EUR	JPY	GBP	Total
Financial assets denominated in foreign currency –						
Cash at bank and on hand	923,132.60	4,099,872.69	3,886,193.87	0.15	1.12	8,909,200.43
Accounts receivable	20,692,441.88	3,308,001.22	115,077.68	6,879,284.85	-	30,994,805.63
Other receivables	-	635,644.81	-	-	-	635,644.81
	21,615,574.48	8,043,518.72	4,001,271.55	6,879,285.00	1.12	40,539,650.86
Financial liabilities denominated in foreign currency –						
Short-term borrowings	4,967,807.78	-	-	-	-	4,967,807.78
Accounts payable	13,355,672.72	2,791,043.89	111,896.21	-	-	16,258,612.82
Other payables	-	2,568,804.55	-	-	-	2,568,804.55
	18,323,480.50	5,359,848.44	111,896.21	-	-	23,795,225.16

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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12 FINANCIAL INSTRUMENT AND RISK *(Continued)*

(1) Market risk *(Continued)*

(a) Foreign exchange risk *(Continued)*

As at 31 December 2013, if RMB had strengthened/weakened by 10% against the USD, HKD, EUR and JPY with all other variables held constant, the Group's net profit for the period would have been approximately RMB2,312 thousand (As at 31 December 2012: lower/higher RMB1,256 thousand) higher/lower.

(b) Interest rate risk

As at 31 December 2013, there is a small amount of long-term interest bearing borrowings (refer to long-term borrowings), thus, the Group is not exposed to significant interest rate risks.

(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.

(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.

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12 FINANCIAL INSTRUMENT AND RISK (Continued)

(3) Liquidity risk (Continued)

	31 December 2013					Total
	Within 1 year	1-2 years	2-5 years	Over 5 years	Without fixed maturity	
Financial assets –						
Cash at bank and on hand	1,935,681,740.06	-	-	-	-	1,935,681,740.06
Notes receivable	1,326,353,755.90	-	-	-	-	1,326,353,755.90
Accounts receivable	1,003,090,938.42	-	-	-	-	1,003,090,938.42
Other receivables	196,434,702.48	-	-	-	-	196,434,702.48
	4,461,561,136.86	-	-	-	-	4,461,561,136.86
Financial liabilities –						
Short-term borrowings	522,754,872.57	-	-	-	-	522,754,872.57
Long-term borrowings	552,154.82	552,154.82	8,712,133.27	-	-	9,816,442.91
Notes payable	130,773,655.25	-	-	-	-	130,773,655.25
Accounts payable	1,470,360,537.61	-	-	-	-	1,470,360,537.61
Other payables	1,211,712,507.04	-	-	-	-	1,211,712,507.04
Long-term payables	-	-	-	22,215,752.40	-	22,215,752.40
	3,336,153,727.29	552,154.82	8,712,133.27	22,215,752.40	-	3,367,633,767.78
Provision of guarantees						
Financial assets –	60,000,000.00	-	-	-	-	60,000,000.00

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12 FINANCIAL INSTRUMENT AND RISK (Continued)

(3) Liquidity risk (Continued)

	31 December 2012					Total
	Within 1 year	1-2 years	2-5 years	Over 5 years	Without fixed maturity	
Financial assets –						
Cash at bank and on hand	1,135,435,400.94	–	–	–	–	1,135,435,400.94
Notes receivable	844,429,241.87	–	–	–	–	844,429,241.87
Accounts receivable	808,137,644.62	–	–	–	–	808,137,644.62
Other receivables	148,836,927.66	–	–	–	–	148,836,927.66
	<u>2,936,839,215.09</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,936,839,215.09</u>
Financial liabilities –						
Short-term borrowings	701,235,380.26	–	–	–	–	701,235,380.26
Notes payable	–	–	–	–	–	–
Accounts payable	75,970,070.30	–	–	–	–	75,970,070.30
Other payables	1,080,597,534.53	–	–	–	–	1,080,597,534.53
Long-term payables	654,271,815.63	–	–	–	–	654,271,815.63
	–	–	–	24,413,469.62	–	24,413,469.62
	<u>2,512,074,800.72</u>	<u>–</u>	<u>–</u>	<u>24,413,469.62</u>	<u>–</u>	<u>2,536,488,270.34</u>
Provision of guarantees						
Financial assets –	49,000,000.00	–	–	–	–	49,000,000.00

The repayment periods of the bank loans and other loans are analysed as follow:

	31 December 2013		31 December 2012	
	Bank borrowings	Other borrowings	Bank borrowings	Other borrowings
Wholly repayable within five years	<u>532,571,315.48</u>	<u>–</u>	<u>701,235,380.26</u>	<u>–</u>

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

12 FINANCIAL INSTRUMENT AND RISK (Continued)

(4) 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).

As at 31 December 2013, the financial assets measured at fair value by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets –	-	-	-	-
Financial assets held	-	-	-	-
for trading –	-	-	-	-
Investments in equity				
instrument held				
for trading	3,362,667.20	-	-	3,362,667.20
Available-for-sale				
financial assets –	-	-	-	-
Available-for-sale				
equity instruments	17,608,107.28	-	-	17,608,107.28
	<u>20,970,774.48</u>	<u>-</u>	<u>-</u>	<u>20,970,774.48</u>

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

12 FINANCIAL INSTRUMENT AND RISK *(Continued)*

(4) Fair value *(Continued)*

(b) Financial instruments measured at fair value *(Continued)*

As at 31 December 2012, the financial assets measured at fair value by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets –				
Financial assets held				
for trading –				
Investments in				
debenture held				
for trading	2,875,920.00	–	–	2,875,920.00
Available-for-sale				
financial assets –	–	–	–	–
Available-for-sale				
equity instruments	20,401,660.98	–	–	20,401,660.98
	<hr/>	<hr/>	<hr/>	<hr/>
Financial assets –	23,277,580.98	–	–	23,277,580.98
	<hr/>	<hr/>	<hr/>	<hr/>

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 Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

13 FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

	31 December 2012	Profit or loss arising from changes in fair value during the current period	Accumulated changes in fair value recognised in equity during the current period	Impairment loss recognised during the current period	31 December 2013
Financial assets –					
Financial assets at fair value through profit or loss	2,875,920.00	486,747.20	–	–	3,362,667.20
Available-for-sale financial assets	20,401,660.98	–	(1,642,246.02)	(1,151,307.68)	17,608,107.28
	<u>23,277,580.98</u>	<u>486,747.20</u>	<u>(1,642,246.02)</u>	<u>(1,151,307.68)</u>	<u>20,970,774.48</u>

14 FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

	31 December 2012	Profit or loss arising from changes in fair value during the current period	Accumulated changes in fair value recognised in equity during the current period	Impairment loss recognised during the current period	31 December 2013
Financial assets –					
Cash and bank	8,909,200.42	–	–	–	26,281,124.57
Accounts receivable	30,994,805.63	–	–	–	19,274,378.97
Other receivables	635,644.81	–	–	–	530,507.14
	<u>40,539,650.86</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>46,086,010.68</u>
Financial liabilities –					
Short-term borrowings	4,967,807.78	–	–	–	7,910,925.00
Accounts payable	16,258,612.83	–	–	–	5,332,471.96
Other payables	2,568,804.55	–	–	–	2,064,696.40
	<u>23,795,225.16</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>15,308,093.36</u>

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Accounts receivable

The majority of the Company's sales are transacted at cash.

(a) The aging of accounts receivable is analysed as follows:

	31 December 2013	31 December 2012
Within 1 year	133,951,675.87	–
1 to 2 years	2,480,216.25	–
2 to 3 years	1,656,386.57	–
3 to 4 years	30,193.88	–
4 to 5 years	91,606.42	–
Over 5 years	3,375,248.24	–
	141,585,327.23	–

(b) Accounts receivable by categories are analysed as follows:

	31 December 2013			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provisions	1,500,000.00	1.06%	1,500,000.00	100.00%
Subject to provision by groups:				
Group 1	139,230,700.99	98.34%	4,243,458.42	3.05%
Individually insignificant but subject to separate provisions	854,626.24	0.60%	854,626.24	100.00%
	141,585,327.23	100.00%	6,598,084.66	4.66%

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(1) Accounts receivable (Continued)

(b) Accounts receivable by categories are analysed as follows: (Continued)

	31 December 2012			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provisions	-	-	-	-
Subject to provision by groups:				
Group 1	-	-	-	-
Individually insignificant but subject to separate provisions	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Classification of accounts receivable: refer to Note 2 (10).

(c) As at 31 December 2013, 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%	Although the Group has suited this company, it is expected that the amount would not be recoverable.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(1) Accounts receivable (Continued)

- (d) The groups of accounts receivable in which provisions are made using aging analysis method are analysed as follows:

	31 December 2013			31 December 2012		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
Within 1 year	133,951,675.87	96.21%	1,339,516.74	-	-	-
1 to 2 years	2,480,216.25	1.78%	248,021.63	-	-	-
2 to 3 years	156,386.57	0.11%	46,915.97	-	-	-
3 to 4 years	30,193.88	0.02%	15,096.94	-	-	-
4 to 5 years	91,606.42	0.07%	73,285.14	-	-	-
Over 5 years	2,520,622.00	1.81%	2,520,622.00	-	-	-
	<u>139,230,700.99</u>	<u>100.00%</u>	<u>4,243,458.42</u>	<u>-</u>	<u>-</u>	<u>-</u>

- (e) As at 31 December 2013, accounts receivable that are individually insignificant but subject to separate provision are as follows:

	Ending balance	Amount of bad debts	Ratio	Reason
Customer 1	470,000.00	470,000.00	100.00%	Its aging is over 5 years, it is expected that the amount would not be recoverable
Customer 2	315,508.74	315,508.74	100.00%	Its aging is over 5 years, it is expected that the amount would not be recoverable
Customer 3	69,117.50	69,117.50	100.00%	Its aging is over 5 years, it is expected that the amount would not be recoverable
	<u>854,626.24</u>	<u>854,626.24</u>	<u>100.00%</u>	

- (f) There are no accounts receivable that are reversed or collected during the current period.
- (g) There are no accounts receivable that are collected by restructuring or other manners during the current period.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(1) Accounts receivable (Continued)

- (h) There are no accounts receivable that are written off during the current period.
- (i) As at 31 December 2013, there are no accounts receivable due from shareholders who hold more than 5% (including 5%) of the voting rights of the Company.
- (j) As at 31 December 2013, accounts receivable with significant balance are analysed as follows:

Name of the entity	Relation with the Company	Amount	Aging	% of total balance
Customer 1	Related party	32,149,855.30	Within 1 year	22.71%
Customer 2	Third party	22,018,765.00	Within 1 year	15.55%
Customer 3	Third party	5,795,784.70	Within 1 year	4.09%
Customer 4	Third party	5,671,000.00	Within 1 year	4.01%
Customer 5	Related party	5,486,617.33	Within 1 year	3.88%
		<u>71,122,022.33</u>		<u>50.24%</u>

- (k) Accounts receivable from related parties are analysed as follows:

Name of the entity	Relation with the Company	Amount	Aging	% of total balance
Pharmaceutical Technology	Subsidiary	32,149,855.30	Within 1 year	22.71%
Tian Xin	Wholly-owned subsidiary	1,266,480.50	Within 1 year	0.89%
Pharmaceutical Import & Export	Wholly-owned subsidiary	5,486,617.33	Within 1 year	3.88%
GP Corp.	Jointly controlled entity	87,848.03	Within 1 year	0.06%
HWBYS	Jointly controlled entity	101,623.29	Within 1 year	0.07%
		<u>39,092,424.45</u>		<u>27.61%</u>

- (l) There are no accounts receivables derecognized during the current period.
- (m) As at 31 December 2013, there are no securitizations that targeted at accounts receivable.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(2) Other receivables

	31 December 2013	31 December 2012
Receivables due from related parties	914,081,195.16	800,146,569.54
Including: entrusted loan	323,000,000.00	318,000,000.00
others	591,081,195.16	482,146,569.54
Rentals, deposits and staff advances	9,920,861.37	5,839,903.68
Others	25,001,774.07	536,766.09
	949,003,830.60	806,523,239.31
Less: provision for bad debts	5,486,732.34	502,043.54
	943,517,098.26	806,021,195.77

(a) The aging of other receivables is analysed as follows:

	31 December 2013	31 December 2012
Within 1 year	915,634,204.22	805,541,195.77
1 to 2 years	1,659,638.75	–
2 to 3 years	469,716.94	–
3 to 4 years	314,295.00	–
4 to 5 years	42,873.00	–
Over 5 years	30,883,102.69	982,043.54
	949,003,830.60	806,523,239.31

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(2) Other receivables (Continued)

(b) Other receivables by categories are analysed as follows:

	31 December 2013			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	932,121.11	0.10%	932,121.11	100.00%
Subject to provision by groups:				
Group 1	12,368,675.07	1.30%	1,622,213.71	13.12%
Group 2	8,768,580.37	0.92%	–	0.00%
Group 3	914,081,195.16	96.32%	–	0.00%
Group 4	9,920,861.37	1.05%	–	0.00%
Individually insignificant but subject to separate provision	2,932,397.52	0.31%	2,932,397.52	100.00%
	949,003,830.60	100.00%	5,486,732.34	0.58%

	31 December 2012			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	502,043.54	0.07%	502,043.54	100.00%
Subject to provision by groups:				
Group 1	–	–	–	–
Group 2	5,754,774.58	0.71%	–	–
Group 3	800,146,569.54	99.21%	–	–
Group 4	119,851.65	0.01%	–	–
Individually insignificant but subject to separate provision	–	–	–	–
	806,523,239.31	100.00%	502,043.54	0.07%

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15 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 analysed 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 the amount could not be recovered
Other receivables 2	430,077.57	430,077.57	100.00%	It is expected the amount could not be recovered
	<u>932,121.11</u>	<u>932,121.11</u>		

- (d) The groups of other receivables in which provisions are made using aging analysis method are analysed as follows:

	31 December 2013			31 December 2012		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	9,044,507.10	73.13%	90,445.07	-	-	-
1 to 2 years	1,613,891.17	13.05%	161,389.12	-	-	-
2 to 3 years	402,893.11	3.26%	120,867.93	-	-	-
3 to 4 years	110,595.00	0.89%	55,297.50	-	-	-
4 to 5 years	12,873.00	0.10%	10,298.40	-	-	-
Over 5 years	1,183,915.69	9.57%	1,183,915.69	-	-	-
	<u>12,368,675.07</u>	<u>100.00%</u>	<u>1,622,213.71</u>	<u>-</u>	<u>-</u>	<u>-</u>

- (e) Receivables that are subject to fully provision or in large proportionate but are reversed or collected in full amount or in large proportionate in the current period are summarized as follows:

Other receivables	Reason of reverse or collect	Basis of provision for bad debts	Amount of provision for bad debts before reverse or collect	Amount collected	Amount reversed to provision for bad debts
South Securities Company	Received settlement of accounts	The company went bankruptcy	255,055.04	255,055.04	-

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(2) Other receivables (Continued)

- (f) There are no others receivables collected by restructuring or other manners in the current period.
- (g) As at 31 December 2013, other receivables due from shareholders who hold more than 5% of the voting rights of the Company was receivables due from GPLH amounted to RMB331 thousand (31 December 2012: RMB480 thousand due from GPLH).
- (h) As at 31 December 2013, the top five of other receivables are analysed as follows:

Name of entity	Relation of the Company	Amount	Aging	% of total balance
Cai Zhi Lin	Wholly-owned subsidiary	525,626,224.33	Within 1 year	55.39%
Pharmaceutical Import and Export	Wholly-owned subsidiary	135,478,243.86	Within 1 year	14.28%
Guangzhou Bai Di	Subsidiary	76,394,950.92	Within 1 year	8.05%
Xing Qun	Subsidiary	67,415,145.51	Within 1 year	7.10%
Weiling	Wholly-owned subsidiary	52,688,965.27	Within 1 year	5.55%
		<u>857,603,529.89</u>		<u>90.37%</u>

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(2) Other receivables (Continued)

(i) Other receivables due from related parties are analysed as follows:

	Relation with the Company	Amount	% of total balance
GPHL	Parent company	331,440.00	0.03%
HWBYS	Jointly controlled entity	19,258,298.81	2.03%
GP Corp.	Jointly controlled entity	197,886.60	0.02%
Wang Lao Ji	Jointly controlled entity	2,285,283.77	0.24%
Baxter Qiao Guang	Jointly controlled entity	61,845.35	0.01%
Xing Qun	Subsidiary	67,415,145.51	7.10%
Zhong Yi	Wholly-owned subsidiary	512,788.82	0.05%
Chen Li Ji	Wholly-owned subsidiary	134,548.25	0.01%
Guangzhou Han Fan	Subsidiary	8,116,080.37	0.86%
Qi Xing	Indirect subsidiary	2,838,972.15	0.30%
Jingyuxian Guangyao Chinese Raw Medicine Development Co., Ltd	Indirect subsidiary	49,645.24	0.01%
Jing Xiu Tang	Subsidiary	171,802.81	0.02%
Pan Gao Shou	Subsidiary	208,044.53	0.02%
Cai Zhi Lin	Wholly-owned subsidiary	525,626,224.33	55.39%
Pharmaceutical Import and Export	Wholly-owned subsidiary	135,478,243.86	14.28%
Guangzhou Bai Di.	Subsidiary	76,394,950.92	8.05%
WLJ Great Health	Wholly-owned subsidiary	14,525,167.27	1.53%
Guangxi Ying Kang	Subsidiary	6,000,000.00	0.63%
Weiling	Wholly-owned subsidiary	52,688,965.27	5.55%
Baiyunshan Pharmaceutical Technology	Subsidiary	671,700.84	0.07%
Tian Xin	Subsidiary	455,217.10	0.05%
Guang Hua	Subsidiary	298,192.94	0.03%
Ming Xing	Wholly-owned subsidiary	312,674.71	0.03%
Guangyao Baiyunshan (Hong Kong) Limited	Wholly-owned subsidiary	48,075.71	0.01%
		914,081,195.16	96.32%

(k) As at 31 December 2013, there are no other receivables that are derecognised.

(i) As at 31 December 2013, there are no securitizations that targeted at other receivables.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments

(a) Details of long-term equity investments

Name of entity	Investment cost	31 December 2012	Current period movement	31 December 2013	% Equity interest held	% Voting rights held	Provision for impairment	Impairment losses recognised in current period	Cash dividend in current period
Equity method:									
Jointly-controlled entities:									
GP Corp.	396,589,139.78	865,917,236.29	81,528,958.83	947,446,195.12	50.00%	50.00%	-	-	-
Wang Lao Ji	102,035,124.44	417,555,982.86	32,248,887.13	449,804,869.99	48.05%	48.05%	-	-	-
HWBYS	100,000,000.00	-	296,917,655.20	296,917,655.20	50.00%	50.00%	-	-	20,000,000.00
Baxter Qiao Guang	37,000,000.00	-	23,051,837.53	23,051,837.53	50.00%	50.00%	-	-	-
Associates:									
Guangzhou Jinshen Pharmaceutical Technology Co., Ltd.	765,000.00	-	-	-	38.25%	38.25%	-	-	-
Golden Eagle Asset Management Co., Ltd.	50,000,000.00	36,297,916.34	(7,732,458.87)	28,565,457.47	20.00%	20.00%	-	-	-
Wei Yi Co., Ltd.	2,020,000.00	-	2,020,000.00	2,020,000.00	50.50%	41.00%	-	-	-
Sub-total of equity method	688,409,264.22	1,319,771,135.49	428,034,879.82	1,747,806,015.31	N/A	N/A	-	-	20,000,000.00
Cost method:									
Subsidiaries:									
Xing Qun	125,322,300.00	125,322,300.00	-	125,322,300.00	88.99%	88.99%	-	-	-
Zhong Yi	324,320,391.34	324,320,391.34	-	324,320,391.34	100.00%	100.00%	-	-	42,398,072.66
Chen Li Ji	142,310,800.00	142,310,800.00	-	142,310,800.00	100.00%	100.00%	-	-	24,739,246.79
Guangzhou Han Fan	249,017,109.58	249,017,109.58	-	249,017,109.58	97.97%	97.97%	55,000,000.00	-	-
Guangzhou Qi Xing Factory Co., Ltd	126,775,500.00	126,775,500.00	-	126,775,500.00	100.00%	100.00%	-	-	11,409,023.45
Jing Xiu Tang	101,489,800.00	101,489,800.00	-	101,489,800.00	88.40%	88.40%	-	-	9,602,060.62
Pan Gao Shou	144,298,200.00	144,298,200.00	-	144,298,200.00	87.77%	87.77%	-	-	17,079,709.78
Cai Zhi Lin	89,078,900.00	89,078,900.00	-	89,078,900.00	100.00%	100.00%	69,000,000.00	-	-
Pharmaceutical Import & Export	18,557,303.24	18,557,303.24	-	18,557,303.24	100.00%	100.00%	-	-	4,948,126.54
Guangzhou Bai Di	129,145,812.38	129,145,812.38	-	129,145,812.38	98.48%	98.48%	47,000,000.00	-	-
Guangxi Ying Kang	21,536,540.49	21,536,540.49	-	21,536,540.49	51.00%	51.00%	-	-	-
WUJ Great Health	10,000,000.00	10,000,000.00	-	10,000,000.00	100.00%	100.00%	-	-	24,769,410.51
Guangzhou Yi Gan	12,600,000.00	6,600,000.00	6,000,000.00	12,600,000.00	60.00%	60.00%	-	-	-
Guangyao Baiyunshan (Hong Kong) Limited									
	35,410,006.87	-	35,410,006.87	35,410,006.87	100.00%	100.00%	-	-	-
Tian Xin	96,192,658.47	-	96,192,658.47	96,192,658.47	82.49%	82.49%	-	-	39,589,593.30
Guang Hua	53,659,963.75	-	53,659,963.75	53,659,963.75	84.48%	84.48%	-	-	32,943,628.52
Ming Xing	12,581,294.18	-	12,581,294.18	12,581,294.18	100.00%	100.00%	-	-	39,719,553.23
Weiling	10,444,783.48	-	10,444,783.48	10,444,783.48	100.00%	100.00%	-	-	-
Guangzhou Baiyunshan Pharmacy	1,000,000.00	-	1,000,000.00	1,000,000.00	100.00%	100.00%	-	-	-
Pharmaceutical Technology	1,020,000.00	-	1,020,000.00	1,020,000.00	51.00%	51.00%	-	-	7,395,000.00
Great Health Hotel	500,000.00	-	500,000.00	500,000.00	100.00%	100.00%	-	-	-

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(a) Details of long-term equity investments (Continued)

Name of entity	Investment cost	31 December 2012	Current period movement	31 December 2013	% Equity interest held	% Voting rights held	Provision for impairment	Impairment losses recognised in current period	Cash dividend in current period
Other long-term equity investments:									
Beijing Imperial Court Cultural Development Company Ltd	200,000.00	200,000.00	-	200,000.00	10.00%	10.00%	-	-	-
Guangdong Southern China Advanced Pharmaceutical Co., Ltd.	10,000,000.00	5,000,000.00	5,000,000.00	10,000,000.00	11.12%	11.12%	-	-	-
Shenzhen Zhongjian Guangshen Pharmaceutical Co., Ltd.	312,077.00	-	312,077.00	312,077.00	-	-	-	-	12,344.32
Guangzhou Zhongying Cambridge Technology Co., Ltd.	300,000.00	-	300,000.00	300,000.00	9.97%	9.97%	300,000.00	-	-
Dongbei Pharmaceutical General 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	2.80%	2.80%	2,000,000.00	-	-
Baxter Healthcare	82,338,800.00	-	82,338,800.00	82,338,800.00	12.50%	12.50%	-	-	4,500,000.00
Stock of enterprises activities center	50,000.00	-	50,000.00	50,000.00	-	-	50,000.00	-	-
Guangzhou Dongning Pharmaceutical Co., Ltd.	275,000.00	-	275,000.00	275,000.00	5.00%	5.00%	275,000.00	-	-
Guangzhou Nanxin Pharmaceutical Co., Ltd.	7,677,876.51	-	7,677,876.51	7,677,876.51	13.00%	13.00%	-	-	4,410,900.00
Subtotal of cost method	1,809,165,117.29	1,493,652,657.03	315,512,460.26	1,809,165,117.29	N/A	N/A	174,375,000.00	-	263,516,669.72
Total	2,497,574,381.51	2,813,423,792.52	743,547,340.08	3,556,971,132.60	N/A	N/A	174,375,000.00	-	283,516,669.72

(b) There are no limitation on fund transfer between the Group and its investing entities.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(4) Revenue and cost of sales

	The year ended 2013		
	Main operations	Other operations	Subtotal
Revenue	1,440,164,247.82	251,053,282.41	1,691,217,530.23
Cost of operation	913,447,971.88	109,541,952.75	1,022,989,924.63
Gross profit	526,716,275.94	141,511,329.66	668,227,605.60

	The year ended 2012		
	Main operations	Other operations	Subtotal
Revenue	2,840,824.30	67,830,286.70	70,671,111.00
Cost of operation	2,707,077.81	1,342,176.56	4,049,254.37
Gross profit	133,746.49	66,488,110.14	66,621,856.63

(a) Revenue and cost of main operations by natures are summarised as follows:

	Revenue from main operations		Cost of main operations	
	The year then ended 2013	The year then ended 2012	The year then ended 2013	The year then ended 2012
Manufacturing	1,439,173,518.09	–	912,501,809.65	–
Trading	990,729.73	2,840,824.30	946,162.23	2,707,077.81
	1,440,164,247.82	2,840,824.30	913,447,971.88	2,707,077.81

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(4) Revenue and cost of sales

(b) Revenue and cost of main operations by regions are summarised as follows:

	Revenue from main operations		Cost of main operations	
	The year then ended 2013	The year then ended 2012	The year then ended 2013	The year then ended 2012
Southern China	1,131,642,674.30	2,840,824.30	745,018,436.47	2,707,077.81
Eastern China	175,004,930.75	–	83,579,858.12	–
Northern China	27,585,557.16	–	17,787,382.39	–
North east China	11,249,974.86	–	8,680,032.45	–
South west China	90,234,202.18	–	55,751,077.94	–
North west China	4,446,908.57	–	2,631,184.51	–
Other countries	–	–	–	–
	1,440,164,247.82	2,840,824.30	913,447,971.88	2,707,077.81

(c) The total top five of customer sales is RMB999,376 thousand, which is 69.39% of revenue from main operations this year.

	Revenue from main operations	% of revenue from main operations of the company
Customer 1	864,273,059.56	60.01%
Customer 2	48,316,014.09	3.35%
Customer 3	30,222,222.24	2.10%
Customer 4	28,837,350.45	2.00%
Customer 5	27,727,603.77	1.93%
	999,376,250.11	69.39%

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(5) Investment income

(a) Investment income details:

	The year ended 2013	The year ended 2012
Income from financial assets:		
Income from financial assets held for trading	9,249.60	5,781.00
Income from available-for-sale financial assets	350,900.00	804,650.00
Income from entrusted loans	16,113,766.07	11,766,219.15
Income from long-term equity investments under cost method	256,121,669.72	94,912,125.09
Income from long-term equity investments under equity method	140,571,475.14	152,183,110.63
Income from disposal long-term equity investments	270,414.82	–
	413,437,475.35	259,671,885.87

(b) Investment income from long-term equity investments under cost method:

	The year ended 2013	The year ended 2012
Zhong Yi	42,398,072.66	28,443,286.46
Chen Li Ji Factory	24,739,246.79	22,641,772.04
Guangzhou Qi Xing Factory Co., Ltd.	11,409,023.45	13,663,605.17
Jing Xiu Tang	9,602,060.62	13,868,632.12
Pan Gao Shou	17,079,709.78	12,592,687.68
Pharmaceutical Import & Export WLJ Great Health	4,948,126.54	3,702,141.62
24,769,410.51	24,769,410.51	–
Shenzhen Zhonglian Guangshen Pharmaceutical Co., Ltd.	12,344.32	–
Tian Xin	39,589,593.30	–
Guang Hua	32,943,628.52	–
Ming Xing	39,719,553.23	–
Guangzhou Nanxin Pharmaceutical Co., Ltd.	4,410,900.00	–
Baxter Healthcare	4,500,000.00	–
	256,121,669.72	94,912,125.09

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(5) Investment income (Continued)

(c) Investment income from long-term equity investments under equity method:

	The year ended 2013	The year ended 2012
Wang Lao Ji	32,248,887.13	70,819,177.07
GP Corp.	81,593,101.86	82,476,111.89
HWBYS	25,564,870.60	–
Baxter Qiao Guang	8,897,074.42	–
Golden Eagle Fund Management Co., Ltd	(7,732,458.87)	(1,112,178.33)
	140,571,475.14	152,183,110.63

(6) Supplementary information to the Company's cash flow statement

	The year ended 2013	The year ended 2012
(a) Reconciliation from net profit to cash flows from operating activities		
Net profit	550,834,619.89	263,666,455.43
Add: Provisions for asset impairment	506,256.18	(580,072.85)
Depreciation and amortisation of fixed assets and investment property	50,174,981.60	2,343,078.07
Amortisation of intangible assets	3,017,939.31	–
Amortisation of long-term prepaid expenses	272,385.68	–
Gains on disposal of fixed assets, intangible assets and other long-term assets	674,359.62	15,577.32
Losses on scrapping of fixed assets	–	–
Loss (less: gains) on change in fair value	(486,747.20)	251,772.50
Financial expenses	23,115,995.63	6,375,226.18
Investment income	(435,999,828.72)	(283,028,368.01)
Decrease in deferred tax assets	(29,905,236.83)	(3,499,440.01)
Increase (less: decrease) in deferred tax liabilities	1,066,433.14	(30,379.16)
Decrease (less: increase) in inventories	(374,927,044.89)	(262,790.24)
Decrease in operating receivables	(673,317,884.25)	(6,141,003.47)
Increase in operating payables	992,694,126.99	20,372,553.65
Others	–	–
Net cash flows from operating activities	107,720,356.15	(517,390.59)

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(6) Supplementary information to the Company's cash flow statement (Continued)

	The year ended 2013	The year ended 2012
(b) Investing and financing activities that do not involve cash receipts and payments		
Conversion of debt into capital	-	-
Convertible company bonds due within one year	-	-
Fixed assets held under finance leases	-	-
(c) Net movement in cash and cash equivalents		
Cash at end of period	462,902,261.84	141,232,654.49
Less: cash at beginning of year	141,232,654.49	107,691,016.27
Add: cash equivalents at end of period	-	-
Less: cash equivalents at beginning of year	-	-
Net movement in cash and cash equivalents	321,669,607.35	33,541,638.22

16 NET CURRENT ASSETS

	The Group	
	31 December 2013	31 December 2012
Current assets	7,298,788,281.51	5,351,665,881.31
Less: Current liabilities	5,050,078,080.31	3,474,350,628.29
Net current assets	2,248,710,201.20	1,877,315,253.02

	The Company	
	31 December 2013	31 December 2012
Current assets	2,659,050,589.48	1,052,866,788.04
Less: Current liabilities	1,207,339,131.68	234,205,609.99
Net current assets	1,451,711,457.80	818,661,178.05

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

17 TOTAL ASSETS LESS CURRENT LIABILITIES

	The Group	
	31 December 2013	31 December 2012
Current assets	12,249,123,151.39	9,394,208,052.55
Less: Current liabilities	5,050,078,080.31	3,474,350,628.29
Net current assets	7,199,045,071.08	5,919,857,424.26

	The Company	
	31 December 2013	31 December 2012
Current assets	7,112,046,675.67	3,769,215,933.39
Less: Current liabilities	1,207,339,131.68	234,205,609.99
Net current assets	5,904,707,543.99	3,535,010,323.40

Supplementary information

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

1. SUMMARY OF NON-RECURRING PROFIT OR LOSS

Item	The year then ended 2013	The year then ended 2012
Losses on disposal of non-current assets	(536,635.01)	(1,168,762.95)
Tax return or exemption without proper authorization	-	-
Government grants recognised in profits or losses (excluding those government grants that are closely relevant to the Group's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government)	111,537,005.00	36,562,748.58
Interests received from entities other than financial institutions recognised in profits or losses	-	-
Gains arising from the difference between Investment cost on subsidiaries, associates and jointly controlled entities and the fair value of the net assets attributable to the Group	-	-
Gains or losses arising from non-monetary assets exchange	-	-
Gains or losses arising from entrusted investments or entrusted asset management	-	-
Asset impairment provided in current year due to forced majeure (e.g. natural disasters)	-	-
Gains or losses arising from debt restructuring	-	-
Corporate restructuring costs (e.g. staff replacement costs and costs during the course of integration)	-	-
Gains or losses arising from the difference between the fair value and transaction price in obviously unfair transactions	-	-
Net profit of subsidiaries acquired under common control from beginning of year to the merger date	-	-
Gains or losses arising from contingencies irrelevant to the Group's normal business	-	-
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	486,747.20	(251,518.80)
Reversal of provision for bad-debts of accounts receivable subject to separate provision	371,852.44	537,348.09
Gains or losses arising from entrusted loan granted to other entities	(974,002.84)	(755,524.96)
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 aforementioned items	1,240,310.63	(9,647,099.92)
Other profit or loss items meeting the definition of non-recurring profit or loss	-	-
Impact on income tax	(22,565,632.08)	(1,874,391.94)
Impact on minority interests (post-tax)	(1,316,998.31)	(1,244,870.60)
Total	88,242,647.03	22,157,927.50

Supplementary information

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE:

The year ended 2013

	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	15.71%	0.768	0.768
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	14.30%	0.699	0.699

The year ended 2012

	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	13.89%	0.578	0.578
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	13.47%	0.560	0.560

Supplementary information(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)**2. RETURN ON NET ASSETS AND EARNINGS PER SHARE: (Continued)****The year ended 2013**

	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	14.35%	0.759	0.759
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	13.05%	0.691	0.691

The year ended 2012

	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	13.10%	0.578	0.578
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	12.70%	0.560	0.560

Supplementary information

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

3 REASONS FOR EXCEPTIONAL ITEMS IN FINANCIAL STATEMENTS

Items	At at 31 December 2013 (RMB'000)	At at 1 January 2013 (RMB'000)	Fluctuation (%)	Reasons of fluctuation
Cash at bank and on hand	1,935,682	1,135,435	70.48	The Group's sales increased with more fund reflowing and advances from customers
Notes receivable	1,326,354	844,429	57.07	As at reporting period, the bank acceptance notes increased by sales of commodity due to tightening liquidity of domestic currency market.
Accounts receivable	973,185	734,069	32.57	The Group increased the revenue of sales and accounts receivable due to improvement of marketing and channel of distribution
Advances to suppliers	613,882	446,668	37.44	The increase was due to the Company's subsidiaries prepaid for medical raw materials and packing materials.
Other receivables	181,146	120,692	50.09	As at 31 December 2013, the increment was mainly for the increase in the borrow business dealings of the Group.
Other current assets	19,348	1,599	1,110.01	As at 31 December 2013, the Group's VAT input tax which is not deductible increased.
Investment properties	246,309	136,194	80.85	The Company purchased investment properties from GPL by issuing share at current period.
Construction in progress	335,423	140,078	139.45	The Group increased input into construction programs, such as technology innovation GMP improvement at current period.
Deferred tax assets	266,950	119,690	123.03	The Company's temporary differences arisen from accrued expenses and employee benefits payables increased at current period.
Notes payables	130,774	75,970	72.14	The Company's trading subsidiaries financed for short-term funds through banker's acceptance, in order to reduce financial expenses
Accounts payables	1,470,361	1,080,598	36.07	The Company's trading subsidiaries developed high-quality suppliers actively for better credit terms at current period.
Advances from customers	875,580	608,782	43.82	The Company's subsidiary received payment for goods from dealers in advance increased at current period.
Employee benefits payable	334,428	192,467	73.76	As at 31 December 2013, the Group's employee benefits payable went up.
Taxes payables	403,384	154,532	161.04	As at 31 December 2013, the group's VAT payable and enterprise income tax rose,
Interest payables	675	1,069	(36.86)	By 31 December 2013, the Group's borrowings decreased.
Dividends payables	113,513	25,444	346.13	The Group distributed dividends at the end of 2013.

Supplementary information

(All amounts in Renminbi yuan unless otherwise stated)
(English Translation for Reference Only)

3 REASONS FOR EXCEPTIONAL ITEMS IN FINANCIAL STATEMENTS (Continued)

Items	At at 31 December 2013 (RMB'000)	At at 1 January 2013 (RMB'000)	Fluctuation (%)	Reasons of fluctuation
Other payables	1,211,713	654,272	85.20	As at 31 December 2013, the Group's accrued expenses of advertising and transport increased.
Deferred tax liabilities	3,475	5,609	(38.05)	As at 31 December 2013, the Group's differences of income tax payables decreased.
Share capital	1,291,341	810,900	59.25	The Company's capital share increased with the merger of Baiyunshan and the assets purchased from GPLH at current period.
Capital surplus	2,493,788	1,702,774	46.45	The Company's capital share increased with the merger of Baiyunshan at current period.
Revenue	17,608,193	12,062,642	45.97	The Group's sales and WLJ Great Health's sales increased in a large amount.
Cost of operations	11,806,295	8,231,938	43.42	The operating cost increased with the growth of sales at current period.
Taxes and surcharges	148,251	108,192	37.03	The rise of taxes and surcharges was result from the addition of sales revenue.
Selling and distribution expenses	3,485,311	1,971,898	76.75	The Group increased selling expenses, such as advertisement and promotion, expenses on salesman and transportation expenses, in order to develop marketing and promote sales revenue.
Financial expenses	28,305	49,504	(42.82)	The Group improved internal capital management and decreased borrowings from the bank.
Asset impairment losses	12,914	8,153	58.40	The Group's account receivables increased, therefore bad debt provision according to aging went up.
Profit arising from changes in fair value	487	(252)	293.33	The share price of financial assets held for trading rises at current period.
Revenue from non-operation	125,847	45,799	174.78	The Group's government grants increased at current period.
Income tax	222,243	114,365	94.33	The Company's profit increased.
Net cash flows from operating activities	1,339,140	999,230	34.02	The Group's sales increased with more fund reflowing and advances from customers.
Net cash flows from investing activities	(327,700)	(66,094)	(389.76)	The Group improved technology and GMP project.
Net cash flows from financing activities	(211,689)	(446,427)	52.58	The dividend, interest and external borrowings of the Group has decreased at current period.

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 China Accounting Standards for Business Enterprises;
3. The original company documents disclosed and announcements published in China Securities News, Shanghai Securities News and Securities Times during the Reporting Period;
4. The documents listed above are available at the Secretariat office.